

HUP SENG INDUSTRIES BERHAD (Company No. 226098-P)

ANNUAL REPORT 2005



HUP SENG INDUSTRIES BERHAD (226098-P)
Suite 6.1A, Level 6, Menara Pelangi
Jalan Kuning, Taman Pelangi
80400 Johor Bahru, Johor Darul Ta'zim
Tel (067) 332 3536

ANNUAL REPORT 2005

Contents

2	Notice of Annual General Meeting
6	Statement Accompanying Notice of Annual General Meeting
11	Corporate Information
12	Corporate Structure
13	Chairman's Statement
15	Financial Highlights
16	Directors' Profile
20	Statement on Corporate Governance
24	Other Compliance Information
25	Statement of Directors' Responsibilities in Relation to Financial Statement
26	Audit Committee
30	Board Committee
32	Statement on Internal Control
33	Financial Statements
66	List of Group Properties
70	Statement of Shareholdings
73	Form of Proxy

34	Directors' Report
37	Statement by Directors
37	Statutory Declaration
38	Report of The Auditors
39	Income Statement of the Group
40	Income Statement of the Company
41	Balance Sheets
42	Statement of Changes in Equity
44	Cash Flow Statements
46	Notes to The Financial Statements



2 Notice of Annual General Meeting



NOTICE IS HEREBY GIVEN THAT the Fourteenth Annual General Meeting of Hup Seng Industries Berhad will be held at Mezzanine Floor, The Katerina Hotel, 8, Jalan Zabedah, 83000 Batu Pahat, Johor Darul Takzim on Thursday, 18 May, 2006 at 11.00 a.m. for the following purposes:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December, 2005 together with the Directors' and Auditors' Report thereon. **Resolution 1**
2. To approve the payment of Directors' Fees for the financial year ended 31 December, 2005. **Resolution 2**
3. To re-elect the following Directors who retire during the year in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election:-
 - Kerk Chian Tung - Article 76 **Resolution 3**
 - Mazrina Binti Arifin - Article 76 **Resolution 4**
 - Teo Lee Teck - Article 76 **Resolution 5**
4. To re-appoint Mr Kuo Choo Song pursuant to Section 129(6) of the Companies Act, 1965 as Director of the Company to hold office until the conclusion of the next Annual General Meeting. **Resolution 6**
5. To re-appoint Messrs Ernst & Young who retire as Auditors of the Company and authorise the Directors to fix their remuneration. **Resolution 7**
6. As Special Business to consider and if thought fit, to pass the following Ordinary Resolution:-

Authority To Allot Shares

"THAT subject to Companies Act, 1965, Articles of Association of the Company and approvals from Bursa Malaysia Securities Berhad and other governmental or regulatory bodies where such approval is necessary, full authority be and is hereby given to the Directors pursuant to Section 132D of Companies Act, 1965 to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may in their discretion, deem fit provided always that the aggregate number of shares to be issued pursuant to this resolution, does not exceed 10% of the issued share capital of the Company for the time being." **Resolution 8**

7. To consider and if thought fit, to pass the following Special Resolution:-

Proposed Amendments to the Articles of Association of the Company

(i) Article 2 - Interpretation Clause

“**THAT** the following interpretation in Article 2 of the Company’s Articles of Association be deleted in its entirety and replaced with the following new interpretation:

Existing Interpretation		New Interpretation	
Words	Meanings	Words	Meanings
Central Depository	Malaysian Central Depository Sdn. Bhd. (Company No: 165570-W)	Depository	Bursa Malaysia Depository Sdn. Bhd. (Company No: 165570-W)
Central Depositories Act	The Securities Industry (Central Depositories) Act 1991 or any statutory modification, amendment or re-enactment thereof for the time being in force	Central Depositories Act	Securities Industry (Central Depositories) Act 1991, as may be amended, modified or altered from time to time
The Exchange	Kuala Lumpur Stock Exchange	The Exchange	Bursa Malaysia Securities Berhad
Rules	The Rules of the Central Depository, and any appendices thereto.	Rules of Depository	The Rules of the Depository and any appendices thereto as may be amended or modified from time to time.

AND THAT all references to “Central Depository” and “Rules” throughout the Company’s whole Articles of Association be changed to “Depository” and “Rules of Depository” respectively.”

(ii) Article 5(e) - Allotment of Shares

“**THAT** the existing Article 5(e) shall be deleted in its entirety and replaced with the following new Article 5(e).

Existing Article 5(e)

every issue of shares or options to employees and/or Directors of the Company shall be approved by the members in general meeting and no Director shall participate in such issues of shares or options unless:-

- (i) the members in general meeting have approved of the specific allotment to be made to such Director; and
- (ii) he holds office in the Company in an executive capacity Provided Always that a Director not holding office in an executive capacity may so participate in an issue of shares pursuant to a public issue or public offer.

AND THAT the new Article 5(e) shall read as follows:-

every issue of shares, convertibles securities or options to employees and/or Directors of the Company shall be approved by the members in general meeting and no Director shall participate in such issues of shares, convertibles securities or options for employees unless the members in general meeting have approved of the specific allotment to be made to such Director.”



4 Notice of Annual General Meeting (Cont'd)

7. To consider and if thought fit, to pass the following Special Resolution (Cont'd):-

Proposed Amendments to the Articles of Association of the Company (Cont'd)

(iii) Article 127 - To whom copies of profit and loss accounts etc may be sent

“THAT the existing Article 127 shall be deleted in its entirety and replaced with the following new Article 127.

Existing Article 127

The Directors shall from time to time in accordance with Section 169 of the Act cause to be prepared and laid before the Company in general meeting such profit and loss accounts, balance sheets and report as are referred to in the Section. The interval between the close of a financial year of the Company and the issue of annual audited accounts, directors' and auditors' report relating to it shall not exceed four (4) months. A copy of each such documents shall not less than twenty-one (21) days before the date of the meeting be sent to every member of, and to every holder of debentures of the Company under the provisions of the Act or of these presents. The requisite number of copies of each such documents as may be required by the Exchange and/or other stock exchange(s), if any, upon which the Company's shares may be listed shall at the same time be likewise sent to the Exchange and/or such other stock exchange(s): Provided that this Article shall not require a copy of these documents to be sent to any person of whose address the Company is not aware but any member to whom a copy of these documents has not been sent shall be entitled to receive a copy free of charge on application at the Company's registered office.

AND THAT the new Article 127 shall read as follows:-

A copy of every audited financial statements which is to be laid before a General Meeting of the Company (including every document required by law to be annexed thereto) together with a copy of every report of the Auditors relating thereto and of the Directors' report, in printed form or in CD-ROM form or in such other form of electronic media, shall not less than twenty-one (21) days before the date of the meeting be sent to every Member of, and every holder of debentures of, the Company and to every other person who is entitled to receive notices from the Company under the provisions of the Act or of these Articles; provided that this Article shall not require a copy of these documents to be sent to any person of whose address the Company is not aware of, but any Member to whom a copy of these documents has not been sent shall be entitled to receive a copy free of charge on application at the office. In the event that these documents are sent in CD-ROM form or in such other form of electronic media and a Member requires a printed form of such documents, the Company shall send such documents to the Member within four (4) market days from the date of receipt of the Member's request.”

(iv) Article 138 - Payment by cheque

“THAT the existing Article 138 shall be deleted in its entirety and replaced with the following new Article 138.

Existing Article 138

Any dividend, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder who is named on the register of members or to such person and to such address as the holder may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent, and the payment of any such cheque or warrant shall operate as a good discharge to the Company in respect of the dividend represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that the endorsement thereon has been forged. Every such cheque or warrant shall be sent at the risk of the person entitled to the money thereby represented.

Notice of Annual General Meeting (Cont'd)

7. To consider and if thought fit, to pass the following Special Resolution (Cont'd):-

Proposed Amendments to the Articles of Association of the Company (Cont'd)

- (iv) Article 138 - Payment by cheque (Cont'd)

AND THAT the new Article 138 shall read as follows:-

Any dividend, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder who is named on the register of members or to such person and to such address as the holder may in writing direct or by direct transfer or such other mode of electronic means (subject to the provision of the Act, the Central Depositories Act and the Rules, the Listing Requirements and/or regulatory authorities) to the bank account of the holders whose name appear in the Register or Record of Depositors respectively. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent, and the payment of any such cheque or warrant or by such electronic means shall operate as a good discharge to the Company in respect of the dividend represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that the endorsement thereon has been forged. The payment of any dividend by such electronic means shall constitute a good and full discharge to the Company of the dividend to which it relates regardless of any discrepancy given by the Member in the details of the bank account(s). Every such cheque or warrant shall be sent at the risk of the person entitled to the money thereby represented.”

Resolution 9

8. To transact any other business of which due notice shall have been given.

BY ORDER OF THE BOARD

WOO YING PUN (f)
MAICSA NO. 7001280

LEONG SIEW FOONG (f)
MAICSA NO. 7007572
Secretaries

Johor Bahru
Date: 27 April, 2006

NOTES:-

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and if the proxy is not a member of the Company, the proxy shall be an advocate or an approved company auditor or a person approved by the Registrar of Companies.
2. A member shall be entitled to appoint more than one proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same meeting.
3. Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where a member 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.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or if such appointer is a corporation under its common seal or the hand of its attorney.
6. The instrument appointing a proxy must be deposited at the Registered Office of the Company, Symphony Incorporations Sdn. Bhd. at Suite 6.1A, Level 6, Menara Pelangi, Jalan Kuning, Taman Pelangi, 80400 Johor Bahru, Johor not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.
7. Explanatory notes on Special Business:-

The Proposed Resolution No. 9 if passed is primarily to give flexibility to the Board of Directors to issue and allot shares at any time in their absolute discretion without convening a general meeting. This authority will expire at the next Annual General Meeting of the Company.

8. Explanatory notes on Special Resolution:-

The rationale for the proposed amendments to the Company's Articles of Association:-

Article 2 and Article 5(e)

The amendment to the Articles of Association is to be in line with the demutualisation of Kuala Lumpur Stock Exchange, the amendments made to the Listing Requirements of Bursa Malaysia Securities Berhad.

Article 127

To facilitate the issuance of financial statements in CD-ROM form or in such other form of electronic media, if deemed appropriate.

Article 138

To allow the Company the flexibility to make payment of its dividend to its shareholders by direct credit into the shareholders' account or any other form of electronic transfer, which would reduce cost and increase efficiency of the Company.

6 Statement Accompanying Notice of Annual General Meeting

a. Location, date and time of Annual General Meeting

The Annual General Meeting will be held at the Mezzanine Floor, The Katerina Hotel, 8 Jalan Zabedah, 83000 Batu Pahat, Johor Darul Takzim on Thursday, 18 May, 2006 at 11.00 a.m.

b. Board Meetings

The Board of Directors held six (6) Board meetings in the financial year ended 31 December, 2005, the details of which are stated below:-

Attended by	Dates of Meeting						Total meetings attended
	7 Jan 2005	22 Feb 2005	25 Mar 2005	17 May 2005	18 Aug 2005	17 Nov 2005	
Keh (Kerk) Chu Koh	✓	✓	✓	✓	✓	✓	6/6
Ke (Kek) Kim Soon @ Kerk Choo Soon	✓	✓	✓	✓	✓	✓	6/6
Kuo Choo Song	✓	✓	✓	✓	✓	✓	6/6
Kerk Chiew Siong	✓	✓	✓	✓	✓	-	5/6
Kerk Chian Tung	-	✓	✓	✓	✓	✓	5/6
Teo Lee Teck	✓	✓	✓	✓	✓	✓	6/6
Raja Khairul Anuar bin Raja Mokhtar	✓	✓	-	✓	-	✓	4/6
Norita binti Ja'afar	✓	✓	✓	✓	✓	✓	6/6
Woon Chin Chan	✓	✓	✓	✓	✓	✓	6/6
Mazrina binti Arifin	✓	✓	✓	✓	✓	✓	6/6
Wee Hoe Soon @ Gooi Hoe Soon (Alternate Director to Woon Chin Chan)	-	-	-	-	-	-	0/6

c. Directors standing for re-election at the Fourteenth Annual General Meeting pursuant to Article 76 of the Company's Articles of Association are as follows:-

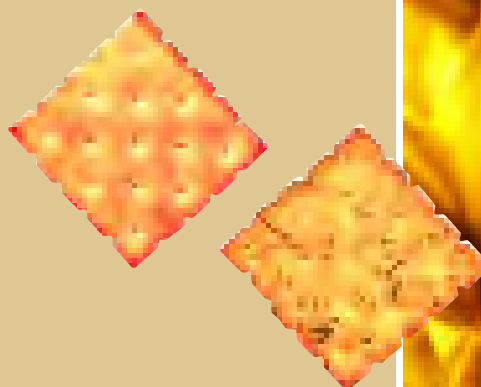
Name of directors	Date of Appointment	Age	No. of Board Meetings attended
1. Kerk Chian Tung	15 November, 1999	35	5
2. Mazrina Binti Arifin	27 June, 2000	38	6
3. Teo Lee Teck	10 August, 2000	46	6



Statement Accompanying Notice of Annual General Meeting (Cont'd)

d. Further details of Directors who are standing for re-election as directors:-

i. Name	Kerk Chian Tung	
Age	35	
Nationality	Malaysian	
Qualification	Degrees in Accounting and Manufacturing Management	
Position in the Company	Executive Director	
Working experience & Occupation	<p>She was appointed to the Board of Directors of the Company on 15 November, 1999 and was appointed as an Executive Director of the same on 17 August, 2000.</p> <p>She joined an accounting firm as an auditor in 1992 and subsequently joined Arthur Andersen HRM (Tax Services) Sdn. Bhd., a public accounting firm as a Tax Consultant in 1995. In 1997, she was employed as an Assistant Business Development Manager in Jaya Tiasa Holdings Berhad, a public listed company involved in investment holding and provision of management services, extraction and sale of logs. She joined a trading company as the Finance Manager in 1998 and then resigned in 1999 to become an investment analyst in SBB Securities Sdn. Bhd., a company involved in stockbroking activities.</p>	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2005)	<p>No. of securities</p> <p>200,000</p>	<p>%</p> <p>0.33</p>
Family relationship with any director and/or major shareholder of the Company	<p>She is the niece of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Teo Lee Teck. Her family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of Hup Seng Industries Berhad ("HSIB")) is disclosed in page 19 of this Annual Report.</p>	
Conflict of interest	None	
List of convictions for offences within the past 10 years other than traffic offences, if any	None	



8 Statement Accompanying Notice of Annual General Meeting (Cont'd)

d. Further details of Directors who are standing for re-election as directors (Cont'd):-

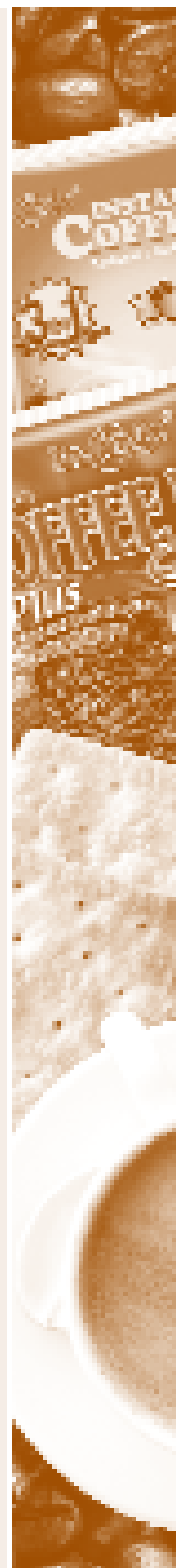
ii. Name	Mazrina Binti Arifin	
Age	38	
Nationality	Malaysian	
Qualification	Bachelor of Science majoring in Accounting	
Position in the Company	Independent Non-Executive Director	
Working experience & Occupation	She was appointed as an Independent Non-Executive Director on 27 June, 2000. She is qualified as a Certified Chartered Accountant from the Chartered Association of Certified Accountants in England since 1993. She was attached with Arthur Andersen HRM (Tax Services) Sdn. Bhd. from 1995 to 1998 and was a Senior Tax Consultant prior to her leaving the firm. Currently, she is a Managing Director of Under6'ers, a Child Enrichment Centre in Kuala Lumpur and Selangor. She was appointed Finance Director for Springboard4 Asia Sdn. Bhd., a UK based IT Consulting and Training firm and Director for Paddy Schubert Consultant in 2005.	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2005)	No. of securities	%
	-	-
Family relationship with any director and/or major shareholder of the Company	None	
Conflict of interest	None	
List of convictions for offences within the past 10 years other than traffic offences, if any	None	



Statement Accompanying Notice of Annual General Meeting (Cont'd)

d. Further details of Directors who are standing for re-election as directors (Cont'd):-

iii. Name	Teo Lee Teck	
Age	46	
Nationality	Malaysian	
Qualification	Junior middle three, Chinese High School, Batu Pahat, Johor	
Position in the Company	Non-Executive Director	
Working experience & Occupation	<p>He started his career with Hup Seng Perusahaan Makanan Sdn. Bhd. in 1977 as a Chocolate Wafer Section supervisor and was promoted numerous before assuming the position of Production Manager in 1987. During that period, he was actively involved in developing new products under the direction of the Chairman whilst continuously modified and improved facilities of the machinery in the factory to move towards automation. In 1994 he was promoted to Project Manager, responsible for construction of factory and installation of new machines. He has more than 25 years of experience in biscuit manufacturing. He was appointed as a Quality Management Representative of MS ISO 9001:2000 in 2002.</p>	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2005)	<p>No. of securities</p> <p>82,000 (direct)</p> <p>35,286,000 (indirect)</p>	<p>%</p> <p>0.14</p> <p>58.81</p>
Family relationship with any director and/or major shareholder of the Company	<p>He is the nephew of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Kerk Chian Tung. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report.</p>	
Conflict of interest	None	
List of convictions for offences within the past 10 years other than traffic offences, if any	None	



Statement Accompanying Notice of Annual General Meeting (Cont'd)

e. Director standing for re-appointment at the Fourteenth Annual General Meeting pursuant to Section 129(6) of the Companies Act, 1965 is as follows:-

Name of director	Date of Appointment	Age	No. of Board Meetings attended
Kuo Choo Song	4 October, 1991	74	6

f. Further details of Director who is standing for re-appointment as director:-

Name	Kuo Choo Song	
Age	74	
Nationality	Malaysian	
Qualification	Primary School	
Position in the Company	Managing Director	
Working experience & Occupation	<p>He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Executive Chairman of the Company on 3 August, 2000. Subsequently, he is redesignated as Managing Director in Hup Seng Industries Berhad ("HSIB") on 1 February, 2003. He was appointed as the Managing Director of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. ("HSPM") on 13 October, 1974 and as the Chairman of the same since 1 April, 1977. He was subsequently redesignated as Vice Chairman of HSPM on 1 February, 2003. He has been the Chairman of Hup Seng Hoon Yong Brothers Sdn. Bhd. ("HSHY") since 21 April, 1977. He has over 47 years of experience in the biscuits industry at management and board levels. He is one of the founders of Hup Seng Co. which was established in 1958 and subsequently became HSPM in 1974. His job responsibilities include planning the Hup Seng Group's business development programs and representing the Group at various external functions.</p>	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2005)	<p>No. of securities</p> <p>10,000 shares (direct)</p> <p>35,286,000 shares (indirect)</p>	<p>%</p> <p>0.02</p> <p>58.81</p>
Family relationship with any director and/or major shareholder of the Company	<p>He is the elder brother of Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong. He is the uncle of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report.</p>	
Conflict of interest	<p>No, except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group.</p>	
List of convictions for offences within the past 10 years other than traffic offences, if any	None	



DIRECTORS

Chairman

Keh (Kerk) Chu Koh

Vice Chairman

Ke (Kek) Kim Soon @ Kerk Choo Soon

Managing Director

Kuo Choo Song

Executive Director

Kerk Chian Tung

Non-Executive Director

Kerk Chiew Siong

Teo Lee Teck

Raja Khairul Anuar Bin Raja Mokhtar

Independent Non-Executive Director

Mazrina Binti Arifin

Norita Binti Ja'afar

Woon Chin Chan

Alternate Director to Woon Chin Chan

Wee Hoe Soon @ Gooi Hoe Soon

SECRETARIES

Leong Oi Wah (resigned on 22 August, 2005)

Woo Ying Pun (appointed on 22 August, 2005)

Leong Siew Foong

REGISTERED OFFICE

Suite 6.1A, Level 6

Menara Pelangi

Jalan Kuning, Taman Pelangi

80400 Johor Bahru

Johor Darul Ta'zim

Tel : (07) - 332 3536

Fax : (07) - 332 4536

PRINCIPAL PLACE OF BUSINESS

14, Jalan Kilang

Kawasan Perindustrian

Tongkang Pecah

83010 Batu Pahat

Johor Darul Ta'zim

SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd.

Level 26, Menara Multi-Purpose

Capital Square

No. 8 Jalan Munshi Abdullah

50100 Kuala Lumpur

Tel : (03) - 2721 2222

Fax : (03) - 2721 2530/1

PRINCIPAL BANKERS

RHB Bank Berhad

Malayan Banking Berhad

Public Bank Berhad

United Overseas Bank (Malaysia) Berhad

HSBC Bank Malaysia Berhad

AUDITORS

Ernst & Young

Chartered Accountants

STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad

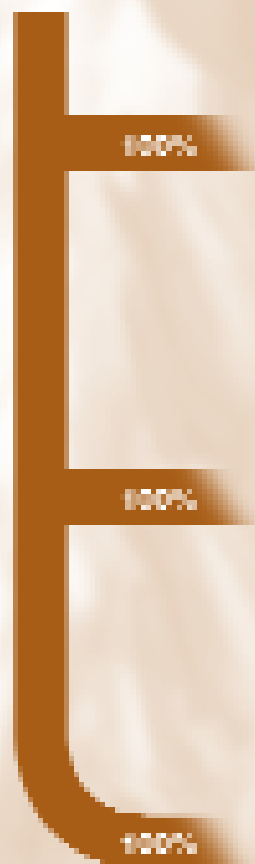




合成工業有限公司

HUP SENG INDUSTRIES BERHAD

(Company No: 226098-P)



**HUP SENG PERUSAHAAN
MAKANAN (M) SDN BHD**

(Company No: 10778-K)



**HUP SENG HOON YONG
BROTHERS SDN BHD**

(Company No: 21216-K)



**IN-COMIX FOOD
INDUSTRIES SDN BHD**

(Company No: 180562-K)



On behalf of the Board of Directors, I am pleased to present the Annual Reports and Audited Financial Statements of Hup Seng Industries Berhad Group for the financial year ended 31 December, 2005.

14 Chairman's Statement (Cont'd)

The Group faced a challenging year in 2005. A weakening domestic market, increasing raw materials prices and integration efforts resulted from acquisition of In-Comix Food Industries Sdn. Bhd. affected the Group's performance for the financial year under review.

Revenue and profit before tax for the financial year ended 31 December, 2005 have dropped to RM180,967,603 and RM7,476,665 as compared with preceding year corresponding period of RM186,481,897 and RM9,799,146 respectively. Higher promotional expenses, escalating fuel costs and significant expenses incurred to ensure the effective alignment of In-Comix Food Industries Sdn. Bhd. with the Group's operation result in drop of profit before taxation.

DIVIDEND

The Board of Directors has declared interim dividends of 10% less 28% tax for the financial year ended 31 December, 2005. These dividends were paid on 30 December, 2005. However, there is no final dividend recommended for this financial year.

PROSPECTS

For 2006, Malaysia's exports are projected to increase by 11% and expected to remain robust based on the projected positive outlook for the overall economy and trade.

Besides maintaining the aggressive advertisement and promotion planning, the Group will explore overseas market and positioning itself strategically in overseas market.



ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our gratitude and appreciation to all employees at all levels for their dedicated services, commitment, perseverance and teamwork during the year. To our shareholders, customers, selling agents, suppliers, business associates and relevant authorities, I would like to convey our sincere thanks for their continued support and confidence in the Group.

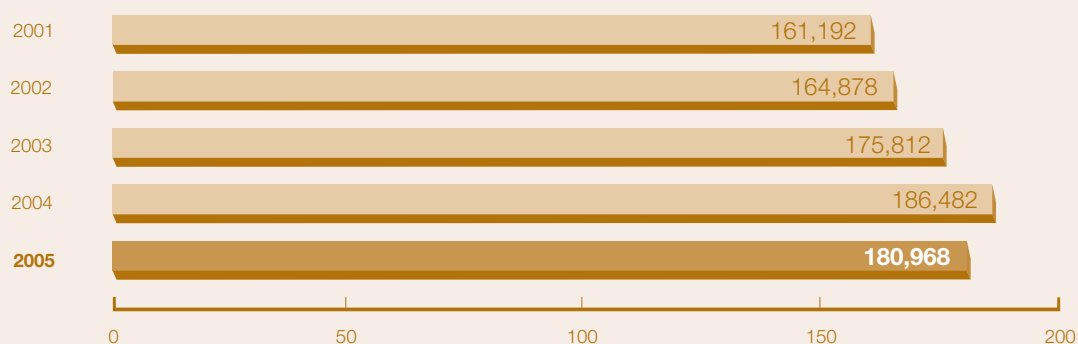


KEH (KERK) CHU KOH
Chairman

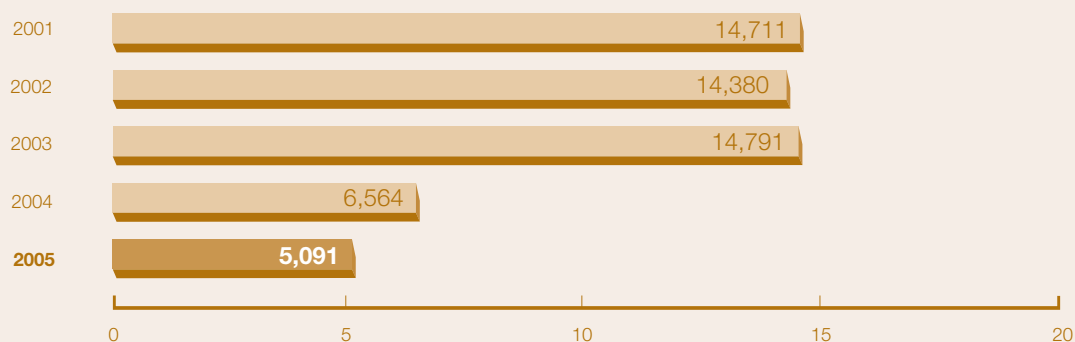
Five-Year Group Financial Highlights

Financial year ended 31 December	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Turnover	161,192	164,878	175,812	186,482	180,968
Profit After Tax	14,711	14,380	14,791	6,564	5,091
Net Earnings Per Share	25 sen	24 sen	25 sen	11 sen	8.5 sen

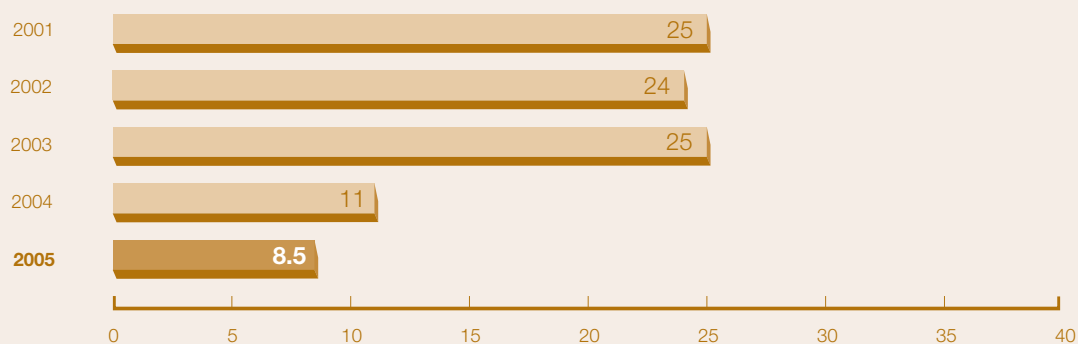
Turnover (RM'000)



Profit After Tax (RM'000)



Net Earnings Per Share (sen)



Keh (Kerk) Chu Koh

Keh (Kerk) Chu Koh, Malaysian aged 63, is the Chairman of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Managing Director on 3 August, 2000. Subsequently, he is redesignated as Chairman on 1 February, 2003. He was the Deputy Managing Director of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. ("HSPM") on 13 October, 1974 and then the Managing Director of the same on 1 April, 1977. He was appointed as the Deputy Managing Director on 21 April, 1977 and subsequently the Vice Chairman of Hup Seng Hoon Yong Brothers Sdn. Bhd. ("HSHY") on 1 January, 1990. He is the brother of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon and Kerk Chiew Siong, and uncle of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of Hup Seng Industries Berhad ("HSIB")) is disclosed in page 19 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. As one of the founders of Hup Seng Co., he has approximately 47 years of experience in the biscuits industry. He plans the Group's strategic business development and production development which includes the installation of various production facilities in the Group's factory and heads the research and development team which researches new varieties of biscuits. He travels abroad extensively to keep abreast with the latest developments in the biscuits manufacturing industry and to assess new market prospects for the Group.

Ke (Kek) Kim Soon @ Kerk Choo Soon

Ke (Kek) Kim Soon @ Kerk Choo Soon, Malaysian aged 66, is the Vice-Chairman of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Executive Vice-Chairman on 3 August, 2000. Subsequently, his position is redesignated to Vice-Chairman on 1 February, 2003. He was appointed as the General Manager of HSPM on 1 April, 1977 and then the Vice-Chairman of the same on 1 January, 1990. His position in HSPM was subsequently redesignated to Chairman on 1 February, 2003. He has been the Managing Director of HSHY since 21 April, 1977. He is the brother of Kuo Choo Song, Keh (Kerk)

Chu Koh and Kerk Chiew Siong, and uncle of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report. He graduated from Chung Hwa Correspondence School in 1992 majoring in Business Administration, Marketing, Banking and International Trade. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. As one of the founders of Hup Seng Co., he has over 47 years of experience in the biscuits industry specialising in the marketing of biscuits in both the domestic and international markets.

Kuo Choo Song

Kuo Choo Song, Malaysian aged 74, is the Managing Director of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Executive Chairman of the Company on 3 August, 2000. Subsequently, he is redesignated as Managing Director in HSIB on 1 February, 2003. He serves as a member of the Audit Committee. He was appointed as the Managing Director of HSPM on 13 October, 1974 and as the Chairman of the same since 1 April, 1977. He was subsequently redesignated as Vice Chairman of HSPM on 1 February, 2003. He has been the Chairman of HSHY since 21 April, 1977. He has over 47 years of experience in the biscuits industry at management and board levels. He is one of the founders of Hup Seng Co. which was established in 1958 and subsequently became HSPM in 1974. He is the elder brother of Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and uncle of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. His job responsibilities include planning the Hup Seng Group's business development programs and representing the Group at various external functions.

Kerk Chian Tung

Kerk Chian Tung, Malaysian aged 35, became a member of the Board of Directors of the Company on 15 November, 1999 and was appointed as an Executive Director of the same on 17 August, 2000. She is the niece of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Teo Lee Teck. Her family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report. She does not have any conflicts of interest with the Company nor conviction for any offences over the past 10 years.

She graduated with a bachelor degree in Accounting from the University of Southern Queensland, Australia in 1991 and a bachelor degree in Manufacturing Management from the University of Monash, Australia in 1994. She joined an accounting firm as an auditor in 1992 and later joined Arthur Andersen HRM (Tax Services) Sdn. Bhd., a public accounting firm as a Tax Consultant in 1995. In 1997, she was employed as an Assistant Business Development Manager in Jaya Tiasa Holdings Berhad, a public listed company involved in investment holding and provision of management services, extraction and sale of logs. She joined a trading company as a Finance Manager in 1998 and then resigned in 1999 to become an investment analyst in SBB Securities Sdn. Bhd., a company involved in stockbroking activities.

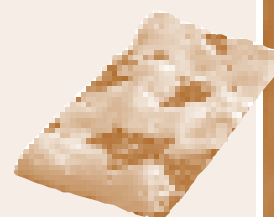
Kerk Chiew Siong

Kerk Chiew Siong, Malaysian aged 53, became a member of the Board of Directors on 4 October, 1991 and was appointed as an Executive Director on 3 August, 2000. His position as Executive Director was redesignated to Non-Executive Director on 1 February, 2003. He was appointed as the Director of HSPM on 12 March, 1981 and then as an Executive Director on 1 January, 1990 before being redesignated as Vice Chairman on 1 February, 2003. He was a Director of HSHY on 15 February, 1988 and then became the Deputy Managing Director of the same on 1 January, 1990 before being redesignated as Executive Director on 1 February, 2003. He is the brother of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon and Keh (Kerk) Chu Koh, and uncle of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report.

He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. He has more than 30 years of experience in the manufacturing and marketing of biscuits. As head of the Quality Assurance and Business Development Department, he is responsible for devising strategies for market development and researching the potentials of the Group's products in existing as well as new markets. He also ensures the Group's biscuits manufacturing quality control system meets the MS ISO9001:2000 requirements.

Teo Lee Teck

Teo Lee Teck, Malaysian aged 46, was appointed as a Non-Executive Director of the Company on 10 August, 2000. He is a member of the Remuneration Committee. He was a Director of HSPM on 20 March, 1984 and then an Executive Director of the same on 1 January, 1990. He started his career with HSPM in 1977 as a Chocolate Wafer Section supervisor and was promoted numerous before assuming the position of Production Manager in 1987. During that period, he was actively involved in developing new products under the direction of the Chairman whilst continuously modifying and improving facilities of the machinery in the factory to move towards automation. In 1994 he was promoted to Project Manager, responsible for construction of factory and installation of new machines. He has more than 27 years of experience in biscuit manufacturing. He was appointed as a Quality Management Representative of MS ISO 9001:2000 in 2002. He is the nephew of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Kerk Chian Tung. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 19 of this Annual Report. He does not have any conflicts of interest with the Company. He has no convictions for any offences over the past 10 years.



Woon Chin Chan

Woon Chin Chan, Malaysian aged 47, was appointed as an Alternate Director to Wee Hoe Soon @ Gooi Hoe Soon (Independent Non-Executive Director) on 6 March, 2003. On 3 January, 2005, he became an Independent Non-Executive Director, Chairman of both the Audit Committee and Remuneration Committee whilst being a member of the Nominating Committee. He does not have any family relationship with any director and/or major shareholder, nor any conflicts of interest with the Company. He has no convictions for any offences over the past 10 years.

He is a member of Malaysian Institute of Certified Public Accountant ("MICPA") and Malaysia Institute of Accountant ("MIA"). He acquired accounting qualification in the Malaysian Association of Certified Public Accountants in 1983. He is presently a consultant cum trainer in financial and related matters. Since 1990, he has been a project manager to various working groups that develop MASB Standard and conducts training for the professional staff of Bursa Securities and Securities Commission. In addition, he provides consultancy services to SME on financial issues and reporting. From 1988 to 1990, he was a technical manager in MICPA developing various technical materials on accounting, taxation and company law. He also acted as secretary to technical committees and liaison bodies with the statutory bodies on accounting matters. He joined a major international accounting firm from 1980 to 1988, holding the position as an audit manager. While in the accounting firm, he was involved in various audit assignments and listing exercises, and engaged in due diligence and share valuation projects.

Mazrina bte Arifin

Mazrina bte Arifin, Malaysian aged 38, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. She is the Chairman of the Nominating Committee as well as a member of the Audit Committee. She does not have any family relationship with any director and/or major shareholder, nor any conflicts of interest with the Company. She has no convictions for any offences over the past 10 years.

She obtained a Bachelor of Science majoring in Accounting from the University of Hull, United Kingdom in 1991. She is qualified as a Certified Chartered Accountant from the Chartered Association of Certified Accountants

in England since 1993. She was attached with Arthur Andersen HRM (Tax Services) Sdn. Bhd. from 1995 to 1998 and was a Senior Tax Consultant prior to her leaving the firm. Currently, she is a Managing Director of Under6'ers, a Child Enrichment Centre in Kuala Lumpur and Selangor. She was appointed Finance Director for Springboard4 Asia Sdn. Bhd., a UK based IT Consulting and Training firm and Director for Paddy Schubert Consultants in 2005.

Norita bte Ja'afar

Norita bte Ja'afar, Malaysian aged 34, was appointed as an Independent Non-Executive Director of the Company on 11 August, 2000. She is a member in both the Audit Committee and the Nominating Committee. She does not have any family relationship with any director and/or major shareholder, nor any conflicts of interest with the Company. She has no convictions for any offences over the past 10 years.

She obtained a Bachelor of Arts (Hons.) majoring in Economics from the University of Nottingham, United Kingdom in 1994. She obtained a Master of Science majoring in Fiscal Policy in Economics from the University of Bath, United Kingdom in 1995. She joined Arthur Andersen HRM (Tax Services) Sdn. Bhd. as a Tax Consultant from 1996 to 1997. Subsequently, she joined KAF Group of Companies as a Financial Analyst from 1997 to 1999. She went on to join FIMA Securities Sdn. Bhd. as Vice-President of Research from 1999 to 2000. Presently, she is the Managing Director of Sal's Food Industries Sdn. Bhd.

Raja Khairul Anuar bin Raja Mokhtar

Raja Khairul Anuar bin Raja Mokhtar, Malaysian aged 31, was appointed as a Non-Executive Director of the Company on 14 December, 2000. He is a member of the Remuneration Committee. He does not have any family relationship with any director and/or major shareholder. He does not have any conflicts of interest with the Company nor convictions for any offences over the past 10 years.

He holds a Bachelor of Commerce (majoring in Finance and Marketing) and a Diploma of Commerce from Curtin University of Technology, Perth Western Australia in 1998. He started his career as an Executive at L&M Corporate (M) Bhd. from 1998 to 2000 and subsequently joined a Multinational IT company, Hewlett-Packard Sales (M) Sdn. Bhd., as a Business Analyst from 2001 to 2002. He is currently attached to EMKAY (Paradigma Intan Sdn. Bhd.), a property development company.

Directors' Profile (Cont'd)

Wee Hoe Soon @ Gooi Hoe Soon

Wee Hoe Soon @ Gooi Hoe Soon, Malaysian aged 46, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. He was the Chairman of both the Audit Committee and Remuneration Committee whilst being a member of the Nominating Committee for year 2004. On 3 January, 2005, he resigned from being Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee as well as member of the Nominating Committee and became an Alternate Director to Woon Chin Chan. He does not have any family relationship with any director and/or major shareholder, or any conflicts of interest with the Company. He has no convictions for any offences over the past 10 years.

Mr. Gooi is a member of MICPA and MIA. He has more than 21 years of experience in the fields of accounting and corporate finance and was

Finance Director of several private and public listed companies on the Bursa Malaysia Securities Berhad ("Bursa Securities"). He has been instrumental in the successful implementation of several corporate exercises, which include merger and acquisition, and corporate debt restructuring exercises undertaken by public listed companies. He was appointed to the board of directors of Avenue Capital Resources Bhd. (formerly known as Avenue Assets Berhad) as a Non-Executive Director in 1999 and was subsequently appointed as the Group Managing Director in 2001. He is now the Deputy Chairman of Avenue Group and remains as Executive Director (Dealing) of its stockbroking subsidiary. In addition, he also sits on the board of Pos Malaysia Services & Holdings Berhad, Paos Holdings Bhd. and several private limited companies in Malaysia.

Family Relations between HSB Group Sdn. Bhd.'s shareholders and Hup Seng Industries Bhd.'s (HSIB) Directors are as follows:-

HSB Group's Shareholders	Kuo Choo Song (HSIB Director)	Ke (Kek) Kim Soon @ Kerk Choo Soon (HSIB Director)	Dato' Seri Ker (Kerk) Kim Tim @ Kerk Choo Ting	Keh (Kerk) Chu Koh (HSIB Director)	Kerk Chiew Siong (HSIB Director)
--------------------------	-------------------------------	--	--	------------------------------------	----------------------------------

Wife	Lau Ah Chik @ Yap Swee Keow	Tan Siew Kee	Sim Guat Keow @ Sim Han Che	Datin' Seri Chang Yang @ Chen Yong	Lem Leh Lee @ Lim Mok Lee	
Son	Teo Lee Tong Teo Lee Teck (HSIB Director) Teo Lay Gak	Kuo Liong Yok Kuo Chee Ching Kuo Chee Yoong Kuo Chee Joo Kuo Chee Hau Kuo Chee Kian Kuo Chee Koon	Kerk Kar Han Kerk Kar Meng		Kerk Gau Yang Kerk Chong Yong	
Daughter				Kerk Chian Tung (HSIB Director)	Kerk Shiang Yih	

Statement on Corporate Governance

The Board recognises its role in realising the best interests of the shareholders and enhancing the financial performance of the Group. The Board believes that through good corporate governance, will corporate accountability be enhanced and thus long term shareholder values be realised.

The Group has applied majority of the Principles of Malaysian Code on Corporate Governance ("MCCG") and Best Practices in Corporate Governance and the extent of the application is shown as follows:-

BOARD OF DIRECTORS

Composition and Attendance

Six (6) meetings were conducted in the financial year 2005, discussing and reviewing quarterly and annual financial results, internal audit reports, dividend proposals, related party transactions, and corporate strategy. The composition of the Board and the attendance of the individual directors during the financial year ended 31 December, 2005 are as follows:-

Name of Director	Designation	No. of meetings attended (out of the total 6 meetings held)
Keh (Kerk) Chu Koh	Chairman	6/6
Ke (Kek) Kim Soon @ Kerk Choo Soon	Vice Chairman	6/6
Kuo Choo Song	Managing Director	6/6
Kerk Chian Tung	Executive Director	5/6
Kerk Chiew Siong	Non-Executive Director	5/6
Teo Lee Teck	Non-Executive Director	6/6
Woon Chin Chan	Senior Independent Non-Executive Director	6/6
Mazrina binti Arifin	Independent Non-Executive Director	6/6
Norita binti Ja'afar	Independent Non-Executive Director	6/6
Raja Khairul Anuar Bin Raja Mokhtar	Non-Executive Director	4/6
Wee Hoe Soon @ Gooi Hoe Soon	Alternate Director to Woon Chin Chan	0/6

The Board meets the requirements imposed by Bursa Malaysia Securities Berhad ("Bursa Securities") of having one-third of its Board members being Independent Non-Executive Directors. This board structure provides an effective balance of corporate accountability to the Group given that the Independent Directors can contribute their independent judgment and knowledge to the management in which the Executive Directors conduct their day-to-day duties.

Since 2005, Woon Chin Chan has been identified by the Board as the Senior Independent Non-Executive Director to whom any concerns may be conveyed.

Duties and Responsibilities

The Board recognises their roles and responsibilities of optimising the operations of the Company and its subsidiaries in order to maximise shareholders' values. The Board has adopted the six primary responsibilities as prescribed in MCCG to effectively lead and control the Group. The Board members possess professional expertise, industrial knowledge and working experience in various fields that contribute effectively to the formulating as well as the achieving of corporate goals and strategic plans of the Group.

BOARD OF DIRECTORS (CONT'D)

Duties and Responsibilities (Cont'd)

In line with the MCCG, the roles and responsibilities of Chairman and Managing Director are separated. The responsibility of Chairman is primarily to ensure that conduct and working of the Board is in an orderly and effective manner whilst the Managing Director manages the daily running of business and implementation of Board policies. The Managing Director is accountable for the profitable operation and strategic development of the Group, and obliged to refer major matters back to the Board.

The Independent Non-Executive Directors on the Board were elected with the objective of safeguarding the shareholders' interests whilst contributing impartial and objective judgment to the decision making process of the Board.

Supply and Access to Information

Prior to Board meetings, the Company Secretary and management would provide agenda and board papers to the Board members on a timely basis. The board papers include minutes of previous meeting, quarterly financial results, supporting management reports and copies of signed resolution for the months in concerned.

The Board members have full and unrestricted access to all information pertaining to the Group's business affairs. When necessary, the Board members may seek external professional advice, whether as a full Board or in their individual capacity, to enable them to discharge their duties with adequate knowledge at the expense of the Company. All directors may gain full access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that relevant rules and regulations are complied with.

Re-election

Article 76 of the Articles of Association of the Company provides that all the Directors of the Company shall retire from office once at least in every three (3) years but shall be eligible for re-election. The Articles of Association also provide that at the Annual General Meeting ("AGM") in every subsequent year, one-third (1/3) of the existing Directors or if their number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office and be eligible for re-election. The details of directors who are retiring and eligible for re-election pursuant to Article 76 of the Company's Articles of Association are listed in the Statement Accompanying Notice of AGM.

According to Article 83 of the Articles of Association of the Company, Directors who are appointed by the Board are subject to election by shareholders at the first opportunity after their appointment.

In accordance with Section 129(6) of the Companies Act, 1965, directors over seventy years of age are required to submit themselves for re-appointment annually. Kuo Choo Song, the Managing Director, is due for re-appointment pursuant to Section 129(6) of the Companies Act, 1965 at the forthcoming AGM and his personal details is stated in the Statement Accompanying Notice of AGM.

Directors' Training

The Board members are encouraged to attend continuous education programmes and seminars to keep themselves updated with developments in the marketplace. To date, all directors have attended sufficient Continuing Education Programme ("CEP") as required by Bursa Securities. The directors will continue to attend relevant seminars and programmes as a continuous process recommended by Bursa Securities.

Statement on Corporate Governance (Cont'd)

DIRECTORS REMUNERATION

Directors' Remuneration

Listed below is a summary of the aggregate remuneration package of the Directors received/receivable from the Company and its subsidiaries for the financial year ended 31 December, 2005, categorised into appropriate components.

	Salary (RM)	Fees (RM)	Bonus & allowance (RM)	Benefits-in-kind (RM)
Executive	825,360	130,000	374,648	59,025
Non-Executive	1,996,800	505,000	921,306	99,001

The number of Directors whose remuneration falls into each successive band of RM50,000 for the financial year ended 31 December, 2005 is disclosed as follows:-

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,001 to RM100,000	-	4
RM300,001 to RM350,000	1	1
RM850,001 to RM900,000	-	1
RM1,050,001 to RM1,100,000	1	2

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board of Directors recognises its responsibilities in ensuring that financial statements are prepared in accordance with the applicable approved accounting standards in Malaysia and provisions of the Companies Act, 1965. The Board also acknowledges its responsibility for presenting a fair and reasonable assessment of the financial position of the Group in the forms of annual and quarterly financial statements to its shareholders. Upon recommendations given by the Audit Committee of the financial statements, the Board will engage in discussions and reviews before approving them and subsequently releasing them to the public, Securities Commission ("SC") and Bursa Securities.

The Directors' Responsibility Statement in relations to the Audited Financial Statements pursuant to Paragraph 15.27 (a) of the Listing Requirements of Bursa Securities is provided on page 25 herein. In addition, the Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is included in this Annual Report.

Internal Control

The Board is aware of the importance of establishing and maintaining a sound internal control system in the Company and its subsidiaries to safeguard shareholders' interest and Group's assets. The Board continuously reviews and examines the effectiveness and efficiency of the internal control system on financial, operational and compliance risk and will seek alternative ways for improvement should any weakness be detected and identified. The system can only provides reasonable assurance against misstatement, loss or fraud as certain threats and risks are externally driven, unforeseen and beyond the control of the Group.

The Board has appointed Monteiro & Heng as the internal auditor to assist the Group in identifying and evaluating significant exposure to risk and assist the Group in maintaining effective controls. The Statement of Internal Control is set out on page 32 of this report.

DIRECTORS REMUNERATION (CONT'D)

Relationship with Auditors

The Board maintains a formal relationship with the auditors in seeking their advice to ensure compliance with the applicable accounting standards. The external auditors regularly bring up relevant matters that need to be addressed during the Audit Committee meetings and Board meetings.

The re-appointment and the remuneration of the external auditors have been recommended by the Audit Committee and are subject to the approval of shareholders and Board of Directors in the forthcoming AGM.

The role of the internal auditors is outlined in the Audit Committee Report.

SHAREHOLDERS AND INVESTORS

The Annual Report, press release as well as disclosures and announcements to Bursa Securities, such as quarterly and annual financial results are the primary means of communication between the Company and shareholders. The Board acknowledges the importance of disseminating information adhering to the disclosure requirements of the Bursa Securities to the shareholders on a timely basis and consequently ensures that the investors are well informed of any major developments of the Group.

The AGM serves as the primary forum to foster dialogue with shareholders. The Board ensures that adequate time is allocated for the question and answer session so that shareholders can clarify matters in relation to resolutions being proposed at the meeting as well as operational and corporate affairs. Upon request, the Directors will also meet up with the investors, press and investment analysts, and disseminate information adhering to the disclosure requirements of Bursa Securities.

While conducting presentations and interviews, the Board takes necessary precautions to ensure that price sensitive and information regarded as material undisclosed information about the Group is not revealed until after the prescribed announcement to the Bursa Securities has been made.

RECURRENT RELATED PARTY TRANSACTIONS ("RRPT")

Please refer to page 63 of the audited accounts in this Annual Report.

24 Other Compliance Information

a) Share Buybacks

There were no share buybacks by the Company during the financial year.

b) Utilisation of Proceeds

No proceeds were raised by the Company from any corporate proposal during the financial year.

c) American Depository Receipts/Global Depository Receipts

The Company did not sponsor any American Depository Receipts or Global Depository Receipts programmes during the financial year.

d) Profit Estimate, Forecast or Projection

The Company did not release any profit estimate, forecast or projection for the financial year and there is no significant variation in the audited financial results for the financial year under review from the unaudited results as previously announced.

e) Profit Guarantee

There was no profit guarantee given by the Company during the year.

f) Options, warrants or convertible securities

There were no options, warrants or convertible securities issued during the year.

g) Contracts Relating to Loan

There were no contracts relating to a loan by the Company and its subsidiaries in respect of the preceding terms.

Statement of Directors' Responsibilities in Relation to Financial Statement

The Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the income statement and cash flows of the Company and the Group for the financial year. The Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 is stated on page 37 of the Annual Report.

The Directors are of the view that, in preparing the financial statements of the Company and the Group for the year ended 31 December, 2005, the Company has adopted appropriate accounting policies that are consistently applied and supported by reasonable and prudent judgements and estimates. The Directors have also considered that all applicable accounting standards have been followed during the preparation of the financial statements.

The Directors are responsible for ensuring that the Company keeps adequate accounting records that disclose with reasonable accuracy the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the requirements of the Companies Act, 1965.

The Directors have ensured timely release of quarterly and annual financial results of the Company and Group to Bursa Securities so that the public and investors are informed of the Group's development.

The Directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to detect and prevent fraud and other irregularities.

COMPOSITION

The Committee comprises four (4) members and the majority of whom are Independent Non-Executive Directors. One (1) member of the Committee is a member of the Malaysian Institute of Accountants (“MIA”). The current members of the Committee and their respective designations are as follows:-

- Woon Chin Chan
(Senior Independent Non-Executive Director)
Appointed on 3 January, 2005 as Chairman of Audit Committee
Member of MIA
- Mazrina binti Arifin
(Independent Non-Executive Director)
Appointed on 3 August, 2000
- Norita binti Ja’afar
(Independent Non-Executive Director)
Appointed on 27 August, 2002
- Kuo Choo Song
(Managing Director)
Appointed on 6 March, 2003

TERMS OF REFERENCE FOR AUDIT COMMITTEE

Constitution

The Committee shall be appointed by the Board from amongst their number (pursuant to a resolution of the Board of Directors) excluding alternate director and shall consist of not fewer than three (3) members of whom a majority must be independent directors as defined in the Listing Requirements.

The Audit Committee shall ensure:

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 examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- iii) fulfils such other requirements as prescribed by the Bursa Malaysia Securities Berhad.

The members of the Committee shall select a Chairman from amongst their number who shall be an independent director.

If a member of the Committee resigns, dies or for any other reason ceases to be member with the result that the number of members is reduced below three (3), the Board of Directors shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

The Board shall review the terms of office and performance of the Committee and each of its members at least once every three (3) years.

TERMS OF REFERENCE FOR AUDIT COMMITTEE (CONT'D)

Authority

The 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;
- f) be able to convene meeting(s) with the external auditors, excluding the attendance of executive members of the Committee, whenever deemed necessary; and
- g) have authority to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

Functions

Duties and Responsibilities

- a) to review and report the following to the Board:
 - 1) with the external auditor, the audit plan;
 - 2) with the external auditor, his evaluation of the system of internal control;
 - 3) with the external auditor, his audit report;
 - 4) the assistance given by the Company's officers to the external auditor;
 - 5) the adequacy of the scope, functions and resources of internal audit functions and that it has the necessary authority to carry out its work including but not limited to:
 - a) any appraisal or assessment of the performance of members of the internal audit function;
 - b) any appointment or termination of senior staff members of the internal audit function and approving it;
 - c) the resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
 - 6) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
 - 7) 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;
 - 8) the external auditor's management letter and management's response;
 - 9) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - 10) any letter of resignation from the external auditors of the Company; and
 - 11) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.
- b) to recommend or consider the nomination of a person or persons as external auditors together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.
- c) To verify the criteria for allocation of options pursuant to share scheme for employee.

TERMS OF REFERENCE FOR AUDIT COMMITTEE (CONT'D)

Meeting and Reporting Procedure

- a) The Committee shall meet as the Chairman deems necessary but not less than four (4) times a year.
- b) The external auditors may request a meeting if they consider that one is necessary and shall have the right to appear and be heard at any meeting of the Committee.
- c) The Chairman shall convene a meeting whenever any member of the Committee requests for a meeting.
- d) Written notice of the meeting together with the agenda shall be given to the members of the Committee and external auditor where applicable.
- e) The Financial Controller, the Head of Internal Audit (where such a function exists) and a representative of the external auditors shall normally attend meetings.
- f) At least once a year the Committee shall meet with the external auditors without executive Board members present.
- g) The Chairman shall be entitled, where deemed appropriate, to invite other Board members, employees, professionals and/or any person(s) with the relevant experience and expertise to attend meetings of the Committee.

The Committee meeting minutes are to be extended to the Chairman of Hup Seng Industries Berhad who will report to the Board of Directors.

Secretary

The Company Secretary shall be the Secretary of the Committee.

The Secretary is responsible for:-

- 1) sending out notices of meetings; and
- 2) preparing and keeping minutes of meetings

Quorum

Two members of the Committee present at the meeting shall constitute a quorum and the majority of members present must be independent directors.

ACTIVITIES DURING THE YEAR

Meetings

Five (5) meetings were held during the financial year ended 31 December, 2005. The Internal and External Auditors, Group Financial Controller and the Board were invited to attend these meetings to advise and clarify the accounting issues and company matters. There was however no meeting held between the Audit Committee and the External Auditors without the presence of executive director(s) during calendar year 2005, as there was no crucial or significant matter that brought upon the need of such meeting.

The dates and attendees of the meetings held are stated below:-

Dates of Meeting

Attended by	10 Jan 2005	22 Feb 2005	17 May 2005	18 Aug 2005	17 Nov 2005	Total meetings attended
Kuo Choo Song	-	✓	✓	✓	✓	4/5
Woon Chin Chan	✓	✓	✓	✓	✓	5/5
Mazrina binti Arifin	✓	✓	✓	✓	✓	5/5
Norita binti Ja'afar	✓	✓	✓	✓	✓	5/5

ACTIVITIES DURING THE YEAR (CONT'D)

Meetings (Cont'd)

The Audit Committee carried out the following activities during the financial year:-

- Reviewed the quarterly unaudited financial reports before recommending them to the Board of Directors for subsequent consideration and approval.
- Reviewed the audited financial statements before submitting them to the Board, ensuring that the financial statements were prepared in accordance with the applicable approved accounting standards and provisions of the Companies Act, 1965.
- Evaluated the performance of the External Auditors and made recommendations on their appointment to the Board.
- Discussed and attended to the key aspects of business operations that would affect the profitability and growth of the Company and its subsidiaries.
- Reviewed the internal audit plan, programmes and resources requirements for the year.
- Reviewed the internal audit reports, which highlighted the audit issues, recommendations and management responses, and discussed with the Internal Auditors on issues relating to system and control weaknesses ascertained during the audit process. The Internal Auditors would then provide their professional recommendations to overcome such system and control weaknesses.
- Reviewed and discussed Related Party Transactions ("RPT") and Recurring Related Party Transactions ("RRPT") with the Group Financial Controller, the External Auditors and the Company Secretary, to ascertain if the transactions are conducted at arm's length and on normal commercial terms, and such transactions are not detrimental to the interest of minority shareholders.

Duties and responsibilities of the Committee were discharged according to its Terms of Reference.

Internal Audit

Monteiro & Heng ("M&H") was appointed as Internal Auditor for the Group since 22 December, 2001 to undertake independent regular and systematic reviews of the systems of internal control. The Internal Auditor provides an independent and objective feedback and reports to the Audit Committee and Board of Directors on the effectiveness and efficiency of the systems.

Internal audit projects executed during the year 2005 were reviews on Corporate Governance Compliance Procurement and Material Wastage, Procurement and Production, Internal Audit Preliminary Review on the newly acquired subsidiary, In-Comix Food Industries Sdn. Bhd., and follow up reviews in respect of areas requested by the Audit Committee.

The internal audit projects encompassed activities such as follows:-

- Carried out audit of the Group's operations to evaluate the internal control systems and procedures and the compliance level of the Group.
- Prepared the annual audit plan for the review of the Audit Committee.
- Produced internal audit reports on a quarterly basis to the Audit Committee, Board of Directors and management, identifying weaknesses and problems, and providing recommendations for improvement.
- Acted on suggestions made by the Audit Committee members, Board members and senior management on concerns over operations or control.
- Attended all Audit Committee and Board of Directors meetings to table and discuss the audit reports.

Nominating Committee

All the three (3) Nominating Committee members appointed are Independent Non-Executive Directors and they are namely:-

- Mazrina binti Arifin
(Chairperson, Independent Non-Executive Director)
- Norita binti Ja'afar
(Member, Independent Non-Executive Director)
- Woon Chin Chan
(Appointed on 3 January, 2005 and became member of Nominating Committee and Independent Non-Executive Director)

The Nominating Committee is responsible for:-

- Reviewing composition of the Board and making recommendation on the appointment of new Director and Board Committees member to the Board.
- Conducting annual review on the required mix of skills, experience and core competencies required on the Board, as well as the size of Board and Non-Executive participation.
- Reviewing on an annual basis the appropriate balance and size of the Board for determination of the number of Directors on the Board.
- Recommending suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- Assessing the effectiveness of the Board, the Board Committee and the contribution of each individual director.

The Committee may use the services of professional recruitment companies to source for the appropriate candidates for directorship. In carrying out its duties and responsibilities, the Nominating Committee will basically have full, free and unrestricted access to the Company's records, properties and personnel.

During the financial year, the Committee convened two (2) meetings on 10 January, 2005 and 8 December, 2005, and all the committee members attended these two meetings.

Remuneration Committee

All of the Committee members appointed are Non-Executive Directors. Members of the Remuneration Committee are namely:-

- Woon Chin Chan
(Appointed on 3 January, 2005 and became Chairman of Remuneration Committee and Independent Non-Executive Director)
- Raja Khairul Anuar bin Raja Mokhtar
(Member, Non-Executive Director)
- Teo Lee Teck
(Member, Non-Executive Director)

The Remuneration Committee is responsible for:-

- Assessing the performance and commitment of the Group's Directors and ensuring their remuneration package reflects their involvement, responsibility undertaken, contributions and level of performance for the year.
- Recommending to the Board on the appropriateness of the remuneration package of the Directors based on their assessment.

The individual directors, including Executive Directors and Non-Executive Directors (including the Non-Executive Chairman) should abstain from the deliberations and voting on decisions in respect of their own remuneration package and entitlement.

In carrying out its duties and responsibilities, the Remuneration Committee will in principle have full, free and unrestricted access to the Company's records, properties and personnel. The Remuneration Committee may obtain the advice of external consultants on the appropriateness of remuneration package.

One (1) meeting was held on 14 December, 2005 during the financial year ended 31 December, 2005 and all the remuneration committee members attended the meeting.

Statement on Internal Control

BOARD RESPONSIBILITY

The Board of Directors of Hup Seng Industries Berhad acknowledges that it is responsible to establish an effective control environment and framework, as well as review the adequacy and integrity of the risk management in financial, operational and compliance functions. Because of the limitations that are inherent in any systems of internal control, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. Accordingly these systems can only provide reasonable and not absolute assurances against material misstatement or loss.

INTERNAL AUDIT FUNCTION

Internal Audit function was established in December, 2001 and an external profession accounting firm was appointed to provide regular independent internal control reviews and reports to the Senior Management, Audit Committee and the Board.

The Internal Audit function performs reviews of key processes relating to high risk areas and assesses the effectiveness of the Group's internal control system. Areas for improvement are proposed and recommended to the Senior Management and the Audit Committee with periodic follow-up on actions taken. The Board ensures that there is an on-going process for identifying, evaluating and managing significant risks faced by the Group. This includes examining principal business risks in critical areas and identifying measures to mitigate these risks. This process is regularly reviewed by the Audit Committee and the Board and accords with the Statement on Internal Control: Guidance For the Directors of Public Listed Companies. The process has been in place during the year under review and up to the date of approval of this annual report.

KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

The Group's internal control key processes include the following:

- An organization structure which formally defines lines of responsibility and delegation of authority.
- Policies and procedures of most operating units within the Group are documented in the Standard Practice Instructions.
- Key functions such as corporate affairs, finance, tax, treasury and human resources are controlled centrally.
- Incompatible responsibilities are properly segregated to ensure that no staff is in total control of the whole transactions.
- There is an annual budgeting and target setting process which includes forecasts for each operating units with detailed reviews at all levels of operations. The Board reviews and approves the annual budget.
- There is effective reporting system in place to ensure timely generation of financial information for management review.
- Operating units meetings are conducted regularly to review financial performance, business development and deliberate on management issues
- Managing Director meets with senior management/all operating units to discuss and resolve key operational, financial and other key management issues regularly. Significant issues are highlighted and discussed at Board meetings.
- The internal audit function adopts a risk-based approach in identifying areas of priority and carries out its work in accordance with an annual audit plan approved by the Audit Committee and the Board. The Audit Committee holds regular meetings and reviews internal audit reports covering such matters, and ensures that weaknesses in controls highlighted are appropriately addressed by management.
- The Audit Committee has access to external auditors and their reports and meets with them to discuss on their findings and reports.
- The Group has a policy on financial limits and approving authority for its operating and capital expenditure.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Internal Control for the inclusion in the annual report of the Company for the year ended 31 December, 2005.

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

Financial Statements

34	Directors' Report
37	Statement by Directors
37	Statutory Declaration
38	Report of The Auditors
39	Income Statement of the Group
40	Income Statement of the Company
41	Balance Sheets
42	Statement of Changes in Equity
44	Cash Flow Statements
46	Notes to The Financial Statements



34 Directors' Report

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December, 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are manufacture and sales of biscuits and coffee mix, and dealers in biscuits, confectionery and other foodstuff.

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

RESULTS

	Group RM	Company RM
Profit after taxation	5,091,370	4,684,877

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

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

DIVIDENDS

During the financial year, the Company paid an interim dividend of 10% less 28% tax on 60,000,000 ordinary shares, amounting to RM4,320,000 in respect of the current financial year.

The Directors do not propose any final dividend in respect of the current financial year.

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 :

Keh (Kerk) Chu Koh	(Chairman)
Ke (Kek) Kim Soon @ Kerk Choo Soon	(Vice Chairman)
Kuo Choo Song	(Managing Director)
Kerk Chiew Siong	(Non Executive Director)
Kerk Chian Tung	(Executive Director)
Teo Lee Teck	(Non Executive Director)
Woon Chin Chan	(Independent Non-Executive Director)
Norita Binti Ja'afar	(Independent Non-Executive Director)
Mazrina Binti Arifin	(Independent Non-Executive Director)
Raja Khairul Anuar Bin Raja Mokhtar	(Non Executive Director)
Wee Hoe Soon @ Gooi Hoe Soon	(Alternate Director to Woon Chin Chan)

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 is a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive benefits (other than a benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 7 of 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/she is a member or with a company in which he/she has a substantial financial interest, except as disclosed in Note 25 to the financial statements.

DIRECTORS' INTERESTS

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:

The Company	Number of Ordinary Shares of RM 1 each			
	1 January, 2005	Bought	Sold	31 December, 2005
Direct interest				
Kuo Choo Song	10,000	-	-	10,000
Ke (Kek) Kim Soon @ Kerk Choo Soon	117,000	-	-	117,000
Keh (Kerk) Chu Koh	118,000	-	-	118,000
Teo Lee Teck	82,000	-	-	82,000
Kerk Chian Tung	-	200,000	-	200,000
Deemed interest				
Kuo Choo Song	35,286,000	-	-	35,286,000*
Ke (Kek) Kim Soon @ Kerk Choo Soon	35,286,000	-	-	35,286,000*
Keh (Kerk) Chu Koh	35,286,000	-	-	35,286,000*
Teo Lee Teck	35,286,000	-	-	35,286,000*
Holding company HSB Group Sdn. Bhd.				
Direct Interest				
Kuo Choo Song	1,099,273	-	-	1,099,273
Ke (Kek) Kim Soon @ Kerk Choo Soon	1,966,040	-	-	1,966,040
Keh (Kerk) Chu Koh	3,030,345	-	-	3,030,345
Kerk Chiew Siong	3,756,074	-	-	3,756,074
Teo Lee Teck	2,038,069	-	-	2,038,069
Indirect Interest				
Kuo Choo Song	7,000	-	-	7,000#
Ke (Kek) Kim Soon @ Kerk Choo Soon	7,000	-	-	7,000#
Keh (Kerk) Chu Koh	7,000	-	-	7,000#

* Deemed interested by virtue of his and/or his associates' interests in HSB Group Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965.

Indirect interest held through Hup Seng Brothers Holdings Sdn. Bhd.

Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh and Teo Lee Teck, by virtue of their interest in the Company, are deemed interested in the shares of the subsidiary companies to the extent that the Company has an interest.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets 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 allowance for doubtful debts and satisfied themselves that all known bad debts have been written off and adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (CONT'D)

- (b) 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:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading and inappropriate.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (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 and consolidated financial statements misleading.
- (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 under review 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 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 its 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 and of the Company for the financial year in which this report is made.

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



KEH (KERK) CHU KOH



KUO CHOO SONG

Batu Pahat

Dated: 27 March, 2006

Statement by Directors

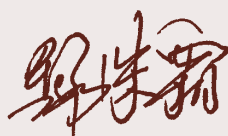
Pursuant to Section 169(15) of the Companies ACT, 1965

We, **KEH (KERK) CHU KOH** and **KUO CHOO SONG**, being two of the Directors of **HUP SENG INDUSTRIES BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 39 to 65 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 December, 2005 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



KEH (KERK) CHU KOH



KUO CHOO SONG

Batu Pahat
Dated: 27 March, 2006

Statutory Declaration

Pursuant to Section 169(16) of the Companies ACT, 1965

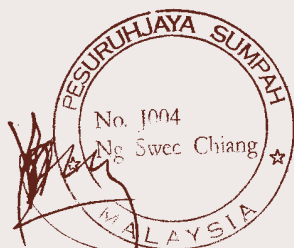
I, **QUEK AH KOW**, being the officer primarily responsible for the financial management of **HUP SENG INDUSTRIES BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 39 to 65 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed **QUEK AH KOW** at)
Batu Pahat in the State of Johor Darul)
Ta'zim on 27 March, 2006)



QUEK AH KOW

Before me,



NO. 131A, JALAN SULTANAH
83000 BATU PAHAT, JOHOR

38 Report of the Auditors to the Members of Hup Seng Industries Berhad (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 39 to 65. 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 December, 2005 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 consolidated financial statements;
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

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



WUN MOW SANG

1821/12/06(J)

Partner

Johor Bahru

Dated: 27 March, 2006

Income
Statement of the Group
 For the Year Ended 31 December, 2005

	Note	2005 RM	2004 RM
Revenue	3	180,967,603	186,481,897
Cost of sales	4	(140,249,686)	(150,258,833)
Gross profit		40,717,917	36,223,064
Other operating revenue	3	1,650,768	2,655,456
Administrative expenses		(13,097,893)	(12,228,825)
Selling expenses		(21,673,834)	(16,850,159)
Profit from operations	5	7,596,958	9,799,536
Finance cost		(120,293)	(390)
Profit before taxation		7,476,665	9,799,146
Taxation	8	(2,385,295)	(3,234,796)
Profit after taxation		5,091,370	6,564,350
Earnings per share (sen)	9	8.5	11
Dividends per share (sen)	10	7.20	14.40

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

Income

Statement of the Company

For the Year Ended 31 December, 2005

	Note	2005 RM	2004 RM
Gross dividends from subsidiaries		8,958,000	8,958,000
Interest income		569,564	1,113,607
Revenue		9,527,564	10,071,607
Administrative expenses		(2,311,176)	(2,273,436)
Profit before taxation	5	7,216,388	7,798,171
Taxation	8	(2,531,511)	(2,260,749)
Profit after taxation		4,684,877	5,537,422
Dividends per share (sen)	10	7.20	14.40

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

Balance Sheets

As at 31 December, 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
NON-CURRENT ASSETS					
Property, plant and equipment	11	71,658,652	65,171,618	783,556	978,375
Investment in subsidiaries	12	-	-	65,327,211	43,941,000
Goodwill on consolidation	13	13,227,508	-	-	-
Deferred tax assets	22	3,000	3,000	3,000	3,000
CURRENT ASSETS					
Amount owing by subsidiaries	12	-	-	5,474,031	1,878,000
Inventories	14	22,004,531	17,402,441	-	-
Trade receivables	15	25,472,442	27,417,950	-	-
Other receivables	16	2,939,089	1,209,728	38,273	402,354
Tax recoverable		549,268	768,381	97,000	-
Cash and bank balances	17	14,950,315	45,158,929	6,418,739	30,612,613
		65,915,645	91,957,429	12,028,043	32,892,967
CURRENT LIABILITIES					
Trade payables	18	14,843,420	24,373,192	-	-
Other payables	19	13,034,694	11,501,625	857,058	867,921
Borrowings	20	361,521	-	-	-
Taxation		165,367	53,383	-	27,546
		28,405,002	35,928,200	857,058	895,467
NET CURRENT ASSETS		37,513,643	56,032,229	11,170,985	31,997,500
		122,399,803	121,203,847	77,284,752	76,919,875
FINANCED BY:					
Share capital	21	60,000,000	60,000,000	60,000,000	60,000,000
Reserves		53,403,088	52,631,718	17,284,752	16,919,875
		113,403,088	112,631,718	77,284,752	76,919,875
Deferred tax liabilities	22	8,996,715	8,572,129	-	-
		122,399,803	121,203,847	77,284,752	76,919,875

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

42 Statement of Changes in Equity

For the Year Ended 31 December, 2005

Group	Share Capital	Non-distributable Share Premium	Revaluation Reserve (Note 23)	Distributable Retained Profits	Total
	RM	RM	RM	RM	RM
At 1 January, 2004	60,000,000	14,333,133	-	44,000,007	118,333,140
Surplus on revaluation of properties	-	-	2,414,769	-	2,414,769
Deficits on revaluation of properties	-	-	(1,361,236)	-	(1,361,236)
Deferred taxation arising from revaluation	-	-	(359,305)	-	(359,305)
Net gains and losses not recognised in the income statement	-	-	694,228	-	694,228
Net profit for the year	-	-	-	6,564,350	6,564,350
Dividends paid:					
Final for year 2003					
- 10% less 28% tax	-	-	-	(4,320,000)	(4,320,000)
Special interim for year 2004					
- 10% less 28% tax	-	-	-	(4,320,000)	(4,320,000)
Interim for year 2004					
- 10% less 28% tax	-	-	-	(4,320,000)	(4,320,000)
At 31 December, 2004	60,000,000	14,333,133	694,228	37,604,357	112,631,718
At 1 January, 2005	60,000,000	14,333,133	694,228	37,604,357	112,631,718
Net profit for the year	-	-	-	5,091,370	5,091,370
Dividend paid:					
Interim for year 2005					
-10% less 28% tax	-	-	-	(4,320,000)	(4,320,000)
At 31 December, 2005	60,000,000	14,333,133	694,228	38,375,727	113,403,088

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

Statement
of Changes in Equity (Cont'd)
For the Year Ended 31 December, 2005

Company	Share	Non	Distributable	Total
	Capital	Share	Retained	
	RM	Premium	Profits	RM
		RM	(Note 24)	
			RM	RM
At 1 January, 2004	60,000,000	14,333,133	10,009,320	84,342,453
Net profit for the year	-	-	5,537,422	5,537,422
Dividends paid:				
Final for year 2003				
- 10% less 28% tax	-	-	(4,320,000)	(4,320,000)
Special interim for year 2004				
-10% less 28% tax	-	-	(4,320,000)	(4,320,000)
Interim for year 2004				
-10% less 28% tax	-	-	(4,320,000)	(4,320,000)
At 31 December, 2004	60,000,000	14,333,133	2,586,742	76,919,875
At 1 January, 2005	60,000,000	14,333,133	2,586,742	76,919,875
Net profit for the year			4,684,877	4,684,877
Dividends paid:				
Interim for year 2005				
- 10% less 28% tax	-	-	(4,320,000)	(4,320,000)
At 31 December, 2005	60,000,000	14,333,133	2,951,619	77,284,752

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

Cash Flow Statements

For the Year Ended 31 December, 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	7,476,665	9,799,146	7,216,388	7,798,171
Adjustments for:				
Bad debts written off	56,317	363,787	-	-
Depreciation	4,585,413	4,491,501	194,819	181,265
(Gain)/Loss on disposal of property, plant and equipment	(58,656)	(438,151)	-	(58,089)
Interest expense	120,293	390	-	-
Interest income	(926,367)	(1,584,386)	(569,564)	(1,113,607)
Plant and equipment written off	679,235	123,816	-	-
Revaluation deficit	-	173,904	-	-
Allowance for doubtful debts	230,907	45,149	-	-
Obsolete stocks written off	557,359	-	-	-
Operating profit before working capital changes	12,721,166	12,975,156	6,841,643	6,807,740
Increase in inventories	(290,816)	(1,873,238)	-	-
Decrease in trade and other receivables	7,850,089	262,507	364,081	45,692
(Decrease)/increase in trade and and other payables	(14,375,944)	5,098,285	(10,863)	76,055
Cash generated from operations	5,904,495	16,462,710	7,194,861	6,929,487
Interest paid	-	(390)	-	-
Taxes paid	(1,766,576)	(4,440,521)	(2,656,057)	(2,268,268)
Taxes refunded	-	437,754	-	-
Net cash from operating activities	4,137,919	12,459,553	4,538,804	4,661,219

Cash
Flow Statements (Cont'd)
For the Year Ended 31 December, 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of a subsidiary (Note 12)	(21,418,569)	-	(21,386,211)	-
(Advance to)/repayment from subsidiaries	-	-	(3,596,031)	4,136,000
Interest received	926,367	1,584,386	569,564	1,113,607
Proceeds from disposal of property, plant and equipment	1,610,150	904,953	-	140,000
Purchase of property, plant and equipment	(4,501,698)	(4,477,078)	-	(1,133,275)
Net cash (used in)/generated from investing activities	(23,383,750)	(1,987,739)	(24,412,678)	4,256,332
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid	(120,293)	-	-	-
Repayment of hire purchase	(313,456)	-	-	-
Repayment of term loan	(3,121,650)	-	-	-
Repayment of bankers' acceptance	(3,448,905)	-	-	-
Dividends paid	(4,320,000)	(12,960,000)	(4,320,000)	(12,960,000)
Net cash used in financing activities	(11,324,304)	(12,960,000)	(4,320,000)	(12,960,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,570,135)	(2,488,186)	(24,193,874)	(4,042,449)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	45,158,929	47,647,115	30,612,613	34,655,062
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (Note 17)	14,588,794	45,158,929	6,418,739	30,612,613

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

46 Notes to the Financial Statements For the Year Ended 31 December, 2005

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are manufacture and sales of biscuits and coffee mix, and dealers in confectionery and other foodstuff. 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 Main Board of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Suite 6.1A, Level 6, Menara Pelangi, Jalan Kuning, Taman Pelangi, 80400, Johor Bahru, Johor. The principal place of business of the Company is located at 14, Jalan Kilang, Kawasan Perindustrian Tongkang Pecah, 83010 Batu Pahat, Johor.

The holding company of the Company is HSB Group Sdn. Bhd., a company incorporated in Malaysia. Related companies are those companies within the HSB Group Sdn. Bhd. group.

The number of employees in the Group and in the Company at the end of the financial year were 1,403 (2004 : 1,351) and 5 (2004 : 4) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 March, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements comply with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965.

The Directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the end of the financial year. Subsidiaries are those companies in which the Company has a long term equity interest and where it has power directly or indirectly to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Acquisition of subsidiaries which meet the criteria for merger are accounted for using merger accounting principles. When the merger method is used, the cost of investment in the Company's book is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares acquired is treated as merger reserve or merger deficit. The results of the companies being merged are included as if the merger had been effected throughout the current and previous financial years.

The difference between the nominal value of shares of the Company issued as consideration and the nominal value of the shares acquired has been classified as a merger deficit and set off against the retained profits and revaluation reserve of the subsidiary companies as at the effective date of the merger (1 January, 1999), and also against the further revaluation surplus that arose from the revaluation of certain properties of the subsidiary companies in the year ended 31 December, 2000.

As provided under the transitional provision of MASB Standard No. 21 - Business Combinations, the Group has applied this standard prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of Consolidation (cont'd)

Subsidiaries (cont'd)

During the financial year, the Company acquired a subsidiary, In-Comix Food Industries Sdn. Bhd., and accounted for it using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary acquired or disposed of during the financial 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 the subsidiary are measured at their fair values at the date of acquisition. 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 arising on consolidation.

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 company is the difference between net disposal proceeds and the Group's share of its net assets.

(c) 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(m). Land of leasehold tenure with an unexpired period of fifty years or more are classified as long leasehold land and those with an unexpired period of less than fifty years are classified as short leasehold land.

Revaluations are made at least once in every five years based on a valuation by an independent valuer on an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A revaluation decrease is first offset against an increase on earlier valuation in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

Freehold land and capital work-in-progress are not amortised. Leasehold land is amortised over the lease term of 60 and 99 years on the straight line method. Depreciation on other property, plant and equipment is calculated to write off the cost or valuation of property, plant and equipment on the reducing balance method over the expected useful lives of the property, plant and equipment at the following annual rates:

Buildings	2%
Plant and equipment	10% - 20%
Motor vehicles	20%
Other assets	8% - 33%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement and the attributable portion of the revaluation surplus is taken directly to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Product Development Expenditure

Development and pre-production expenses incurred on new products are charged to the income statement as and when they are incurred.

(e) Investments in Subsidiaries

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

(f) 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 impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(m).

(g) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. The costs of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(h) Foreign Currencies

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

All exchange differences are taken to income statement.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash and bank balances, net of outstanding bank overdrafts, repurchase agreements and deposits with licensed bank.

(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 rates that have been enacted at the balance sheet date.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Income Tax (cont'd)

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

(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. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make 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 to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

(ii) Interest income

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

(iii) Dividend

Dividends from subsidiary companies are recognised as and when the right to receive payment is established.

(iv) Rental income

Rental income is recognised on the accrual basis.

(m) 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.

Notes to the Financial Statements (Cont'd) For the Year Ended 31 December, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Impairment of Assets (cont'd)

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. 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.

(n) Financial Instruments

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

Financial assets and financial liabilities recognised on the balance sheet include cash and bank balances, trade and other receivables and payables and equity. The accounting policies on recognition and measurement of these financial instruments are as follows:

(i) Trade Receivables

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

(ii) Trade Payables

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

(iii) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which the obligation of payment is established.

3. REVENUE

Revenue of the Group represents the invoiced value of goods sold less returns and trade discounts. Intragroup transactions are excluded from the Group's revenue.

Other operating revenue of the Group principally consists of interest income.

4. COSTS OF SALES

Cost of sales represents cost of inventories sold.

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

5. PROFIT FROM OPERATIONS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
This is arrived at after charging :				
Auditors' remuneration				
- Statutory audits				
- current year	69,500	56,000	17,000	17,000
- prior year	-	7,000	-	2,000
- Other services				
- current year	40,300	49,600	3,300	1,700
- prior year	1,000	-	1,000	-
Allowance for doubtful debts	230,907	45,149	-	-
Staff costs excluding directors' remuneration (Note 6)	28,233,370	26,015,986	105,455	95,615
Directors' fees	755,000	755,000	500,000	500,000
Directors' other emoluments (Note 7)	5,376,468	5,160,554	1,218,608	1,207,533
Bad debts written off	56,317	363,787	-	-
Depreciation of property, plant and equipment (Note 11)	4,585,413	4,491,501	194,819	181,265
Realised exchange losses	164,619	31,916	-	-
Obsolete stocks written off	557,359	-	-	-
Plant and equipment written off	679,235	123,816	-	-
Rental expenses	398,280	268,950	25,200	22,500
and crediting :				
Bad debts recovered	60,579	7,692	-	-
Gross dividend income	-	-	8,958,000	8,958,000
Gain on disposal of property, plant and equipment	58,656	438,151	-	58,089
Interest income	926,347	1,584,386	569,564	1,113,607
Rental income	67,270	40,200	-	-

The estimated monetary value of benefits provided to Directors during the financial year by way of usage of the Group and Company's assets and provision of other benefits amounted to RM206,494 (2004 : RM161,810) and RM57,208 (2004 : RM41,741) respectively.

6. STAFF COSTS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Wages and salaries	25,238,561	23,243,019	93,562	85,068
Employee provident fund	2,594,125	2,421,026	11,271	10,137
Social security costs	312,422	272,524	622	410
Other staff related expenses	88,262	79,417	-	-
	28,233,370	26,015,986	105,455	95,615

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

7. DIRECTORS' REMUNERATION

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Directors of the Company				
Executive :				
Salaries and other emoluments	1,200,008	1,189,433	1,199,608	1,189,033
Fees	130,000	130,000	100,000	100,000
Benefits-in-kind	59,025	46,782	57,208	41,741
	1,389,033	1,366,215	1,356,816	1,330,774
Non-Executive (but holding executive position in subsidiaries):				
Salaries and other emoluments	2,908,606	2,853,770	9,500	9,500
Fees	305,000	305,000	200,000	200,000
Benefits-in-kind	99,001	75,914	-	-
	3,312,607	3,234,684	209,500	209,500
Non-Executive :				
Other emoluments	9,500	9,000	9,500	9,000
Fees	200,000	200,000	200,000	200,000
	209,500	209,000	209,500	209,000
Directors of Subsidiaries				
Executive :				
Salaries and other emoluments	1,257,954	1,107,951	-	-
Fees	90,000	90,000	-	-
Benefits-in-kind	48,468	36,706	-	-
	1,396,422	1,234,657	-	-
Non-Executive				
Other emoluments	400	400	-	-
Fees	30,000	30,000	-	-
Benefits-in-kind	-	2,408	-	-
	30,400	32,808	-	-
Total	6,337,962	6,077,364	1,775,816	1,749,274

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Directors' remuneration analysed by:				
Salaries and other emoluments	5,376,468	5,160,554	1,218,608	1,207,533
Fees	755,000	755,000	500,000	500,000
Benefits-in-kind	206,494	161,810	57,208	41,741
	6,337,962	6,077,364	1,775,816	1,749,274

7. DIRECTORS' REMUNERATION (CONT'D)

Number of directors of the Company whose total remuneration during the year fell within the following bands:

	Number of Directors	
	2005	2004
Executive Directors:		
RM300,001 - RM350,000	1	1
RM1,050,001 - RM1,100,000	1	1
Non-Executive Directors:		
RM50,001 - RM100,000	4	4
RM300,001 - RM350,000	1	1
RM750,001 - RM800,000	-	1
RM850,001 - RM900,000	1	-
RM1,050,001 - RM1,100,000	2	2

The remuneration of Non-Executive Directors is inclusive of 4 directors holding executive position in subsidiaries.

Certain comparative amounts of directors' fees, remuneration and the related disclosures thereon have been reclassified to conform with current year's presentation.

8. TAXATION

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Tax expense for the year :				
Current tax	2,607,168	2,915,880	2,533,740	2,149,000
Deferred tax (Note 22)	(35,334)	264,000	-	(3,000)
	<u>2,571,834</u>	<u>3,179,880</u>	<u>2,533,740</u>	<u>2,146,000</u>
Tax expense of prior years:				
Current tax	(186,539)	54,916	(2,229)	114,749
	<u>2,385,295</u>	<u>3,234,796</u>	<u>2,531,511</u>	<u>2,260,749</u>

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004 : 28%) of the estimated assessable profit for the year.

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

	2005	2004
	RM	RM
Group		
Profit before taxation	7,476,665	9,799,146
Taxation at Malaysian statutory tax rate of 28% (2004 : 28%)	2,093,466	2,743,762
Effect of preferential tax rate of 20% (2004 : 20%) on chargeable income for qualified small and medium enterprise	(40,000)	(40,000)
Effect of income not subject to tax	-	(82,403)
Effect of restriction in deduction of expenses for investment holding company	513,151	539,897
Effect of expenses with double deduction	(233,976)	(171,779)
Effect of utilisation of reinvestment allowances	(8,000)	-
(Over)/under provision of income tax expense in prior year	(186,539)	54,916

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

8. TAXATION (CONT'D)

	2005 RM	2004 RM
Group (Cont'd)		
Over provision of deferred tax in prior year	(43,527)	-
Effect of other expenses not deductible for tax purposes	290,720	190,403
Tax expense for the year	2,385,295	3,234,796
Company		
Profit before taxation	7,216,388	7,798,171
Taxation at Malaysian statutory tax rate of 28% (2004 : 28%)	2,020,589	2,183,488
Effect of tax exempt income	-	(561,120)
Effect of income not subject to tax	-	(16,265)
Effect of restriction in deduction of expenses for investment holding company	513,151	539,897
(Over)/under provision of income tax expense in prior year	(2,229)	114,749
Tax expense for the year	2,531,511	2,260,749

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2005	2004
Net profit for the year (RM)	5,091,370	6,564,350
Weighted average number of ordinary shares in issue	60,000,000	60,000,000
Basic earnings per share (sen)	8.5	11.0

No diluted earnings per share is calculated as there is no potential dilutive ordinary shares.

10. DIVIDENDS

	Amount		Dividends per Share	
	2005 RM	2004 RM	2005 Sen	2004 Sen
Interim dividend:				
10% (2004 : 10%)				
less 28% taxation	4,320,000	4,320,000	7.20	7.20
Special interim dividend:				
Nil (2004 : 10% less 28 % taxation)	-	4,320,000	-	7.20
	4,320,000	8,640,000	7.20	14.40

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

11. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings RM	Long leasehold land and buildings RM	Short leasehold land and buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
Cost and Valuation							
At beginning of the year	19,957,945	2,072,680	13,739,278	47,058,347	12,335,415	2,681,229	97,844,894
Additions	75,349	-	147,021	984,024	898,551	2,397,353	4,502,298
Acquisition of subsidiary (Note 12)	-	-	6,295,000	3,080,074	773,090	2,090,014	12,238,178
Disposals/write off	-	(595)	(1,095,000)	(978,162)	(451,850)	(1,254,997)	(3,780,604)
Reclassification	43,539	-	39,999	286,972	-	(370,510)	-
At end of the year	20,076,833	2,072,085	19,126,298	50,431,255	13,555,206	5,543,089	110,804,766
Accumulated Depreciation							
At beginning of the year	1,057,945	92,680	1,229,278	21,351,900	7,184,663	1,756,810	32,673,276
Acquisition of subsidiary (Note 12)	-	-	71,903	1,852,616	448,990	1,063,191	3,436,700
Charge for the year	252,114	28,372	342,193	2,644,022	1,142,445	176,267	4,585,413
Disposals/write off	-	-	(25,125)	(601,835)	(269,430)	(652,885)	(1,549,275)
At end of the year	1,310,059	121,052	1,618,249	25,246,703	8,506,668	2,343,383	39,146,114
Net Book Value							
At 31 December, 2005	-	-	5,082,395	25,184,552	5,048,538	3,199,706	38,515,191
At cost	18,766,774	1,951,033	12,425,654	-	-	-	33,143,461
At valuation	18,766,774	1,951,033	17,508,049	25,184,552	5,048,538	3,199,706	71,658,652
At 31 December, 2004	-	-	-	25,706,447	5,150,752	924,419	31,781,618
At cost	18,900,000	1,980,000	12,510,000	-	-	-	33,390,000
At valuation	18,900,000	1,980,000	12,510,000	25,706,447	5,150,752	924,419	65,171,618
Depreciation charge for 2004 (Note 5)	212,562	26,122	260,500	2,800,038	1,032,001	160,278	4,491,501

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Total RM
Cost				
At 1 January / 31 December, 2005	30,936	7,845	1,133,230	1,172,011
Accumulated Depreciation				
At 1 January, 2005	17,772	5,880	169,984	193,636
Charge for the year	1,936	234	192,649	194,819
At 31 December, 2005	19,708	6,114	362,633	388,455
Net Book Value				
At 31 December, 2005	11,228	1,731	770,597	783,556
At 31 December, 2004	13,164	1,965	963,246	978,375
Depreciation charged for 2004 (Note 5)	3,191	235	177,839	181,265

The freehold land and buildings and leasehold land and buildings were revalued on 20 December, 2004 by professional valuers. Valuations were made on the basis of open market values.

The carrying amount of land and buildings that would have been included in the financial statements had the land and buildings been carried at cost less accumulated depreciation amounts to RM27,651,101 (2004 : RM23,952,172).

The costs of land and buildings not in use amounted to RM515,400 (2004 : RM1,230,000).

Other assets include capital work-in-progress which comprises machinery under installation amounting to RM1,762,217 (2004 : RM Nil).

Property, plant and equipment of a subsidiary, In-Comix Food Industries Sdn. Bhd., amounted to RM6,916,387 (2004 : RM Nil) are charged to banks for banking facilities granted as disclosed in Note 20.

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2005 RM	2004 RM
Unquoted shares at cost	65,327,211	43,941,000

12. INVESTMENT IN SUBSIDIARIES (CONT'D)

The subsidiary companies are:

Name of Subsidiaries	Country of Incorporation	Effective Equity Interest		Principal Activities
		2005	2004	
Hup Seng Perusahaan Makanan (M) Sdn. Bhd.	Malaysia	100%	100%	Manufacture and sales of biscuits
Hup Seng Hoon Yong Brothers Sdn. Bhd.	Malaysia	100%	100%	Sales and distribution of biscuits, confectionery and other foodstuff
In-Comix Food Industries Sdn. Bhd.	Malaysia	100%	-	Manufacture and wholesale of coffee mix and all kinds of foodstuff

The amounts owing by the subsidiary companies, which arose mainly from advances, are unsecured and have no fixed terms of repayment.

Acquisition of Subsidiary

On 12 July, 2005, the Company acquired 100% equity interest in In-Comix Food Industries Sdn. Bhd., a company incorporated in Malaysia, for a total consideration of RM21,386,211 by cash.

The acquisition had the following effect on the Group's financial results for the year:

	2005 RM
Revenue	9,186,018
Loss from operations	(1,354,950)
Loss for the year	(1,057,618)

The acquisition had the following effect on the financial position of the Group as at the end of the year:

	2005 RM
Property, plant and equipment	6,916,387
Inventories	5,382,314
Goodwill on consolidation	13,227,508
Trade and other receivables	2,272,881
Cash and bank balances	252,922
Trade and other payables	(2,654,710)
Bank overdrafts	(361,521)
Deferred tax liabilities	(195,920)
Group's share of net assets	24,839,861

Notes to the Financial Statements (Cont'd)

For the Year Ended 31 December, 2005

12. INVESTMENT IN SUBSIDIARIES (CONT'D)

The provisional fair values of the assets acquired and liabilities assumed from the acquisition of the subsidiary were as follows:

	12.07.2005 RM'000
Property, plant and equipment (Note 11)	8,801,478
Inventories	4,868,633
Trade and other receivables	8,178,701
Cash and bank balances	277,585
Trade and other payables	(6,379,241)
Bank borrowings	(6,884,011)
Bank overdrafts	(309,943)
Deferred tax liabilities	(394,499)
Group's share of net assets	8,158,703
Goodwill on acquisition	13,227,508
Cost of acquisition	21,386,211
Total purchase consideration:	21,386,211
Cash outflow arising on acquisition:	
Purchase consideration satisfied by cash	21,171,620
Cost attributable to the acquisition, paid in cash	214,591
Total cash outflow of the Company	21,386,211
Cash and cash equivalents of subsidiary acquired	32,358
Net cash outflow to the Group	21,418,569

There were no acquisition in the financial year ended 31 December, 2004.

13. GOODWILL ON CONSOLIDATION

	Group	
	2005	2004
	RM	RM
At beginning of the year	-	-
Acquisition of subsidiary (Note 12)	13,227,508	-
At end of year	13,227,508	-

Goodwill arose from acquisition of a subsidiary, In-Comix Food Industries Sdn. Bhd.

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

14. INVENTORIES

	Group	
	2005	2004
	RM	RM
At cost :		
Raw materials	10,639,130	5,375,407
Finished goods	1,693,512	807,795
Spares and fuel	2,196,031	2,158,177
Trading inventories	6,175,869	7,878,662
Work-in-progress	268,732	138,614
	<hr/> 20,973,274	<hr/> 16,358,655
At net realisable value:		
Containers	1,031,257	1,043,786
	<hr/> 22,004,531	<hr/> 17,402,441

Inventories of containers are stated at estimated net realisable value based on the estimated quantity of tin containers in circulation at balance sheet date.

15. TRADE RECEIVABLES

	Group	
	2005	2004
	RM	RM
Trade receivables	25,798,213	27,955,040
Less : Allowance for doubtful debts	(325,771)	(537,090)
	<hr/> 25,472,442	<hr/> 27,417,950

The Group's normal credit term ranges from 30 days to 60 days. On a case-by-case basis these terms may be varied upon assessment and approval.

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

16. OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Deposits	801,697	232,142	13,000	13,000
Interest receivable from fixed deposits and repurchase agreements	81,894	455,069	8,011	378,571
Prepayments	441,822	296,989	17,262	10,783
Sundry receivable	1,613,676	225,528	-	-
	<hr/> 2,939,089	<hr/> 1,209,728	<hr/> 38,273	<hr/> 402,354

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

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

17. CASH AND BANK BALANCES

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Deposits with licensed bank	9,922,349	33,400,000	5,922,349	29,400,000
Repurchase agreements	700,000	8,350,000	-	-
Cash and bank balances	4,327,966	3,408,929	496,390	1,212,613
	14,950,315	45,158,929	6,418,739	30,612,613
Less: Bank overdrafts (Note 20)	(361,521)	-	-	-
Cash and cash equivalents	14,588,794	45,158,929	6,418,739	30,612,613

The weighted average interest rates during the financial year and the average maturities of deposits as at year end 31 December, 2005 were as follows:

	Weighted Average Interest Rates		Average Maturities	
	2005 %	2004 %	2005 Days	2004 Days
Deposits with licensed bank	2.7 - 3	2.7 - 3.7	30	143
Repurchase agreements	2.5	2.3	17	20

18. TRADE PAYABLES

The normal trade credit term granted to the Group ranges from 30 to 90 days.

19. OTHER PAYABLES

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Payroll liabilities	5,326,820	5,448,420	336,401	348,627
Duties and other taxes payable	757,875	645,819	-	-
Sundry suppliers	2,075,142	1,196,192	75	-
Accrued expenses	3,057,761	2,447,596	520,582	519,294
Containers refundable deposits	1,783,648	1,763,598	-	-
Amount due to a director	33,448	-	-	-
	13,034,694	11,501,625	857,058	867,921

The amount due to a director of a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

20. BANK BORROWINGS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Secured:				
Bank overdrafts (Note 17)	361,521	-	-	-

The outstanding overdrafts balance arose from a subsidiary, In-Comix Food Industries Sdn. Bhd., and are secured by the following:

- (i) legal charge over the properties of the subsidiary as disclosed in Note 11.
- (ii) guarantee by a director of the subsidiary.
- (iii) debenture over assets of the subsidiary.

The bank facilities granted to other subsidiaries are secured by way of corporate guarantee by the Company, which inclusive of bank overdraft facility not utilised as at balance sheet date, amounted to RM2,190,000 (2004 : RM2,190,000), is repayable upon demand and bears interest at 1.5% (2004 : 1.5%) above the bank's base lending rate per annum.

21. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2005	2004	2005 RM	2004 RM
Authorised	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid	60,000,000	60,000,000	60,000,000	60,000,000

22. DEFERRED TAX LIABILITIES/(ASSET)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
At 1 January	8,569,129	7,945,824	(3,000)	-
Recognised in the income statement (Note 8)	(35,334)	264,000	-	(3,000)
Recognised in equity	-	359,305	-	-
Acquisition of subsidiary	459,920	-	-	-
At 31 December	8,993,715	8,569,129	(3,000)	(3,000)
Presented as follows:				
Deferred tax assets	(3,000)	(3,000)	(3,000)	(3,000)
Deferred tax liabilities	8,996,715	8,572,129	-	-
	8,993,715	8,569,129	(3,000)	(3,000)

Notes to the Financial Statements (Cont'd)

For the Year Ended 31 December, 2005

22. DEFERRED TAX LIABILITIES/(ASSET) (CONT'D)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities of the Group :

	Accelerated Capital Allowances RM	Revaluation of Property Plant and Equipment RM	Total RM
At 1 January, 2005	6,800,105	2,130,092	8,930,197
Acquisition of subsidiary	79,405	380,515	459,920
Recognised in the income statement	612,038	(19,372)	592,666
At 31 December, 2005	7,491,548	2,491,235	9,982,783
At 1 January, 2004	6,489,693	1,779,131	8,268,824
Recognised in the income statement	310,412	(4,344)	306,068
Recognised in equity	-	355,305	355,305
At 31 December, 2004	6,800,105	2,130,092	8,930,197

Deferred Tax Asset of the Group :

	Unutilised Losses RM	Unabsorbed Capital Allowances RM	Others RM	Total RM
At 1 January, 2005	-	-	(361,068)	(361,068)
Recognised in the income statement	(432,000)	(111,000)	(85,000)	(628,000)
At 31 December, 2005	(432,000)	(111,000)	(446,068)	(989,068)
At 1 January, 2004			(323,000)	(323,000)
Recognised in the income statement			(38,068)	(38,068)
At 31 December, 2004			(361,068)	(361,068)

Deferred Tax Asset of the Company:

	Others RM
At 1 January, 2005 / 2004	(3,000)
Recognised in the income statement	-
At 31 December, 2005 / 2004	(3,000)

23. REVALUATION RESERVE

The non-distributable revaluation reserve represents the unrealised surplus arising from the revaluation of freehold and leasehold land and building, net of deferred taxation. The movements of the reserves are shown in the Statement of Changes in Equity.

Notes
to the Financial Statements (Cont'd)
For the Year Ended 31 December, 2005

24. RETAINED PROFITS

The Company has sufficient tax credit under Section 108 of the Income Tax Act 1967 and adequate balance in the tax exempt income account to frank the payment of dividends out of its entire retained profits as at 31 December, 2005.

25. SIGNIFICANT RELATED PARTY TRANSACTIONS

	2005 RM	2004 RM
Group		
Rental of premises payable to:		
- Hup Seng Brothers Holdings Sdn. Bhd. ("HSBH") Note (a)	131,400	131,400
- Tiong Bee Industries Sdn. Bhd. ("TBI") Note (b)	54,000	54,000
Company		
From subsidiary companies:		
Dividend received	8,958,000	8,958,000

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 under mutually agreed terms.

Related party is an enterprise whereby significant control and/or influence can be exercised over the party through common directors and shareholders.

Note :

(a) Certain Directors of the Company, namely Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh, Kerk Chiew Siong, Teo Lee Teck, and certain directors of the subsidiary companies, namely Kuo Liong Yok, Kuo Chee Ching, Kuo Chee Joo, Teo Lay Gak, Kerk Kar Han, Kuo Chee Yoong, are also shareholders of HSBH.

Certain Directors of the Company, namely Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon, Keh (Kerk) Chu Koh, Kerk Chiew Siong, Kerk Chian Tung, Teo Lee Teck, and a director of the subsidiary companies, namely Kuo Liong Yok, are also directors of HSBH.

(b) Certain Directors of the Company, namely Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon and Keh (Kerk) Chu Koh, are also directors of TBI.

26. CAPITAL COMMITMENTS

	Group	
	2005 RM	2004 RM
Capital expenditure :		
Approved but not contracted for	1,350,000	1,350,000
Contracted but not provided for	4,209,000	678,894
	<u>5,559,000</u>	<u>2,028,894</u>

27. CONTINGENT LIABILITIES (unsecured)

The Company has given corporate guarantee to banks for bank guarantee and banking facilities extended to subsidiaries. None of the banking facilities other than bank overdrafts as disclosed in Note 20 was utilised as at the balance sheet date and the outstanding bank guarantee as at balance sheet date is RM752,900 (2004 : RM721,500).

Notes to the Financial Statements (Cont'd)

For the Year Ended 31 December, 2005

28. SEGMENTAL REPORTING

(i) Business segments

No segment is presented in respect of the Group's business segment, as the principal activities of the subsidiaries are manufacture and sales of biscuits and coffee mix, and dealers in confectionery and other foodstuff.

(ii) Geographical segments

The group operates principally in Malaysia. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Malaysia		Overseas		Consolidated	
	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM
Revenue						
Revenue from external customers by location of customers	140,631,230	151,971,990	40,336,373	34,509,907	180,967,603	186,481,897
Results						
Segment results (external)	8,321,916	9,765,448	1,016,654	1,193,918	9,338,570	10,959,366
Other income					569,564	1,171,695
Unallocated corporate expenses					(2,311,176)	(2,331,525)
Profit from operations					7,596,958	9,799,536
Finance costs					(120,293)	(390)
Taxation					(2,385,295)	(3,234,796)
Profit after taxation					5,091,370	6,564,350
Assets						
Segment assets	107,453,550	103,437,298	22,783,179	21,698,409	130,236,729	125,135,707
Unallocated corporate assets					20,568,166	31,993,340
Total assets					150,804,895	157,129,047
Liabilities						
Segment liabilities	27,816,053	36,210,306	8,728,606	7,394,556	36,544,659	43,604,862
Unallocated corporate liabilities					857,058	895,467
Total liabilities					37,401,717	44,500,329
Other information						
Depreciation	3,472,415	3,279,990	918,179	1,030,246	4,390,594	4,310,236
Unallocated corporate expense					194,819	181,265
					4,585,413	4,491,501
Capital expenditure	3,502,770	4,002,041	999,528	475,037	4,502,298	4,477,078
Non cash expense other than depreciation	1,042,824	658,558	480,994	48,098	1,523,818	706,656

28. SEGMENTAL REPORTING (CONT'D)

Overseas principal markets consist of Asia (excluding Malaysia), United States of America, Africa and Russia.

Segment results, assets and liabilities include directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest earning assets and revenue and corporate assets, liabilities and expenses.

29. 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.

(b) Interest Rate Risk

The Group's exposure to interest rate risk is minimal, as the Group had no interest-bearing debts as at 31 December, 2005. The investments in financial assets are mainly short term in nature and to minimise risk, held mainly in fixed deposits or repurchase agreements.

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

(c) Liquidity Risk

The Group actively manages its operating cash flows and the availability of funding through cash flows planning. As part of its overall prudent liquidity management, the Group maintains sufficient level of cash to meet its working capital requirements.

(d) 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.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any high risk financial instruments.

(e) Fair Values

The carrying amounts of cash and cash equivalents, trade and other receivables/payables approximate fair values due to the relatively short term maturity of these financial instruments.

List of Group Properties

As At 31 December, 2005

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.05 RM
Hup Seng Perusahaan Makanan (M) Sdn Bhd						
Lot No. 7009 (Formerly PTD 2650) No. 15, Jalan Kolek Taman Kapal Layar Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Single-storey terrace house	Freehold	Rented out (expiring 30.04.2007)	143.0 sq. m/ 94.1 sq. m	12 years	83,900
Lot 1336 No. 14-A, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Single-storey Detached Factory an annex with 3-storey office building incorporating a basement area	Freehold	Warehouse/ office	9,940 sq. m/ 13,284.8 sq. m	6 years	12,229,870
PTD 1858 No. 14, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Single-storey Detached Factory an annex with 2-storey office building and other ancillary buildings	60 years Leasehold (Expiring 24.05.2040)	Factory/ office	20,234.11 sq. m/ 14,841.90 sq. m	23 years	12,425,654
PTD 3727 No. 14, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Fully covered with concrete driveway and underground drainage & piping system	60 years Leasehold (Expiring 12.07.2055)	Driveway	1,416.3 sq. m	-	176,400
Lot 6770 11 Jalan Kesturi 3 Taman Bunga Raya Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Double-storey semi-detached house	Freehold	Foreign workers' hostel	275 sq. m/ 169.1 sq. m	15 years	128,800
Lot 6726 (Formerly GM766) 6 Jalan Kesturi 6 Taman Bunga Raya Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Double-storey semi-detached house	Freehold	Foreign workers' hostel	282 sq. m/ 309.1 sq. m	15 years	148,400

List of Group Properties (Cont'd)

As At 31 December, 2005

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.05 RM
Lot 6457 No. 22 & 22A Jalan Timun Taman Anggerik Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Double-storey shophouse	Freehold	Foreign workers' hostel	163.5 sq. m/ 281.3 sq. m	26 years	197,602
Lot 6456 No. 21 & 21A Jalan Timun Taman Anggerik Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Double-storey shophouse	Freehold	Foreign workers' hostel	163.5 sq. m/ 281.3 sq. m	26 years	197,602
Hup Seng Hoon Yong Brothers Sdn Bhd Lot 63763, 63775 & 63776 No.4&4A,28&28A and 30 & 30A Jln Harilela Taman Harilela 31350 Ipoh Perak	Double storey shophouses	Freehold	4-Rented out (expiring 30.09.2007) 4A-Rented out (expiring 30.09.2007) 28-Rented out (expiring 30.09.2006) 28A-Staff hostel 30-Vacant 30A-Staff hostel	5,226 sq. ft./ 10,078 sq. ft.	16 years	534,400
P.T. Nos. 46611 and 45689 Nos. A497 and A495 Taman Seri Pelindung Satu Jalan Berserah 25300 Kuantan Pahang Darul Makmur	2 continuous units of Double-storey shophouses	Freehold	Vacant	413 sq. m/ 483.7 sq. m	10 years	515,400

List of Group Properties (Cont'd)

As At 31 December, 2005

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.05 RM
P.T. No. 50277 No. 1 Jalan Jaya Gading 2 Kawasan MIEL Jaya Gading, 25050 Kuantan Pahang Darul Makmur	1 1/2 storey semi-detached factory building	66 years leasehold (expiring 18.05.2063)	Branch office/ warehouse	1,613.09sq. m/ 1,001.9 sq. m	8 years	785,622
Lot Nos. 4107 & 4109 No. 1323 & 1325 Jalan Bukit Tengah Taman Indah 14000 Bukit Mertajam Pulau Pinang	Double-storey shophouses	Freehold	1323-Branch office/store 1325-Store 1325A-Staff hostel	371.7 sq. m/ 743.4 sq. m	16 years	568,000
Plot Nos. 128, 130 & 131 No. 128, 130, 131 Jalan Sagaria 2 Taman Saga Alor Mengkudu 05400 Alor Setar Kedah Darul Aman	Double-storey shophouses	Freehold	Store	362.4 sq. m/ 641.1 sq. m	15 years	390,700
Plot Nos. 132 & 133 No. 132 & 133 Jalan Sagaria 2 Taman Saga Alor Mengkudu 05400 Alor Setar Kedah Darul Aman	Double-storey shophouses	Freehold	132-Branch office/store 133-Store 133A-Staff hostel	241.55 sq. m/ 483.6 sq. m	7 years	262,100
Lot No. 6444 (Formerly PTD 693) No. 9 & 9A Jalan Timun Taman Anggerik Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Double-storey shophouse	Freehold	9-Foreign worker's hostel 9 A-Staff hostel	163.5 sq. m/ 281.3 sq. m	26 years	187,800
Lot No.305884 PN149251 (Formerly PT 149442) 12 Hala Rapat Baru 18 Taman Perusahaan Ringan Kinta Jaya 31350 Ipoh Perak Darul Ridzuan	1 1/2 Storey -detached factory	99 years leasehold (expiring 25.06.2096)	Branch office/ warehouse	1,586 sq. m/ 12,050 sq. ft.	7 years	989,011

List of Group Properties (Cont'd)

As At 31 December, 2005

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.05 RM
Lot 11067 15 Jalan Pala 10 Kawasan Industries Ringan PMTG Tinggi 14000 Bukit Mertajam Pulau Pinang	1 1/2 Storey -detached Light Industrial Building	Freehold	Rented out (expiring 31.10.2006)	1,770 sq. m/ 577.5 sq. m	7 years	702,600
Lot 11068 11-A Jalan Pala 10 Kawasan Industries Ringan PMTG Tinggi 14000 Bukit Mertajam Pulau Pinang	1 1/2 Storey -detached Light Industrial Building	Freehold	Rented out (expiring 31.10.2006)	1,208 sq. m/ 577.5 sq. m	7 years	622,600
Lot 6574 Mukim of Linau District of Batu Pahat Johor Darul Takzim	Industrial land	Freehold	Car park	9,704.38 sq. m	-	1,997,000
In-Comix Food Industries Sdn Bhd						
Plo No.94 Kawasan Perindustrian Senai 3 Jalan Cyber 6 81400 Senai Johor Darul Takzim	Double-storey detached factory	60 years leasehold (expiring 24.11.2057)	Warehouse/ office/ factory	6,313.10 sq. m/ 5,246.80sq. m	8 years	5,082,395

70 Statement of Shareholdings

As At 23 March, 2006

Authorised capital	: RM100,000,000.00
Issued and fully paid-up capital	: RM60,000,000.00
Class of shares	: Ordinary share of RM1.00 each
Voting rights	: One vote per RM1.00 share

ANALYSIS OF SHAREHOLDINGS

No. of Holders	Holdings	Total Holdings	Percentage of Shares
6	Less than 100	210	0.00
1,202	100 to 1,000	1,169,840	1.95
840	1,001 to 10,000	3,514,300	5.86
157	10,001 to 100,000	4,893,700	8.15
22	100,001 to less than 5% of issued shares	15,135,950	25.23
1	5% and above of issued shares	35,286,000	58.81
2,537		60,000,000	100.00

TOP THIRTY LARGEST SHAREHOLDERS

No. Name of shareholder	No. of shares held	Percentage of Shares
1. HSB Group Sdn. Bhd.	35,286,000	58.81
2. Leong Pai Nyok	2,900,000	4.83
3. Lembaga Tabung Haji	2,862,250	4.77
4. Chang Kwee Lan	2,048,000	3.41
5. Cekap Kapital Sdn. Bhd.	1,546,000	2.58
6. Malaysian National Reinsurance Berhad	1,000,000	1.67
7. Yeong Yoke Lan	913,000	1.52
8. Noorhayati Binti Kamaluddin	848,800	1.41
9. Bank Kerjasama Rakyat Malaysia Berhad	802,100	1.34
10. Chang Yang @ Chen Yong	670,000	1.12
11. Lim Hun Swee	407,800	0.68
12. Tan Kim Gaik	200,000	0.33
13. Kerk Chian Tung	200,000	0.33
14. Kerk Han Meng	172,000	0.29
15. Lim Beng Geok	160,000	0.27
16. Chong Swee Ching	155,000	0.26
17. Nam Heng Oil Mill Company Sdn. Berhad	150,000	0.25
18. Choy Sook Eng	125,000	0.21
19. Keh (Kerk) Chu Koh	118,000	0.20
20. Ke (Kek) Kim Soon @ Kerk Choo Soon	117,000	0.20
21. Bong Sin Construction Company Sdn. Berhad	116,900	0.19
22. Kerk Kar Han	107,000	0.18
23. Chai Wooi Kok	100,000	0.17
24. Kerk Chian Hui	100,000	0.17

Statement of Shareholdings (Cont'd)

As At 23 March, 2006

TOP THIRTY LARGEST SHAREHOLDERS (CONT'D)

No. Name of shareholder	No. of shares held	Percentage of Shares
25. Lim Chye Seng & Sons Realty Sdn. Bhd.	100,000	0.17
26. Quah Kim Hiang	91,900	0.15
27. Leong Yuen Wah	86,000	0.14
28. Victor Clarence Baptist	83,000	0.14
29. Teo Lee Teck	82,000	0.14
30. Lim Seng Qwee	80,000	0.13

Substantial Shareholders

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

No. Name of shareholder	Direct Interest		Deemed Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
1. HSB Group Sdn. Bhd.	35,286,000	58.81	-	-
2. Kuo Choo Song	10,000	0.02	35,286,000 #	58.81
3. Tan Siew Kee	-	-	35,286,000 #	58.81
4. Kuo Chee Ching	70,000	0.12	35,286,000 #	58.81
5. Kuo Chee Hau	17,000	0.03	35,286,000 #	58.81
6. Kuo Chee Joo	23,000	0.04	35,286,000 #	58.81
7. Kuo Chee Kian	16,000	0.03	35,286,000 #	58.81
8. Kuo Chee Koon	30,000	0.05	35,286,000 #	58.81
9. Kuo Chee Yoong	21,000	0.04	35,286,000 #	58.81
10. Kuo Liong Yok	52,000	0.09	35,286,000 #	58.81
11. Ke (Kek) Kim Soon @ Kerk Choo Soon	117,000	0.20	35,286,000 #	58.81
12. Sim Guat Keow @ Sim Han Che	5,000	0.01	35,286,000 #	58.81
13. Kerk Han Meng	172,000	0.29	35,286,000 #	58.81
14. Kerk Kar Han	107,000	0.18	35,286,000 #	58.81
15. Lau Ah Chik @ Yap Swee Keow	-	-	35,286,000 #	58.81
16. Teo Lay Gak	30,000	0.05	35,286,000 #	58.81
17. Teo Lee Teck	82,000	0.14	35,286,000 #	58.81
18. Teo Lee Tong	80,000	0.13	35,286,000 #	58.81
19. Keh (Kerk) Chu Koh	118,000	0.20	35,286,000 #	58.81
20. Lem Leh Lee @ Lim Mok Lee	-	-	35,286,000 #	58.81
21. Dato' Seri Ker (Kerk) Kim Tim @ Kerk Choo Ting	-	-	35,286,000 #	58.81
22. Datin Seri Chang Yang @ Chen Yong	670,000	1.12	35,286,000 #	58.81
23. Kerk Gau Yang	-	-	35,286,000 #	58.81
24. Kerk Chong Yong	-	-	35,286,000 #	58.81
25. Kerk Shiang Yih	2,000	0.00	35,286,000 #	58.81

Note:

Deemed interested by virtue of his/her and /or his/her associates' interests in HSB Group Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965.

72 Statement of
Shareholdings (Cont'd)
As At 23 March, 2006

DIRECTORS' INTERESTS

Name of Director	Direct Interests		Deemed Interests	
	No. of shares held	%	No. of shares held	%
Keh (Kerk) Chu Koh	118,000	0.20	35,286,000	58.81 *
Ke (Kek) Kim Soon @ Kerk Choo Soon	117,000	0.19	35,286,000	58.81 *
Kuo Choo Song	10,000	0.00	35,286,000	58.81 *
Kerk Chian Tung	200,000	0.33	-	-
Kerk Chiew Siong	-	-	-	-
Teo Lee Teck	82,000	0.14	35,286,000	58.81 *
Woon Chin Chan	-	-	-	-
Mazrina binti Arifin	-	-	-	-
Norita binti Ja'afar	-	-	-	-
Raja Khairul Anuar bin Raja Mokhtar	-	-	-	-
Wee Hoe Soon @ Gooi Hoe Soon	-	-	-	-

Note:

- * Deemed interested by virtue of his interests in HSB Group Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965.

Form of Proxy



合成工業有限公司
HUP SENG INDUSTRIES BERHAD
(Company No: 226098-P)

CDS ACCOUNT NO.

I/We _____ of _____

being a member/members of Hup Seng Industries Berhad, hereby appoint _____

_____ of _____

_____ or failing whom, _____

_____ of _____

_____ as my/our proxy to vote for *me/us and on *my/our behalf at the **Fourteenth Annual General Meeting** of the Company to be held at **Mezzanine Floor, The Katerina Hotel, 8, Jalan Zabedah, 83000 Batu Pahat, Johor Darul Takzim on Thursday, 18 May 2006 at 11.00 a.m.** and, at every adjournment thereof *for/against the resolutions to be proposed thereat.

* My/Our proxy is to vote as indicated below:-

No.	RESOLUTIONS	FOR	AGAINST
1.	To receive the Audited Financial Statements for the year ended 31 December, 2005 together with the Reports of the Directors and Auditors.		
2.	To approve the payment of Directors' fees for the financial year ended 31 December, 2005. Re-election of Directors retiring according to the Company's Articles of Association:		
3.	- Kerk Chian Tung (Article 76)		
4.	- Mazrina Binti Arifin (Article 76)		
5.	- Teo Lee Teck (Article 76)		
6.	Re-appointment of Mr Kuo Choo Song as Director pursuant to Section 129 (6) of the Companies Act, 1965.		
7.	Re-appointment of Messrs Ernst & Young as Auditors.		
8.	Authority to allot shares.		
9.	Proposed Amendment to the Articles of Association of the Company		

Please indicate with a cross (X) in the space whether you wish your votes to be cast for or against the resolution. In the absence of such specific directions, your proxy will vote or abstain as he thinks fit

As witness my hand this _____ day of _____ 2006

NO. OF SHARES HELD

Signature of Member(s)

Note:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company and if the proxy is not a member of the Company, the proxy shall be an advocate or an approved company auditor or a person approved by the Registrar of Companies.
2. A member shall be entitled to appoint more than one proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same meeting.
3. Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where a member 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.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if such appointer is a corporation under its common seal or the hand of its attorney.
6. The instrument appointing a proxy must be deposited at the office of the Registered Office of the Company, Symphony Incorporations Sdn. Bhd. at Suite 6.1A, Level 6, Menara Pelangi, Jalan Kuning, 80400 Johor Bahru, Johor not less than forty-eight (48) hours before the time appointed for holding the Meeting.

Please Fold Here

Stamp

The Secretary

HUP SENG INDUSTRIES BERHAD

(Company No: 226098-P)

Suite 6.1A, Level 6
Menara Pelangi, Jalan Kuning
Taman Pelangi
80400 Johor Darul Ta'zim
Malaysia

Please Fold Here