

# 2006



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



**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

<http://www.hupseng.com>

ANNUAL REPORT 2006



## Annual Report

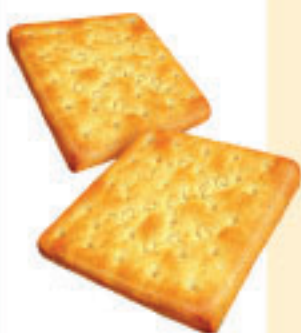


合成工業有限公司  
**HUP SENG INDUSTRIES BERHAD**  
(Company No: 226098-P)

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## CORPORATE INFORMATION

### DIRECTORS

**Keh (Kerk) Chu Koh**  
(Chairman)

**Kerk Chiew Siong**  
(Non-Executive Vice Chairman)

**Kuo Choo Song**  
(Managing Director)

**Kerk Chian Tung**  
(Executive Director)

**Teo Lee Teck**  
(Non-Executive Director)

**Kerk Kar Han**  
(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)

### SECRETARIES

Leong Siew Foong

Woo Ying Pun

### PRINCIPAL PLACE OF BUSINESS

14 Jalan Kilang  
Kawasan Perindustrian Tongkang Pecah  
83010 Batu Pahat  
Johor Darul Ta'zim

### 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

### 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

*Deluxe Peanut*



# CORPORATE STRUCTURE



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: 19770-K)



**HUP SENG HOON YONG  
BROTHERS SDN BHD**

(Company No: 31372-V)



**In-Comix<sup>®</sup>**

**IN-COMIX FOOD  
INDUSTRIES SDN BHD**

(Company No: 180753-V)





*Wholemeal Cracker*



*Deluxe Chocolate*

## CHAIRMAN'S STATEMENT

### REVIEW OF THE FINANCIAL PERFORMANCE

The Group managed to achieve a commendable set of results for the financial year under review despite stiff competition in a difficult market and escalating fuel costs.

Revenue rose by 4.1 % to RM188,338,321 as compared with preceding year corresponding period of RM180,967,603. The Group registered a profit before tax of RM9,964,305, a 33.2% improvement over the RM7,483,093 in 2005. The significant increase in profit before tax is largely attributable to an overall improvement in biscuit contribution.

The Group has no borrowings and has a cash balance of RM21.2 million as at the end of the financial year.

### DIVIDEND

The Board of Directors has declared interim dividends of 10% less 28% tax for the financial year ended 31 December, 2006. These dividends were paid on 28 December, 2006. However, there is no final dividend recommended for this financial year.



*Through our company's effective sale strategy and our slogan "Quality is Our Promise" in mind, together with sales of high potential products, we are able to improve our market share.*

CHAIRMAN'S STATEMENT (CONT'D)

PROSPECTS

Supported by sustained global growth and resilient domestic demand, the Malaysian economy is expected to register a growth of 6% in 2007. The global economy is expected to expand moderately in the first half of the year, mirroring the slower growth expected in the US during this period. On the domestic front, a number of major developments are expected to impact growth, mainly towards the latter part of the year. These include, among others, the more rapid implementation of public projects and the significant increase in tourist arrivals for the Visit Malaysia Year 2007 during the peak summer travel season. Reflecting these factors, the Malaysian economy is expected to enjoy stronger growth in the second half year.

Despite the aforesaid, the year ahead for the Group is anticipated not going to be smooth sailing. The greatest challenge, perhaps, will be the rising raw materials costs. It is not expected to recover them in the immediate term but we will be on continued look out for productivity within the Group, particularly in the areas of production and distribution.

Prevailing competition in the market remains keen. However with a strong brand name, high quality products and extensive distribution networks, the Group is hopeful to drive growth in our domestic and overseas markets to improve earnings.

CORPORATE SOCIAL RESPONSIBILITY

To ease the burden and sufferings of the flood victims in Johor recently, the Group donated the Company's Products such as Ping Pong brand Cream Crackers Istimewa, Mini Soda and etc.

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.

To Ke (Kek) Kim Soon @ Kerk Choo Soon, the Vice-Chairman of the Company, who recently stepped down from the Board, we would like to record our appreciation for his invaluable services rendered and take this opportunity to welcome Kerk Kar Han into our Board as Non-Executive Director.

  
**KEH (KERK) CHU KOH**  
 Chairman

*Cap Ping Pong Biscuits*

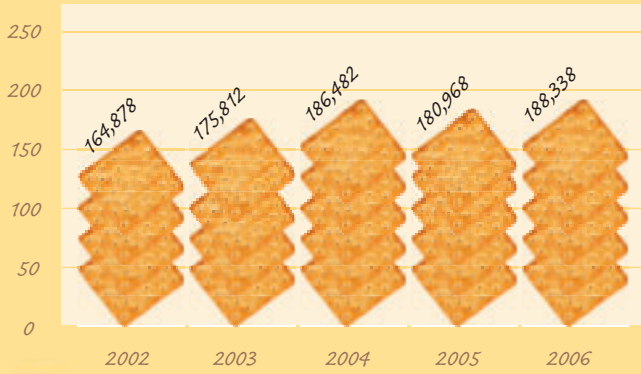


*Deluxe Range*

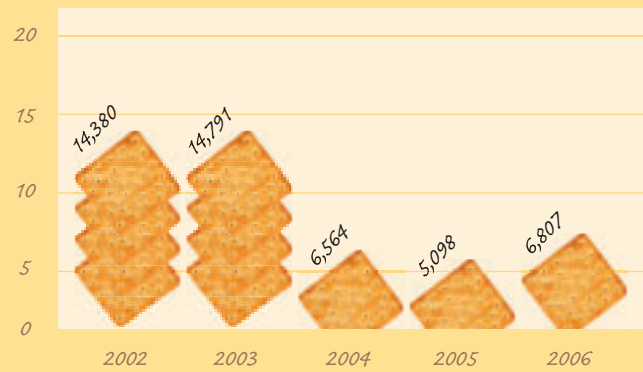


# FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

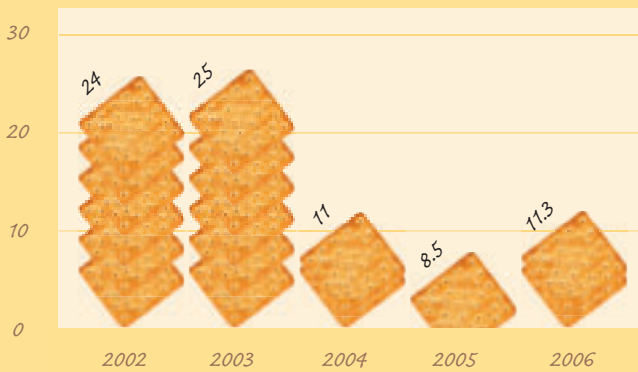
Turnover (RM'000)



Profit After Tax (RM'000)



Net Earnings Per Share (sen)



Financial year ended 31 December	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000
<b>Turnover</b>	164,878	175,812	186,482	180,968	188,338
<b>Profit After Tax</b>	14,380	14,791	6,564	5,098	6,807
<b>Net Earnings Per Share</b>	24 sen	25 sen	11 sen	8.5 sen	11.3 sen

## DIRECTORS' PROFILE

### Keh (Kerk) Chu Koh

Keh (Kerk) Chu Koh, Malaysian aged 64, 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, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of Hup Seng Industries Berhad ("HSIB")) is disclosed in page 12 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 48 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.

### Kerk Chiew Siong

Kerk Chiew Siong, Malaysian aged 54, 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. On 17 August, 2006, he then became the Non-Executive Vice Chairman of the Company. 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, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 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 31 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.



*Instant  
Chrysanthemum Tea &  
Instant Lemon Tea*



*Instant Green Tea  
& Instant Peach Tea*



## DIRECTORS' PROFILE (CONT'D)



*Cafe 1+1*

*Instant Coffee Mix*



*Instant Coffee Mix Plus*

**Ke (Kek) Kim Soon @ Kerk Choo Soon**

Ke (Kek) Kim Soon @ Kerk Choo Soon, Malaysian aged 67, was the Vice-Chairman of the Company and subsequently resigned on 15 August, 2006. He was a member of the Board of Directors on 4 October, 1991 and appointed as the Executive Vice-Chairman on 3 August, 2000. Subsequently, his position was 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, uncle of Kerk Chian Tung and Teo Lee Teck as well as father of Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 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 48 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 75, 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 48 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, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 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.



*White Coffee & AG Cafe*



## DIRECTORS' PROFILE (CONT'D)

### Kerk Chian Tung

Kerk Chian Tung, Malaysian aged 36, 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 and Kerk Kar Han. Her family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 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.

### Teo Lee Teck

Teo Lee Teck, Malaysian aged 47, 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 times 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 28 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 and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 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.



*Vegetable Flavour  
& Prawn Flavour*

*Mi Goreng,  
Oriental Chicken Flavour  
& Kuey Teow Braised Duck Flavour*



*Range of Instant Cup Noodle*

## DIRECTORS' PROFILE (CONT'D)

**Kerk Kar Han**

Kerk Kar Han, Malaysian aged 39, was appointed as a Non-Executive Director of the Company on 15 August, 2006. He joined HSHY on 20 September, 1995 as a Management Executive and was promoted to Admin Senior Executive in July, 1997. On 10 March, 1998, he was appointed as the Executive Director of HSHY. Subsequently, he was redesignated as Director cum Admin Senior Executive on 24 January, 2003. On 1 January, 2004, he was promoted to Director cum Assistant Admin Manager. His responsibilities include maintaining and improving the organizational administration system, ensuring the compliance of company policies, overseeing branches performance and participating in sales and marketing strategic planning and decision making. He reports directly to Business Development Executive Director. He has more than 11 years of experience in business administration and management. He is the son of Ke (Kek) Kim Soon @ Kerk Choo Soon, nephew of Kuo Choo Song, Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin 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 12 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 48, 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 Malaysian 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 Malaysia Securities Berhad ("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.

*Deluxe Vegetable Crackers  
& Deluxe Cheese Crackers*

*Multi Grain Crackers*

*Butter Pisang Cookies  
& Corn Sandwich Cookies*



## DIRECTORS' PROFILE (CONT'D)

### Mazrina bte Arifin

Mazrina bte Arifin, Malaysian aged 39, 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. She was the Founder and Managing Director of Under6'ers, Child Enrichment Centres, in Kuala Lumpur and Selangor from 1999 to 2006.

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 35, 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.

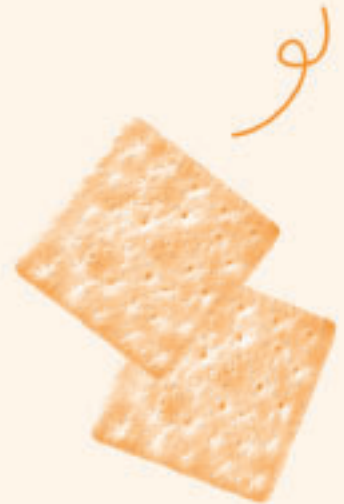
She obtained a Bachelor of Arts (Hons.) majoring in Economics from the University of Nottingham, United Kingdom in 1994. She obtained a Master of Science majoring in Fiscal Policy in Economics from the University of Bath, United Kingdom in 1995. She joined Arthur Andersen HRM (Tax Services) Sdn. Bhd. 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 32, 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.

*Hup Seng  
Cream Crackers*



## DIRECTORS' PROFILE (CONT'D)

### Wee Hoe Soon @ Gooi Hoe Soon

Wee Hoe Soon @ Gooi Hoe Soon, Malaysian aged 47, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. He was appointed as the Chairman of both the Audit Committee and Remuneration Committee whilst being a member of the Nominating Committee until year 2004. On 3 January, 2005, he resigned from being an 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, nor 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 22 years of experience in the fields of accounting and corporate finance and was Finance Director of several private and public listed companies on 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 and Deputy Chairman in 2004, holding this last position until 2006. He now 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	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	Kuo Liong Yok	Kerk Kar Han (HSIB Director)		Kerk Gau Yang	
	Teo Lee Teck (HSIB Director)	Kuo Chee Ching	Kerk Han Meng		Kerk Chong Yong	
	Teo Lay Gak	Kuo Chee Yoong				
		Kuo Chee Joo				
		Kuo Chee Hau				
		Kuo Chee Kian				
		Kuo Chee Koon				
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*

Five (5) regular meetings were conducted in the financial year 2006, 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, 2006 are as follows:-

Name of Director	Designation	No. of meetings attended (out of the total 5 meetings held)
Keh (Kerk) Chu Koh	Non-Executive Chairman	5/5
Ke (Kek) Kim Soon @ Kerk Choo Soon ^	Non-Executive Vice Chairman	3/3
Kuo Choo Song	Managing Director	5/5
Kerk Chian Tung	Executive Director	5/5
Kerk Chiew Siong *	Non-Executive Director	4/5
Teo Lee Teck	Non-Executive Director	5/5
Kerk Kar Han #	Non-Executive Director	2/2
Woon Chin Chan	Senior Independent Non-Executive Director	3/5
Mazrina binti Arifin	Independent Non-Executive Director	5/5
Norita binti Ja'afar	Independent Non-Executive Director	4/5
Raja Khairul Anuar Bin Raja Mokhtar	Non-Executive Director	5/5
Wee Hoe Soon @ Gooi Hoe Soon	Alternate Director to Woon Chin Chan	1/5

^ Resigned from the Board as Director and Non-Executive Vice Chairman with effect from 15 August, 2006.

\* Redesignated as Non-Executive Vice Chairman with effect from 17 August, 2006.

# Appointed as Non-Executive Director with effect from 15 August, 2006.

The Board meets the requirements imposed by Bursa Malaysia Securities Bhd. (“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.

## STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

### BOARD OF DIRECTORS (CONT'D)

#### *Duties and Responsibilities (Cont'd)*

In line with the MCGG, 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 existing directors have attended sufficient Continuing Education Programme ("CEP") as required by Bursa Securities. These directors will continue to attend relevant seminars and programmes as a continuous process recommended by Bursa Securities. One of the seminars that director attended is FRS for Directors - Business Valuation of Quarterly Financial Report.

## 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, 2006, categorised into appropriate components.

	Salary (RM)	Fees (RM)	Bonus & allowance (RM)	Benefits- in-kind (RM)
Executive	840,960	140,000	442,679	44,120
Non-Executive	1,930,360	525,625	1,039,404	90,082

The number of Directors whose remuneration falls into each successive band of RM50,000 for the financial year ended 31 December, 2006 is disclosed as follows:-

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,001 to RM100,000	-	4
RM350,001 to RM400,000	1	1
RM650,001 to RM700,000	-	1
RM1,050,001 to RM1,100,000	-	1
RM1,100,001 to RM1,150,000	1	1

## 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 16 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.

For 2006, 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 24 of this report.

## STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

### ACCOUNTABILITY AND AUDIT (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.

### 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 29 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, 2006, 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.

## 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.

**e) Profit Guarantee**

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

**f) Options, warrants or convertible securities**

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

**h) Deviation in Financial Results**

There is a deviation in the audited financial results for the financial year under review from the unaudited results announced on 14 February, 2007. The Group's audited profit after tax for the financial year ended 31 December, 2006 of RM6,806,851 differs from the unaudited financial year end results of profit after tax of RM9,010,184 and an announcement has been made to Bursa Securities on 2 April, 2007.

**i) Non-Audit Fee**

There were no non-audit fee paid to the external auditors for the financial year 31 December, 2006.

# AUDIT COMMITTEE

## 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.

## AUDIT COMMITTEE (CONT'D)

### 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.

## AUDIT COMMITTEE (CONT'D)

### 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

Four (4) meetings were held during the financial year ended 31 December, 2006. 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 2006, 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:-

Attended by	← Dates of Meeting →				Total meetings attended
	15 Feb 2006	24 May 2006	17 Aug 2006	16 Nov 2006	
Kuo Choo Song	✓	✓	✓	✓	4/4
Woon Chin Chan	✓	✓	-	✓	3/4
Mazrina binti Arifin	✓	✓	✓	✓	4/4
Norita binti Ja'afar	-	✓	✓	✓	3/4
Wee Hoe Soon	-	-	✓	-	1/4
@ Gooi Hoe Soon (Alternate Director to Woon Chin Chan)					

## AUDIT COMMITTEE (CONT'D)

### ACTIVITIES DURING THE YEAR (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 for the first three quarters of financial year 2006 and it undertook 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 were reviews on Corporate Governance Compliance, credit control and debt monitoring procedures, key controls of In-Comix Food Industries Sdn. Bhd in areas of management framework, revenue cycle, purchasing cycle, inventory management and control, cash management and general accounting, manufacturing operations, stock ageing and trade debtors ageing, 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.

## BOARD COMMITTEE

### 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  
(Member, 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 one (1) meeting on 4 August, 2006, and all the committee members attended the meeting.

## BOARD COMMITTEE (CONT'D)

### Remuneration Committee

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

- Woon Chin Chan  
(Chairperson, 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 senior management officers 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 and senior management officers 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 17 January, 2006 during the financial year ended 31 December, 2006 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 professional accounting firm was appointed to provide regular independent internal control reviews and reports to the Senior Management, the Audit Committee and the Board.

The Internal Audit function performs review 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, 2006.

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

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# DIRECTORS' REPORT

## DIRECTORS' REPORT

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

## 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 for the year	6,806,851	4,780,658
Attributable to:		
Equity holders of the Company	6,806,851	4,780,658

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 were not 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)
Kerk Chiew Siong	(Vice Chairman - appointed on 17 August, 2006)
Kuo Choo Song	(Managing Director)
Kerk Chian Tung	(Executive Director)
Teo Lee Teck	(Non-Executive Director)
Kerk Kar Han	(Non-Executive Director - appointed on 15 August, 2006)
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)
Ke(Kek) Kim Soon @ Kerk Choo Soon	(resigned on 15 August, 2006)

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

## DIRECTORS' REPORT (CONT'D)

### DIRECTORS' BENEFITS (CONT'D)

Since the end of the previous financial year, no Director has received or become entitled to receive benefits (other than 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, 2006/ Upon appointment	Bought	Sold	31 December, 2006
<b>Direct interest</b>				
Kuo Choo Song	10,000	-	-	10,000
Keh (Kerk) Chu Koh	118,000	-	-	118,000
Teo Lee Teck	82,000	-	-	82,000
Kerk Chian Tung	200,000	-	-	200,000
Kerk Kar Han	107,000	-	-	107,000
<b>Deemed interest</b>				
Kuo Choo Song	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 *
Kerk Kar Han	35,286,000	-	-	35,286,000 *
<b>Holding company</b>				
<b>HSB Group Sdn Bhd</b>				
<b>Direct Interest</b>				
Kuo Choo Song	1,099,273	-	-	1,099,273
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
Kerk Kar Han	1,533,867	-	-	1,533,867
<b>Indirect Interest</b>				
Kuo Choo Song	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, 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.

## DIRECTORS' REPORT (CONT'D)

### 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.
- (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 dated 30 March, 2007.



KEH (KER) CHU KOH



KUO CHOO SONG

## 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 31 to 66 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities 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, 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 March, 2007.



**KEH (KERK) CHU KOH**



**KUO CHOO SONG**

## 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 31 to 66 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the        )  
abovenamed **QUEK AH KOW** at Batu                )  
Pahat in the State of Johor Darul Ta'zim        )  
on 30 March, 2007

  
**QUEK AH KOW**

Before me,



## REPORT OF THE AUDITORS TO THE MEMBERS OF HUP SENG INDUSTRIES BERHAD (INCORPORATED IN MALAYSIA)

We have audited the financial statements set out on pages 31 to 66. 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 for Entities Other Than Private Entities 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, 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and 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



**ABRAHAM VERGHESE A/L T.V. ABRAHAM**

1664/10/08(J)

Partner

Johor Bahru

Dated: 30 March, 2007

## INCOME STATEMENT OF THE GROUP

### FOR THE YEAR ENDED 31 DECEMBER, 2006

	Note	2006 RM	2005 RM (Restated)
Revenue	3	188,338,321	180,967,603
Cost of sales	4	(138,721,967)	(140,249,078)
<b>Gross profit</b>		49,616,354	40,718,525
Other income	3	1,384,413	1,650,768
Administrative expenses		(16,516,238)	(13,092,073)
Selling and marketing expenses		(24,518,974)	(21,673,834)
<b>Operating profit</b>	5	9,965,555	7,603,386
Finance cost		(1,250)	(120,293)
<b>Profit before tax</b>		9,964,305	7,483,093
Income tax expense	8	(3,157,454)	(2,385,295)
<b>Profit for the year</b>		6,806,851	5,097,798
Attributable to:			
Equity holders of the Company		6,806,851	5,097,798
<b>Earnings per share attributable to equity holders of the Company (sen):</b>			
Basic, for profit for the year	9	11.3	8.5
Dividends per share (sen)	10	7.20	7.20

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

## INCOME STATEMENT OF THE COMPANY

FOR THE YEAR ENDED 31 DECEMBER, 2006

	Note	2006 RM	2005 RM
Gross dividends from subsidiaries		8,958,000	8,958,000
Interest income		157,184	569,564
Revenue		9,115,184	9,527,564
Other income		278	-
Administrative expenses		(2,379,972)	(2,311,176)
<b>Profit before tax</b>			
Income tax expense	5	6,735,490	7,216,388
<b>Profit for the year</b>	8	(1,954,832)	(2,531,511)
		4,780,658	4,684,877
Dividends per share (sen)	10	7.20	7.20

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

## BALANCE SHEETS

### AS AT 31 DECEMBER, 2006

	Note	2006 RM	Group 2005 RM (Restated)	2006 RM	Company 2005 RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	69,163,153	65,487,549	409,489	783,556
Investment properties	12	1,915,808	1,935,186	-	-
Prepaid land lease payments	13	3,803,261	3,910,102	-	-
Investment in subsidiaries	14	-	-	65,327,211	65,327,211
Goodwill on consolidation	15	13,227,508	13,227,508	-	-
Deferred tax assets	21	1,433,633	989,068	6,000	3,000
		89,543,363	85,549,413	65,742,700	66,113,767
<b>Current assets</b>					
Amount owing by subsidiaries	14	-	-	5,000,000	5,474,031
Inventories	16	20,013,925	22,004,531	-	-
Trade and other receivables	17	31,972,951	28,411,531	69,852	38,273
Tax recoverable		1,157,978	549,268	555,000	97,000
Cash and bank balances	18	21,222,356	14,950,315	7,345,584	6,418,739
		74,367,210	65,915,645	12,970,436	12,028,043
<b>TOTAL ASSETS</b>		<b>163,910,573</b>	<b>151,465,058</b>	<b>78,713,136</b>	<b>78,141,810</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	22	60,000,000	60,000,000	60,000,000	60,000,000
Share premium		14,333,133	14,333,133	14,333,133	14,333,133
Other reserves	23	429,983	429,983	-	-
Retained earnings	24	40,889,315	38,402,464	3,412,277	2,951,619
<b>Total equity</b>		<b>115,652,431</b>	<b>113,165,580</b>	<b>77,745,410</b>	<b>77,284,752</b>
<b>Non-current liability</b>					
Deferred tax liabilities	21	9,874,549	9,894,476	4,000	-
<b>Current liabilities</b>					
Trade and other payables	19	36,219,272	27,878,114	963,726	857,058
Borrowings	20	-	361,521	-	-
Taxation		2,164,321	165,367	-	-
		38,383,593	28,405,002	963,726	857,058
<b>Total liabilities</b>		<b>48,258,142</b>	<b>38,299,478</b>	<b>967,726</b>	<b>857,058</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>163,910,573</b>	<b>151,465,058</b>	<b>78,713,136</b>	<b>78,141,810</b>

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER, 2006

	←	Attributable to equity holders of the Company				→	
		Share Capital	Non-distributable		Distributable		Total
			Share Premium	Revaluation Reserve (Note 23)	Retained Profits		
Note	RM	RM	RM	RM	RM		
<b>Group</b>							
<b>At 1 January, 2005</b>							
As previously stated		60,000,000	14,333,133	694,228	37,604,357	112,631,718	
Effects of adopting: FRS 140	2.3(d)	-	-	(264,245)	20,309	(243,936)	
<b>At 1 January, 2005 (restated)</b>							
		60,000,000	14,333,133	429,983	37,624,666	112,387,782	
Profit for the year		-	-	-	5,097,798	5,097,798	
Dividend paid:	10						
Interim for year 2005 - 10% less 28% tax		-	-	-	(4,320,000)	(4,320,000)	
<b>At 31 December, 2005</b>		<b>60,000,000</b>	<b>14,333,133</b>	<b>429,983</b>	<b>38,402,464</b>	<b>113,165,580</b>	
<b>At 1 January, 2006</b>							
As previously stated		60,000,000	14,333,133	694,228	38,375,727	113,403,088	
Effects of adopting: FRS 140	2.3(d)	-	-	(264,245)	26,737	(237,508)	
<b>At 1 January, 2006 (restated)</b>							
		60,000,000	14,333,133	429,983	38,402,464	113,165,580	
Profit for the year		-	-	-	6,806,851	6,806,851	
Dividend paid:	10						
Interim for year 2006 - 10% less 28% tax		-	-	-	(4,320,000)	(4,320,000)	
<b>At 31 December, 2006</b>		<b>60,000,000</b>	<b>14,333,133</b>	<b>429,983</b>	<b>40,889,315</b>	<b>115,652,431</b>	

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

STATEMENT OF CHANGES IN EQUITY (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER, 2006

	Note	Share Capital RM	Non distributable Share Premium RM	Distributable Retained Profit (Note 24) RM	Total RM
<b>Company</b>					
<b>At 1 January, 2005</b>		60,000,000	14,333,133	2,586,742	76,919,875
Profit for the year		-	-	4,684,877	4,684,877
Dividend paid:					
Interim for year 2005					
-10% less 28% tax	10	-	-	(4,320,000)	(4,320,000)
<b>At 31 December, 2005</b>		60,000,000	14,333,133	2,951,619	77,284,752
<b>At 1 January, 2006</b>		60,000,000	14,333,133	2,951,619	77,284,752
Profit for the year		-	-	4,780,658	4,780,658
Dividend paid:					
Interim for year 2006					
-10% less 28% tax	10	-	-	(4,320,000)	(4,320,000)
<b>At 31 December, 2006</b>		60,000,000	14,333,133	3,412,277	77,745,410

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

## CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	9,964,305	7,483,093	6,735,490	7,216,388
Adjustments for:				
Allowance for doubtful debts	251,625	230,907	-	-
Amortisation of prepaid land lease payments	106,841	92,669	-	-
Bad debts written off	212,255	56,317	-	-
Depreciation of property, plant and equipment	4,947,219	4,466,544	119,718	194,819
Depreciation of investment property	19,378	19,772	-	-
Gain on disposal of property, plant and equipment	(6,046)	(58,656)	(278)	-
Interest expense	1,250	120,293	-	-
Interest income	(500,286)	(926,367)	(157,184)	(569,564)
Plant and equipment written off	183,504	679,235	-	-
Obsolete stocks written off	96,291	557,359	-	-
Operating profit before working capital changes	15,276,336	12,721,166	6,697,746	6,841,643
Decrease/(increase) in inventories	1,894,315	(290,816)	-	-
(Increase)/decrease in trade and other receivables	(4,025,300)	7,850,089	(31,579)	364,081
Increase/(decrease) in trade and other payables	8,341,158	(14,375,944)	106,668	(10,863)
Cash generated from operations	21,486,509	5,904,495	6,772,835	7,194,861
Taxes paid	(2,231,702)	(1,766,576)	(2,411,832)	(2,656,057)
Net cash from operating activities	19,254,807	4,137,919	4,361,003	4,538,804

**CASH FLOW STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER, 2006**

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of a subsidiary	-	(21,418,569)	-	(21,386,211)
Repayment from/(advance to) subsidiaries	-	-	474,031	(3,596,031)
Interest received	500,286	926,367	157,184	569,564
Proceeds from disposal of property, plant and equipment	419,474	1,610,750	359,298	-
Purchase of property, plant and equipment	(9,219,755)	(4,502,298)	(104,671)	-
Net cash (used in)/generated from investing activities	(8,299,995)	(23,383,750)	885,842	(24,412,678)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interest paid	(1,250)	(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)	(4,320,000)	(4,320,000)	(4,320,000)
Net cash used in financing activities	(4,321,250)	(11,324,304)	(4,320,000)	(4,320,000)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	6,633,562	(30,570,135)	926,845	(24,193,874)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>				
	14,588,794	45,158,929	6,418,739	30,612,613
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (Note 18)</b>				
	21,222,356	14,588,794	7,345,584	6,418,739

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER, 2006

## 1. CORPORATE INFORMATION

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 immediate and ultimate holding company of the Company is HSB Group Sdn. Bhd., which is incorporated in Malaysia. Related companies are those companies within the HSB Group Sdn. Bhd. group.

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 financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 March, 2007.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January, 2006 as described fully in Note 2.3.

The financial statements of the Group and of the Company have also been prepared on a historical basis, except for land and buildings included within property, plant and equipment that have been measured at their fair values.

The financial statements are presented in Ringgit Malaysia (RM).

### 2.2 Summary of Significant Accounting Policies

#### (a) Subsidiaries and Basis of Consolidation

##### (i) Subsidiaries

Subsidiaries are entities over which the Group 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.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

##### (ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.2 Summary of Significant Accounting Policies (Cont'd)

###### (a) Subsidiaries and Basis of Consolidation (Cont'd)

###### (ii) Basis of Consolidation (Cont'd)

As provided under the transitional provision of MASB Standard No. 21-Business Combinations, the Group has applied this standard prospectively that 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 books is recorded at the fair value of shares issued and the difference between the carrying value of the investment and the fair value of shares issued 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 fair 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.

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

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

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

###### (b) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

###### (c) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of Significant Accounting Policies (Cont'd)

#### (c) Property, Plant and Equipment and Depreciation (Cont'd)

Land and buildings are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed at least once in every five years to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Freehold land has an unlimited useful life and therefore is not depreciated. Capital work-in-progress are not depreciated as these assets are not available for use. 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 %

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

#### (d) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment losses.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or losses on retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

#### (e) Impairment of Non-Financial Assets

The carrying amounts of assets, other than investment property, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.2 Summary of Significant Accounting Policies (Cont'd)

###### (e) Impairment of Non-Financial Assets (Cont'd)

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

###### (f) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

###### (g) 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 recognised 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.2 Summary of Significant Accounting Policies (Cont'd)

###### (g) Financial Instruments (Cont'd)

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) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposit at call and short term highly liquid investments which have an insignificant risk of change in value, net of outstanding bank overdrafts.

###### (ii) 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.

###### (iii) 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.

###### (v) 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.

###### (h) Leases

###### (i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases with the exception for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

###### (ii) Operating Leases

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.2 Summary of Significant Accounting Policies (Cont'd)

###### (i) 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.

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.

###### (j) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

###### (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. 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

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of Significant Accounting Policies (Cont'd)

#### (l) 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.

#### (m) 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 net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer.

##### (ii) Interest income

Interest is recognised on an accrual basis using the effective yield on the asset.

##### (iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

##### (iv) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

FRS 2 Share-based Payment

FRS 3 Business Combinations

FRS 5 Non-current Assets Held for Sale and Discontinued Operations

FRS 101 Presentation of Financial Statements

FRS 102 Inventories

FRS 108 Accounting Policies, Changes in Estimates and Errors

FRS 110 Events after the Balance Sheet Date

FRS 116 Property, Plant and Equipment

FRS 121 The Effects of Changes in Foreign Exchange Rates

FRS 127 Consolidated and Separate Financial Statements

FRS 128 Investments in Associates

FRS 131 Interests in Joint Ventures

FRS 132 Financial Instruments: Disclosure and Presentation

FRS 133 Earnings Per Share

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

FRS 136 Impairment of Assets

FRS 138 Intangible Assets

FRS 140 Investment Property

In addition, the Group has early adopted the following new and revised FRSs for the financial period beginning 1 January, 2006:

FRS 117 Leases

FRS 124 Related Party Disclosures

FRS 139 Financial Instruments: Recognition and Measurement

The Group has not early adopted the FRS 6: Exploration for and Evaluation of Mineral Rights and Amendment to FRS 119<sub>2004</sub>: Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, which are mandatory for financial periods beginning on or after 1 January, 2007.

The Amendment to FRS 119<sub>2004</sub> will not result in significant changes in accounting policies of the Company whilst FRS 6 is not relevant to the Group's operations.

The adoption of revised FRS 2, 3, 5, 101, 102, 108, 110, 116, 121, 124, 127, 128, 131, 132, 133, 136, 138 and 139 does not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are discussed below:

##### (a) FRS 117: Leases

Prior to 1 January, 2006, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January, 2006, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed in Note 2.3(d), certain comparatives have been restated. The effects on the consolidated balance sheet as at 31 December, 2006 are set out in Note 2.3(c)(i). There were no effects on the consolidated income statement for the year ended 31 December, 2006 and the Company's financial statements.

##### (b) FRS 140: Investment Property

Prior to 1 January, 2006, investment properties were stated at valuation. Revaluations were carried out at least once every five years and any revaluation increase is taken to equity as a revaluation surplus. The investment properties were last revalued in 2004. Upon the adoption of FRS 140, investment properties are now stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

(b) FRS 140: Investment Property (Cont'd)

The Group has applied FRS 140 in accordance with the transitional provisions. The change in accounting policy required retrospective application in accordance to the requirements of FRS108, which has the following effects:

- Reclassification of investment properties from property, plant and equipment at carrying amount.
- Reversal of deferred taxation previously recognised on revaluation surplus.
- Reversal of revaluation surplus previously recognised.
- Reversal of depreciation relating to the revaluation surplus.

The effects on the consolidated balance sheet as at 31 December, 2006 and the consolidated income statement for the year ended 31 December, 2006 are set out in Note 2.3(c)(i) and Note 2.3(c)(ii) respectively. This change has no impact on the Company's financial statements.

(c) Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following tables provide estimates of the extent to which each of the line items in the balance sheet and income statement for the year ended 31 December, 2006 is higher or lower than it would have been had the previous policies been applied in the current year.

(i) Effects on balance sheet as at 31 December, 2006:

Description of Change	← Increase/(Decrease) →		Total RM
	FRS117	FRS140	
	Note 2.3(a) RM	Note 2.3(b) RM	
<b>Group</b>			
Property, plant and equipment	(3,803,261)	(2,241,623)	(6,044,884)
Prepaid land lease payments	3,803,261	-	3,803,261
Investment properties	-	1,915,808	1,915,808
Revaluation reserve	-	(264,245)	(264,245)
Retained earnings	-	26,737	26,737
Deferred tax liabilities	-	(88,307)	(88,307)
Total equity	-	(237,508)	(237,508)

(ii) Effects on income statement for the year ended 31 December, 2006:

	Increase/ (Decrease) FRS 140 Note 2.3(b) RM
Cost of sales	595
Administrative expenses	5,610
Profit for the year	(6,205)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Cont'd)

###### (d) Restatement of comparatives

The following comparative amounts have been as a result of adopting the new and revised FRSs:

Description of Change	Previously stated RM	← Increase/(Decrease) →		Restated RM
		FRS117 Note 2.3(a) RM	FRS140 Note 2.3(b) RM	
<b>At 31 December, 2005</b>				
<b>Group</b>				
Property, plant and equipment	71,658,652	(3,910,102)	(2,261,001)	65,487,549
Prepaid land lease payments	-	3,910,102	-	3,910,102
Investment properties	-	-	1,935,186	1,935,186
Revaluation reserve	694,228	-	(264,245)	429,983
Retained earnings	38,375,727	-	26,737	38,402,464
Deferred tax liabilities	8,996,715	-	(88,307)	8,908,408
Total equity	113,403,088	-	(237,508)	113,165,580
<b>For the year ended 31 December, 2005</b>				
<b>Group</b>				
Cost of sales	140,249,686	-	(608)	140,249,078
Administrative expenses	13,097,893	-	(5,820)	13,092,073
Profit for the year	5,091,370	-	6,428	5,097,798

##### 2.4 Changes in Estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group reviewed the residual values and remaining useful life of its property, plant and equipment and found that no revisions to the residual values and remaining useful life of the property, plant and equipment were necessary as it can be used or operated with regular maintenance except depreciation ceased for those motor vehicles which were already of the age and in the condition expected at the end of its useful life (more than 5 years) where its net book value are lower than market value.

##### 2.5 Significant Accounting Estimates and Judgements

###### (a) Critical Judgements Made in Applying Accounting Policies

The following are the judgments made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Classification between investment properties and property, plant and equipment

The Group has developed certain criteria based on FRS 140 in making judgment whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.5 Significant Accounting Estimates and Judgements (Cont'd)

###### (a) Critical Judgements Made in Applying Accounting Policies (Cont'd)

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

###### (b) Key Sources of Estimation Uncertainty

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

###### (i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill as at 31 December, 2006 were RM13,277,508 (2005 : RM13,277,508). Further details are disclosed in Note 15.

###### (ii) Impairment of property, plant and equipment

The Group carried out the impairment test based on a variety of estimation including the value-in-use of the CGU to which the property, plant and equipment are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment of the Group as at 31 December, 2006 were RM69,163,153 (2005 : RM65,487,549). Further details are disclosed in Note 11.

###### (iii) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised tax losses and capital allowances of the Group was RM622,000 and RM307,000 respectively (2005 : RM432,000 and RM111,000 respectively).

#### 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)  
31 DECEMBER, 2006

5. PROFIT FROM OPERATIONS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
This is arrived at after charging:				
Auditors' remuneration				
Statutory audits	77,500	69,500	19,000	17,000
Other services				
- current year	37,550	40,300	3,500	3,300
- prior year	-	1,000	-	1,000
Allowance for doubtful debts	251,625	230,907	-	-
Amortisation of prepaid land lease payments (Note 13)	106,841	92,669	-	-
Bad debts written off	212,255	56,317	-	-
Employee benefits expenses excluding directors' remuneration (Note 6)	29,833,599	28,233,370	141,103	105,455
Directors' fees	845,000	755,000	500,000	500,000
Directors' other emoluments (Note 7)	7,059,448	5,376,468	1,301,940	1,218,608
Depreciation of property, plant and equipment (Note 11)	4,947,219	4,466,544	119,718	194,819
Depreciation of investment properties (Note 12)	19,378	19,772	-	-
Realised exchange losses	47,007	164,619	-	-
Obsolete stocks written off	96,291	557,359	-	-
Plant and equipment written off	183,504	679,235	-	-
Provision for tax penalties	833,270	-	-	-
Rental expenses	287,600	398,280	25,200	25,200
and crediting:				
Bad debts recovered	81,457	60,579	-	-
Gross dividend income	-	-	8,958,000	8,958,000
Gain on disposal of property, plant and equipment	6,046	58,656	278	-
Interest income	500,286	926,367	157,184	569,564
Rental income	92,990	67,270	-	-

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 RM211,153 (2005 : RM206,494) and RM42,303 (2005 : RM57,208) respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

6. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Wages and salaries	26,723,758	25,238,561	125,373	93,562
Employee provident fund	2,689,316	2,594,125	14,837	11,271
Social security costs	326,416	312,422	893	622
Other staff related expenses	94,109	88,262	-	-
	<u>29,833,599</u>	<u>28,233,370</u>	<u>141,103</u>	<u>105,455</u>

7. KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of key management during the year was as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Directors of the Company</b>				
Executive:				
Salaries and other emoluments	1,283,639	1,200,008	1,283,440	1,199,608
Fees	140,000	130,000	100,000	100,000
Benefits-in-kind	44,120	59,025	42,303	57,208
	<u>1,467,759</u>	<u>1,389,033</u>	<u>1,425,743</u>	<u>1,356,816</u>
Non-Executive (but holding executive position in subsidiaries):				
Salaries and other emoluments	2,960,764	2,908,606	9,500	9,500
Fees	325,625	305,000	200,000	200,000
Benefits-in-kind	90,082	99,001	-	-
	<u>3,376,471</u>	<u>3,312,607</u>	<u>209,500</u>	<u>209,500</u>
Non-Executive:				
Other emoluments	9,000	9,500	9,000	9,500
Fees	200,000	200,000	200,000	200,000
	<u>209,000</u>	<u>209,500</u>	<u>209,000</u>	<u>209,500</u>
<b>Directors of Subsidiaries</b>				
Executive:				
Salaries and other emoluments	2,805,845	1,257,954	-	-
Fees	149,375	90,000	-	-
Benefits-in-kind	76,951	48,468	-	-
	<u>3,032,171</u>	<u>1,396,422</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

7. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-Executive				
Other emoluments	200	400	-	-
Fees	30,000	30,000	-	-
	30,200	30,400	-	-
<b>Total</b>	<b>8,115,601</b>	<b>6,337,962</b>	<b>1,844,243</b>	<b>1,775,816</b>
Directors' remuneration analysed by:				
Salaries and other emoluments	7,059,448	5,376,468	1,301,940	1,218,608
Fees	845,000	755,000	500,000	500,000
Benefits-in-kind	211,153	206,494	42,303	57,208
	8,115,601	6,337,962	1,844,243	1,775,816

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

	Number of Directors	
	2006	2005
Executive Directors:		
RM300,001 - RM350,000	-	1
RM350,001 - RM400,000	1	-
RM1,050,001 - RM1,100,000	-	1
RM1,100,001 - RM1,150,000	1	-
Non-Executive Directors:		
RM50,001 - RM100,000	4	4
RM300,001 - RM350,000	-	1
RM350,001 - RM400,000	1	-
RM650,001 - RM700,000	1	-
RM850,001 - RM900,000	-	1
RM1,050,001 - RM1,100,000	1	2
RM1,100,001 - RM1,150,000	1	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

8. INCOME TAX EXPENSE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Tax expense for the year:				
Current tax	2,290,087	2,607,168	1,953,240	2,533,740
Under/(over)provision in prior years	1,331,859	(186,539)	592	(2,229)
	3,621,946	2,420,629	1,953,832	2,531,511
Deferred tax (Note 21):				
Relating to origination and reversal of temporary differences	155,789	10,093	1,000	-
Relating to changes in tax rates	(652,300)	-	-	-
Under/(over)provision in prior years	32,019	(45,427)	-	-
	(464,492)	(35,334)	1,000	-
Total income tax expense	3,157,454	2,385,295	1,954,832	2,531,511

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005 : 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26%, effective year of assessment 2008. The computation of deferred tax as at 31 December, 2006 has reflected these changes.

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:

	2006 RM	2005 RM
<b>Group</b>		
Profit before taxation	9,964,305	7,483,093
Taxation at Malaysian statutory tax rate of 28% (2005 : 28%)	2,790,005	2,095,266
Effect of preferential tax rate of 20% (2005 : 20%) on chargeable income for qualified small and medium enterprise	(40,000)	(40,000)
Effect of changes in tax rates	(652,300)	-
Effect of restriction in deduction of expenses for investment holding company	-	513,151
Effect of other expenses not deductible for tax purposes	573,774	288,920
Effect of expenses with double deduction	(406,191)	(233,976)
Effect of utilisation of reinvestment allowances	(471,712)	(8,000)
Under/(over)provision of income tax expense in prior years	1,331,859	(186,539)
Under/(over)provision of deferred tax in prior years	32,019	(43,527)
Tax expense for the year	3,157,454	2,385,295

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

8. INCOME TAX EXPENSE (CONT'D)

	2006 RM	2005 RM
<b>Company</b>		
Profit before taxation	6,735,490	7,216,388
Taxation at Malaysian statutory tax rate of 28 % (2005 : 28 %)	1,885,937	2,020,589
Effect of restriction in deduction of expenses for investment holding company	-	513,151
Effect of other expenses not deductible for tax purposes	68,303	-
Under/(over)provision of income tax expense in prior year	592	(2,229)
Tax expense for the year	1,954,832	2,531,511

9. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2006	2005
Profit attributable to ordinary equity holders of the Company (RM)	6,806,851	5,097,798
Weighted average number of ordinary shares in issue	60,000,000	60,000,000
Basic earnings per share (sen)	11.3	8.5

The comparative basic earnings per share has been restated to take into the account the effect of the changes in accounting policies (Note 2.3(d)) on profit for that year.

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

10. DIVIDENDS

	Amount		Dividends per Share	
	2006 RM	2005 RM	2006 Sen	2005 Sen
Interim dividend :				
10 % (2005 : 10 %) less 28 % taxation	4,320,000	4,320,000	7.20	7.20
	4,320,000	4,320,000	7.20	7.20

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

11. PROPERTY, PLANT AND EQUIPMENT									
Group	Freehold land and buildings RM	Long term leasehold buildings RM	Short term leasehold buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM		
<b>At 31 December, 2006</b>									
<b>Cost or Valuation</b>									
At 1 January, 2006									
At cost	-	-	-	50,431,255	13,555,206	5,543,089	69,529,550		
At valuation	17,716,458	911,286	15,904,592	-	-	-	34,532,336		
Additions	17,716,458	911,286	15,904,592	50,431,255	13,555,206	5,543,089	104,061,886		
Disposals/write off	244,905	-	621,208	878,495	896,614	6,578,533	9,219,755		
Reclassification	-	-	(47,736)	(542,395)	(875,324)	(79,344)	(1,544,799)		
	1,311,482	-	1,583,317	2,921,236	-	(5,816,035)	-		
At end of the year	19,272,845	911,286	18,061,381	53,688,591	13,576,496	6,226,243	111,736,842		
Representing:									
At cost	-	-	-	53,688,591	13,576,496	6,226,243	73,491,330		
At valuation	19,272,845	911,286	18,061,381	-	-	-	38,245,512		
At 31 December, 2006	19,272,845	911,286	18,061,381	53,688,591	13,576,496	6,226,243	111,736,842		
<b>Accumulated Depreciation</b>									
At 1 January, 2006	1,210,685	44,042	1,222,856	25,246,703	8,506,668	2,343,383	38,574,337		
Charge for the year (Note 5)	364,404	17,345	339,398	2,845,621	807,904	572,547	4,947,219		
Disposals/write off	-	-	(4,795)	(378,557)	(495,673)	(68,842)	(947,867)		
At 31 December, 2006	1,575,089	61,387	1,557,459	27,713,767	8,818,899	2,847,088	42,573,689		
<b>Net carrying amount</b>									
At cost	-	-	-	25,974,824	4,757,597	3,379,155	34,111,576		
At valuation	17,697,756	849,899	16,503,922	-	-	-	35,051,577		
At 31 December, 2006	17,697,756	849,899	16,503,922	25,974,824	4,757,597	3,379,155	69,163,153		

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

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

Group	Freehold land and buildings RM	Long term leasehold buildings RM	Short term leasehold buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
<b>At 31 December, 2005</b>							
<b>Cost or Valuation</b>							
At 1 January, 2005	-	-	-	47,058,347	12,335,415	2,681,229	62,074,991
At cost	17,597,570	911,881	10,517,572	-	-	-	29,027,023
At valuation	17,597,570	911,881	10,517,572	47,058,347	12,335,415	2,681,229	91,102,014
Additions	75,349	-	147,021	984,024	898,551	2,397,353	4,502,298
Acquisition of subsidiary	-	-	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 31 December, 2005	17,716,458	911,286	15,904,592	50,431,255	13,555,206	5,543,089	104,061,886
Representing:							
At cost	-	-	-	50,431,255	13,555,206	5,543,089	69,529,550
At valuation	17,716,458	911,286	15,904,592	-	-	-	34,532,336
At 31 December, 2005	17,716,458	911,286	15,904,592	50,431,255	13,555,206	5,543,089	104,061,886
<b>Accumulated Depreciation</b>							
At 1 January, 2005	984,771	31,881	910,343	21,351,900	7,184,663	1,756,810	32,220,368
Acquisition of subsidiary	-	-	71,903	1,852,616	448,990	1,063,191	3,436,700
Charge for the year (Note 5)	225,914	12,161	265,735	2,644,022	1,142,445	176,267	4,466,544
Disposals/write off	-	-	(25,125)	(601,835)	(269,430)	(652,885)	(1,549,275)
At 31 December, 2005	1,210,685	44,042	1,222,856	25,246,703	8,506,668	2,343,383	38,574,337
<b>Net carrying amount</b>							
At cost	-	-	-	25,184,552	5,048,538	3,199,706	33,432,796
At valuation	16,505,773	867,244	14,681,736	-	-	-	32,054,753
At 31 December, 2005	16,505,773	867,244	14,681,736	25,184,552	5,048,538	3,199,706	65,487,549

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

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

Company	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Total RM
<b>Cost</b>				
At 1 January, 2006	30,936	7,845	1,133,230	1,172,011
Additions	1,635	4,846	98,190	104,671
Disposals	(922)	-	(564,569)	(565,491)
At 31 December, 2006	31,649	12,691	666,851	711,191
<b>Accumulated Depreciation</b>				
At 1 January, 2006	19,708	6,114	362,633	388,455
Charge for the year (Note 5)	2,141	1,553	116,024	119,718
Disposals	(215)	-	(206,256)	(206,471)
At 31 December, 2006	21,634	7,667	272,401	301,702
<b>Net carrying amount</b>	<b>10,015</b>	<b>5,024</b>	<b>394,450</b>	<b>409,489</b>
<b>Cost</b>				
At 1 January/31 December, 2005	30,936	7,845	1,133,230	1,172,011
<b>Accumulated Depreciation</b>				
At 1 January, 2005	17,772	5,880	169,984	193,636
Charge for the year (Note 5)	1,936	234	192,649	194,819
At 31 December, 2005	19,708	6,114	362,633	388,455
<b>Net carrying amount</b>	<b>11,228</b>	<b>1,731</b>	<b>770,597</b>	<b>783,556</b>

- (a) Freehold land and buildings and leasehold buildings were revalued on 20 December, 2004 by professional valuers. Valuations were made on the basis of open market values.

At 31 December, 2006, had the revalued land and buildings of the Group been carried under the cost model, the carrying amount would have been RM25,837,592 (2005 : RM23,488,671).

- (b) The management of Hup Seng Perusahaan Makanan (M) Sdn. Bhd., a subsidiary of the Group, carried out a review of the recoverable amount of its property, plant and equipment during the financial year. The review led to no recognition of impairment loss in the income statement. The recoverable amount was based on value-in-use and was determined at the cash-generating unit ("CGU"). In determining value-in-use for the CGU, the cash flows were discounted at a rate of 10% on a pre-tax basis.
- (c) Other assets include capital work-in-progress which comprises machinery under installation amounting to RM1,390 (2005 : RM1,762,217).
- (d) Property, plant and equipment of a subsidiary, In-Comix Food Industries Sdn. Bhd. in prior year were charged to banks for banking facilities amounted to RM6,916,387 granted to the Company as disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

12. INVESTMENT PROPERTIES

	Group	
	2006 RM	2005 RM
<b>Cost Model</b>		
At 1 January	1,935,186	1,954,958
Less: Charge for the year (Note 5)	(19,378)	(19,772)
At 31 December	1,915,808	1,935,186
Fair value of investment properties	2,241,623	2,261,001

13. PREPAID LAND LEASE PAYMENTS

	Group	
	2006 RM	2005 RM
At 1 January	3,910,102	4,002,771
Amortisation for the year (Note 5)	(106,841)	(92,669)
At 31 December	3,803,261	3,910,102
Analysed as:		
Long term leasehold land	1,067,578	1,083,789
Short term leasehold land	2,735,683	2,826,313
	3,803,261	3,910,102

Leasehold land were revalued on 20 December, 2004 by professional valuers. The Group retain the unamortised revalued amount as the surrogate carrying amounts of prepaid lease payments. Such prepaid lease payments are amortised over the lease term.

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares at cost	65,327,211	65,327,211

The subsidiary companies are:

Name of Subsidiaries	Country of Incorporation	Effective Equity Interest		Principal Activities
		2006	2005	
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 %	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, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

15. GOODWILL ON CONSOLIDATION

	Group	
	2006 RM	2005 RM
At beginning of the year	13,227,508	-
Acquisition of subsidiary	-	13,227,508
At end of year	13,227,508	13,227,508

(a) Impairment test for goodwill

Goodwill arose from acquisition of a subsidiary, In-Comix Food Industries Sdn. Bhd. on 12 July, 2005 was identified as the Group's CGU.

**Key assumptions used in value-in-use calculations.**

The recoverable amount of the CGU is determined based on value-in-use calculations using cash flows projects based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are conservatively assumed to have a zero growth.

(i) Budgeted gross margin

The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year increased for expected efficiency improvements.

(ii) Growth rate

The weighted average growth rates used are based on the Group's projection of future growth rate.

(iii) Discount rate

The discount rates used are pre-tax and reflect specific risks relating to the industry.

(iv) Raw materials price inflation

The basis used to determine the value assigned to the raw materials is based on the forward price contracted.

**Sensitivity to changes in assumptions**

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of goodwill to materially exceed the recoverable amount.

16. INVENTORIES

	Group	
	2006 RM	2005 RM
At cost:		
Raw materials	9,114,835	10,639,130
Finished goods	1,637,364	1,693,512
Spares and fuel	2,311,606	2,196,031
Trading inventories	5,422,039	6,175,869
Work-in-progress	478,149	268,732
	18,963,993	20,973,274

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 16. INVENTORIES (CONT'D)

	Group	
	2006 RM	2005 RM
At net realisable value:		
Containers	1,049,932	1,031,257
	20,013,925	22,004,531

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

#### 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Current</b>				
<b>Trade receivables</b>				
Third parties	30,701,883	25,798,213	-	-
Less: Allowance for doubtful debts	(356,406)	(325,771)	-	-
	30,345,477	25,472,442	-	-
<b>Other receivables</b>				
Deposits	474,598	801,697	13,000	13,000
Interest receivable from fixed deposits and repurchase agreements	61,904	81,894	46,953	8,011
Prepayments	405,282	441,822	9,899	17,262
Sundry receivables	685,690	1,613,676	-	-
	1,627,474	2,939,089	69,852	38,273
	31,972,951	28,411,531	69,852	38,273

#### Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit. The credit term is generally for a period of 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned facts, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

#### 18. CASH AND BANK BALANCES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Deposits with licensed bank	10,232,349	9,922,349	7,232,349	5,922,349
Repurchase agreements	7,000,000	700,000	-	-
Cash and bank balances	3,990,007	4,327,966	113,235	496,390
	21,222,356	14,950,315	7,345,584	6,418,739
Less: Bank overdrafts (Note 20)	-	(361,521)	-	-
Cash and cash equivalents	21,222,356	14,588,794	7,345,584	6,418,739

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

18. CASH AND BANK BALANCES (CONT'D)

The weighted average interest rates during the financial year and the average maturities as at year end 31 December, 2006 were as follows:

	Weighted Average Interest Rates		Average Maturities	
	2006 %	2005 %	2006 Days	2005 Days
Deposits with licensed bank	3 - 4.1	2.7 - 3	217	30
Repurchase agreements	2 - 2.1	2.5	5 - 14	17

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
<b>Current</b>				
<b>Trade payables</b>				
Third parties	19,243,200	14,843,420	-	-
<b>Other payables</b>				
Payroll liabilities	7,214,343	5,326,820	417,353	336,401
Duties and other taxes payable	1,741,955	757,875	-	-
Sundry suppliers	2,199,609	2,075,142	22,874	75
Accrued expenses	3,976,444	3,057,761	523,499	520,582
Containers refundable deposits	1,839,819	1,783,648	-	-
Amount due to a director	3,902	33,448	-	-
	16,976,072	13,034,694	963,726	857,058
	36,219,272	27,878,114	963,726	857,058

(a) Trade payables

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days.

(b) Amount due to director

The amount due to a director of a subsidiary is unsecured, non-interest bearing and repayable on demand.

20. BANK BORROWINGS

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Secured:				
Bank overdrafts (Note 18)	-	361,521	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 20. BANK BORROWINGS (CONT'D)

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 facilities not utilised as at balance sheet date, amounted to RM2,290,000 (2005 : RM2,190,000), are repayable upon demand and bear interests ranging from 1%-1.5% (2005 : 1%-1.5%) above the bank's base lending rate per annum.

#### 21. DEFERRED TAX LIABILITIES/(ASSETS)

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
At 1 January	8,905,408	8,480,822	(3,000)	(3,000)
Recognised in the income statement (Note 8)	(464,492)	(35,334)	1,000	-
Acquisition of subsidiary	-	459,920	-	-
At 31 December	8,440,916	8,905,408	(2,000)	(3,000)

Presented after appropriate offsetting as follows:

Deferred tax assets	(1,433,633)	(989,068)	(6,000)	(3,000)
Deferred tax liabilities	9,874,549	9,894,476	4,000	-
	8,440,916	8,905,408	(2,000)	(3,000)

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, 2006	7,491,548	2,402,928	9,894,476
Recognised in income statement	(18,823)	(1,104)	(19,927)
At 31 December, 2006	7,472,725	2,401,824	9,874,549
At 1 January, 2005			
Acquisition of subsidiary	6,800,105	2,041,785	8,841,890
Recognised in income statement	79,405	380,515	459,920
At 31 December, 2005	612,038	(19,372)	592,666
	7,491,548	2,402,928	9,894,476

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

21. DEFERRED TAX LIABILITIES/(ASSETS) (CONT'D)

Deferred Tax Assets of the Group:

	Unutilised Losses RM	Unabsorbed Capital Allowances RM	Others RM	Total RM
At 1 January, 2006	(432,000)	(111,000)	(446,068)	(989,068)
Recognised in income statement	(190,000)	(196,000)	(58,565)	(444,565)
At 31 December, 2006	(622,000)	(307,000)	(504,633)	(1,433,633)
At 1 January, 2005	-	-	(361,068)	(361,068)
Recognised in income statement	(432,000)	(111,000)	(85,000)	(628,000)
At 31 December, 2005	(432,000)	(111,000)	(446,068)	(989,068)

Deferred Tax Liability of the Company:

	Accelerated Capital Allowances	
	2006 RM	2005 RM
At 1 January	-	-
Recognised in income statement	4,000	-
At 31 December	4,000	-

Deferred Tax Asset of the Company:

	Others	
	2006 RM	2005 RM
At 1 January	(3,000)	-
Recognised in the income statement	(3,000)	(3,000)
At 31 December	(6,000)	(3,000)

22. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2006	2005	2006 RM	2005 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

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. Prior to 1 January, 2006, revaluation increase of investment property is also included in this reserve which subsequently has been reversed upon the application of FRS 140.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 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, 2006.

#### 25. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Note	2006 RM	2005 RM
<b>Group</b>			
Rental of premises payable to:			
- Hup Seng Brothers Holdings Sdn. Bhd.	(i)	138,150	131,400
- Tiong Bee Industries Sdn. Bhd.	(ii)	54,000	54,000
Purchase of packing materials:			
- Tomypak Holdings Berhad	(iii)	2,512,152	-
<hr/>			
<b>Company</b>			
From subsidiary companies:			
Dividend received		8,958,000	8,958,000
<hr/>			

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.

Note:

- (i) Certain directors of the Company and subsidiaries are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd.
- (ii) Certain directors of the Company are also directors of Tiong Bee Industries Sdn. Bhd.
- (iii) A director of the subsidiary is also substantial shareholder of Tomypak Holdings Berhad and shareholder of Hup Seng Industries Berhad.

#### 26. CAPITAL COMMITMENTS

	2006 RM	Group 2005 RM
Capital expenditure:		
Approved but not contracted for property, plant and equipment	-	1,350,000
Contracted but not provided for property, plant and equipment	3,078,222	4,209,000
	<hr/>	<hr/>
	3,078,222	5,559,000
<hr/>		

#### 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 RM953,100 (2005 : RM752,900).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

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	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
<b>Revenue</b>						
Revenue from external customers by location of customers	140,930,301	140,631,230	47,408,020	40,336,373	188,338,321	180,967,603
<b>Results</b>						
Segment results (external)	9,285,184	8,328,175	2,902,881	1,016,823	12,188,065	9,344,998
Other income					157,462	569,564
Unallocated expenses					(2,379,972)	(2,311,176)
Finance costs					(1,250)	(120,293)
Profit before tax					9,964,305	7,483,093
Income tax expense					(3,157,454)	(2,385,295)
<b>Net profit for the year</b>					<b>6,806,851</b>	<b>5,097,798</b>
<b>Assets</b>						
Segment assets	111,778,047	108,102,070	30,519,093	22,794,912	142,297,140	130,896,982
Unallocated assets					21,613,433	20,568,076
Total assets					163,910,573	151,465,058
<b>Liabilities</b>						
Segment liabilities	35,103,642	28,702,082	12,186,774	8,740,338	47,290,416	37,442,420
Unallocated liabilities					967,726	857,058
Total liabilities					48,258,142	38,299,478

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
31 DECEMBER, 2006

28. SEGMENTAL REPORTING (CONT'D)

	Malaysia		Overseas		Consolidated	
	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)	2006 RM	2005 RM (Restated)
<b>Other segment information</b>						
Depreciation	3,761,717	3,398,223	1,085,162	893,274	4,846,879	4,291,497
Unallocated expense					119,718	194,819
					<u>4,966,597</u>	<u>4,486,316</u>
Amortisation	76,120	67,933	30,721	24,736	106,841	92,669
Capital expenditure	6,801,877	3,502,770	2,313,207	999,528	9,115,084	4,502,298
Unallocated expense					104,671	-
					<u>9,219,755</u>	<u>4,502,298</u>
Non cash expense other than depreciation	640,132	1,042,824	103,543	480,994	743,675	1,523,818

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 Board reviews and agrees policies for managing each of these risks and they are summarised below. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

(b) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits or repurchase agreements.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. The Group manages its interest rate exposure by maintaining a floating rate borrowings. The information on maturity dates and effective interest rates of financial assets is disclosed in their respective notes.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 31 DECEMBER, 2006

#### 29. FINANCIAL INSTRUMENTS (CONT'D)

##### (c) Foreign Exchange Risk

The Group is exposed to transactional currency risk primarily through purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Foreign exchange exposures in transactional currencies other than functional currency of the Group are kept to an acceptable level. The Group does not engage in any formal hedging activities.

##### (d) Liquidity Risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

##### (e) Credit Risk

The Group's credit risk is primarily attributable to trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and marketable securities arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

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 financial assets.

##### (f) 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, 2006

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.06 RM
<b>Hup Seng Perusahaan Makanan (M) Sdn Bhd</b>						
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	13 years	53,643
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	7 years	13,203,314
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	24 years	14,273,030
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	-	172,800
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	16 years	127,624
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	16 years	146,832

LIST OF GROUP PROPERTIES (CONT'D)  
AS AT 31 DECEMBER, 2006

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.06 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	27 years	195,248
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	27 years	195,248
<b>Hup Seng Hoon Yong Brothers Sdn Bhd</b>						
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 30.09.2008)  28A-Staff hostel  30-Vacant  30A-Staff hostel	5,226 sq. ft./ 10,078 sq. ft.	17 years	422,899
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	11 years	403,069

**LIST OF GROUP PROPERTIES (CONT'D)  
AS AT 31 DECEMBER, 2006**

<b>Location of Property</b>	<b>Description</b>	<b>Tenure of Land</b>	<b>Existing Use</b>	<b>Land Area/ Build-up Area</b>	<b>Approximate Age of Building</b>	<b>Net Book Value as at 31.12.06 RM</b>
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	1,613.09 sq. m/ 1,001.9 sq. m	9 years	770,875
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	17 years	561,140
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	16 years	386,486
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	8 years	259,258
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	27 years	186,331
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.	8 years	973,802

LIST OF GROUP PROPERTIES (CONT'D)  
AS AT 31 DECEMBER, 2006

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.06 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 31.10.2007)	1,770 sq. m/ 577.5 sq. m	8 years	685,616
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 31.10.2007)	1,208 sq. m/ 577.5 sq. m	8 years	547,892
Lot 6574 Mukim of Linau District of Batu Pahat Johor Darul Takzim	Industrial land	Freehold	Car park	9,704.38 sq. m	-	2,238,965
<b>In-Comix Food Industries Sdn Bhd</b>						
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	9 years	4,966,574

## STATEMENT OF SHAREHOLDINGS

### AS AT 23 MARCH, 2007

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
1,110	100 to 1,000	1,078,840	1.80
805	1,001 to 10,000	3,322,400	5.54
168	10,001 to 100,000	5,065,300	8.44
23	100,001 to less than 5% of issued shares	15,247,250	25.41
1	5% and above of issued shares	35,286,000	58.81
2,113		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	2,859,250	4.77
4. Chang Kwee Lan	2,048,000	3.41
5. Cekap Kapital Sdn. Bhd.	1,546,000	2.58
6. Goh Siew Kiew	993,000	1.66
7. Noorhayati Binti Kamaluddin	849,200	1.42
8. Chang Yang @ Chen Yong	670,000	1.12
9. Bank Kerjasama Rakyat Malaysia Berhad	547,100	0.91
10. Malaysian Reinsurance Berhad	500,000	0.83
11. TCL Nominees (Asing) Sdn Bhd Pledged Securities Account for Lim Hun Swee	407,800	0.68
12. Malaysian Reinsurance Berhad	208,400	0.35
13. Malaysian Reinsurance Berhad	202,600	0.34
14. Kerk Chian Tung	200,000	0.33
15. Kerk Han Meng	172,000	0.29
16. Bong Sin Construction Company Sdn Berhad	167,900	0.28
17. Chong Swee Ching	155,000	0.26
18. Nam Heng Oil Mill Company Sdn Berhad	150,000	0.25
19. Lim Seng Qwee	123,000	0.21
20. Keh (Kerk) Chu Koh	118,000	0.20
21. Ke (Kek) Kim Soon @ Kerk Choo Soon	117,000	0.20
22. Kerk Kar Han	107,000	0.18
23. Choy Sook Eng	103,000	0.17
24. Ng Ming Tiong	103,000	0.17

STATEMENT OF SHAREHOLDINGS (CONT'D)  
AS AT 23 MARCH, 2007

TOP THIRTY LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholder	No. of Shares Held	Percentage of Shares
25.	Chai Wooi Kok	100,000	0.17
26.	Kerk Chian Hui	100,000	0.17
27.	Rampai Dedikasi Sdn Bhd	100,000	0.17
28.	Lim Chye Seng & Sons Realty Sdn Bhd	100,000	0.17
29.	Quah Kim Hiang	91,900	0.15
30.	Ang Kim Bock	86,000	0.14

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.

STATEMENT OF SHAREHOLDINGS (CONT'D)  
AS AT 23 MARCH, 2007

**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 *
Kerk Chiew Siong	-	-	-	-
Kuo Choo Song	10,000	0.02	35,286,000	58.81 *
Kerk Chian Tung	200,000	0.33	-	-
Teo Lee Teck	82,000	0.14	35,286,000	58.81 *
Kerk Kar Han	107,000	0.18	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.

## NOTICE OF ANNUAL GENERAL MEETING



**NOTICE IS HEREBY GIVEN THAT** the Fifteenth 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 Wednesday, 16 May, 2007 at 9.00 a.m. for the following purposes:-

### AGENDA

#### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December, 2006 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, 2006. **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:-
  - Keh (Kerk) Chu Koh - Article 76 **Resolution 3**
  - Norita Binti Ja'afar - Article 76 **Resolution 4**
  - Raja Khairul Anuar Bin Raja Mokhtar - Article 76 **Resolution 5**
  - Kerk Kar Han - Article 83 **Resolution 6**
4. To consider, and if thought fit, to pass the following resolution:-
 

“**THAT** pursuant to Section 129(6) of the Companies Act, 1965, Mr Kuo Choo Song be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting.” **Resolution 7**
5. To re-appoint Messrs Ernst & Young who retire as Auditors of the Company and authorise the Directors to fix their remuneration. **Resolution 8**

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)



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

**SPECIAL RESOLUTION**

**PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (“Proposed Amendments to the Articles”)**

“**THAT** the alterations, modifications or additions to the Articles of Association of the Company as contained in the Circular set out in Appendix I be and are hereby approved.”

**Resolution 9**

7. 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: 24 April, 2007

*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 Corporatehouse Sdn. Bhd. (Formerly Known As Corporatehouse Services 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 Resolution:-*

*Special Resolution in respect of Proposed Amendments To The Company's Articles Of Association is to be in line with the amendments made to Listing Requirements of Bursa Malaysia Securities Berhad.*

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETINGS

### 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 Wednesday, 16 May 2007 at 9:00 a.m.

### b. Board Meetings

The Board of Directors held five (5) Board meetings in the financial year ended 31 December, 2006, the details of which are stated below:-

Attended by	← Dates of Meeting →					Total meetings attended
	15 Feb 2006	27 Mar 2006	24 May 2006	17 Aug 2006	16 Nov 2006	
Keh (Kerk) Chu Koh	✓	✓	✓	✓	✓	5/5
Ke (Kek) Kim Soon @ Kerk Choo Soon ^	✓	✓	✓	N/A	N/A	3/3
Kuo Choo Song	✓	✓	✓	✓	✓	5/5
Kerk Chiew Siong *	✓	✓	✓	✓	-	4/5
Kerk Chian Tung	✓	✓	✓	✓	✓	5/5
Teo Lee Teck	✓	✓	✓	✓	✓	5/5
Kerk Kar Han #	N/A	N/A	N/A	✓	✓	2/2
Raja Khairul Anuar bin Raja Mokhtar	✓	✓	✓	✓	✓	5/5
Norita binti Ja'afar	-	✓	✓	✓	✓	4/5
Woon Chin Chan	✓	-	✓	-	✓	3/5
Mazrina binti Arifin	✓	✓	✓	✓	✓	5/5
Wee Hoe Soon @ Gooi Hoe Soon (Alternate Director to Woon Chin Chan)	-	-	-	✓	-	1/5

^ Resigned as Director and Non-Executive Vice Chairman with effect from 15 August, 2006.

\* Redesignated as Non-Executive Vice Chairman with effect from 17 August, 2006.

# Appointed as Non-Executive Director with effect from 15 August, 2006

### c. Directors standing for re-election at the Fifteenth 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. Keh (Kerk) Chu Koh	4 October, 1991	64	5
2. Norita Binti Ja'afar	11 August, 2000	35	4
3. Raja Khairul Anuar bin Raja Mokhtar	14 December, 2000	32	5
4. Kerk Kar Han	15 August, 2006	39	2

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETINGS (CONT'D)

## d. Further details of Directors who are standing for re-election according to Article 76 of the Company's Articles of Association:-

i. Name	Keh (Kerk) Chu Koh							
Age	64							
Nationality	Malaysian							
Qualification	Nil							
Position in the Company	Chairman							
Working experience & Occupation	<p>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 was redesignated as Chairman on 1 February, 2003. He was the Deputy Managing Director of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. 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. on 1 January, 1990. As one of the founders of Hup Seng Co., he has approximately 48 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.</p>							
Other directorship in public listed company	Nil							
Securities holding in the Company (as at 31 December, 2006)	<table border="1"> <thead> <tr> <th><u>No. of securities</u></th> <th><u>%</u></th> </tr> </thead> <tbody> <tr> <td>118,000 (direct)</td> <td>0.20</td> </tr> <tr> <td>35,286,000 (indirect)</td> <td>58.81</td> </tr> </tbody> </table>	<u>No. of securities</u>	<u>%</u>	118,000 (direct)	0.20	35,286,000 (indirect)	58.81	
<u>No. of securities</u>	<u>%</u>							
118,000 (direct)	0.20							
35,286,000 (indirect)	58.81							
Family relationship with any director and/or major shareholder of the Company	<p>He is the brother of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon and Kerk Chiew Siong. He is the uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 of this Annual Report.</p>							
Conflict of interest	<p>No, except for certain recurrent related party transactions of revenue or trading nature which are 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							

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETINGS (CONT'D)

## d. Further details of Directors who are standing for re-election according to Article 76 of the Company's Articles of Association (Cont'd):-

ii. Name	Norita Binti Ja'afar	
Age	35	
Nationality	Malaysian	
Qualification	Bachelor of Arts (Hons.) majoring in Economics from the University of Nottingham, United Kingdom in 1994	
	Master of Science majoring in Fiscal Policy in Economics from the University of Bath, United Kingdom in 1995	
Position in the Company	Independent Non-Executive Director	
Working experience & Occupation	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.	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2006)	<u>No. of securities</u>	<u>%</u>
	-	-
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 MEETINGS (CONT'D)

## d. Further details of Directors who are standing for re-election according to Article 76 of the Company's Articles of Association (Cont'd):-

iii. Name	Raja Khairul Anuar Bin Raja Mokhtar	
Age	32	
Nationality	Malaysian	
Qualification	Bachelor of Commerce (majoring in Finance and Marketing)	
Position in the Company	Non-Executive Director	
Working experience & Occupation	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.	
Other directorship in public listed company	Nil	
Securities holding in the Company (as at 31 December, 2006)	<u>No. of securities</u>	<u>%</u>
	-	-
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 MEETINGS (CONT'D)

## d. Further details of Directors who are standing for re-election according to Article 76 of the Company's Articles of Association (Cont'd):-

iv. Name	Kerk Kar Han							
Age	39							
Nationality	Malaysian							
Qualification	Tatung University, Taiwan (Bachelor In Business Administration, majoring in Administration and Management)							
Position in the Company	Non-Executive Director							
Working experience & Occupation	<p>He joined Hup Seng Hoon Yong Brothers Sdn Bhd on 20 September, 1995 as Management Executive. He was promoted to Admin Senior Executive in July 1997. On 10 March, 1998, he is appointed as the Executive Director of Hup Seng Hoon Yong Brothers Sdn Bhd. Subsequently, he is redesignated as Director cum Admin Senior Executive on 24 January, 2003. On 1 January, 2004, he is promoted to Director cum Assistant Admin Manager. His responsibilities inclusive of maintaining and improving the organizational administration system, ensuring the compliance of company policies, overseeing branches performance and participating in sales and marketing strategic planning and decision making. He direct reports to Business Development Executive Director. He has more than 11 years business administration and management experience.</p>							
Other directorship in public listed company	Nil							
Securities holding in the Company (as at 31 December, 2006)	<table border="1"> <thead> <tr> <th><u>No. of securities</u></th> <th><u>%</u></th> </tr> </thead> <tbody> <tr> <td>107,000 (direct)</td> <td>0.18</td> </tr> <tr> <td>35,286,000 (indirect)</td> <td>58.81</td> </tr> </tbody> </table>	<u>No. of securities</u>	<u>%</u>	107,000 (direct)	0.18	35,286,000 (indirect)	58.81	
<u>No. of securities</u>	<u>%</u>							
107,000 (direct)	0.18							
35,286,000 (indirect)	58.81							
Family relationship with any director and/or major shareholder of the Company	<p>He is the son of Ke (Kek) Kim Soon @ Kerk Choo Soon, nephew of Kuo Choo Song, Ke (Kek) Kim Soon @ Kerk Choo Soon and Kerk Chiew Siong and cousin 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 12 of this Annual Report.</p>							
Conflict of interest	No, except for certain recurrent related party transactions of revenue or trading nature which are necessary for day-to-day operations of the Group.							
List of convictions for offences within the past 10 years other than traffic offences, if any	None							

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETINGS (CONT'D)

- e. Director standing for re-appointment at the Fifteenth 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	75	5

- f. Further details of Director who is standing for re-appointment according to Section 129(6) of the Companies Act, 1965:-

<b>Name</b>	Kuo Choo Song							
<b>Age</b>	75							
<b>Nationality</b>	Malaysian							
<b>Qualification</b>	Primary School							
<b>Position in the Company</b>	Managing Director							
<b>Working experience &amp; Occupation</b>	<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 48 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>							
<b>Other directorship in public listed company</b>	Nil							
<b>Securities holding in the Company (as at 31 December, 2006)</b>	<table border="1"> <thead> <tr> <th><u>No. of securities</u></th> <th><u>%</u></th> </tr> </thead> <tbody> <tr> <td>10,000 (direct)</td> <td>0.02</td> </tr> <tr> <td>35,286,000 (indirect)</td> <td>58.81</td> </tr> </tbody> </table>	<u>No. of securities</u>	<u>%</u>	10,000 (direct)	0.02	35,286,000 (indirect)	58.81	
<u>No. of securities</u>	<u>%</u>							
10,000 (direct)	0.02							
35,286,000 (indirect)	58.81							
<b>Family relationship with any director and/or major shareholder of the Company</b>	<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, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 12 of this Annual Report.</p>							
<b>Conflict of interest</b>	<p>No, except for certain recurrent related party transactions of revenue or trading nature which are necessary for day-to-day operations of the Group.</p>							
<b>List of convictions for offences within the past 10 years other than traffic offences, if any</b>	None							

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# FORM OF PROXY

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 **Fifteenth 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 Wednesday, 16 May 2007 at 9.00 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, 2006 together with the Reports of the Directors and Auditors.		
2.	To approve the payment of Directors' fees for the financial year ended 31 December, 2006.		
	Re-election of Directors retiring according to the Company's Articles of Association:		
3.	- Keh (Kerk) Chu Koh (Article 76)		
4.	- Norita Binti Ja'afar (Article 76)		
5.	- Raja Khairul Anuar Bin Raja Mokhtar (Article 76)		
6.	- Kerk Kar Han (Article 83)		
7.	Re-appointment of Mr Kuo Choo Song as Director pursuant to Section 129 (6) of the Companies Act, 1965.		
8.	Re-appointment of Messrs Ernst & Young as Auditors.		
9.	Proposed Amendments 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 \_\_\_\_\_ 2007

NO. OF SHARES HELD

\_\_\_\_\_  
Signature of Member(s)

Note:

- 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.
- 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.
- 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.
- 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.
- 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.
- The instrument appointing a proxy must be deposited at the office of the Registered Office of the Company, Symphony Corporatehouse Sdn. Bhd. (Formerly Known As Corporatehouse Services 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.

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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

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