



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

Suite 6.1A, Level 6, Menara Pelangi
Jalan Kuning, Taman Pelangi
80400 Johor Bahru, Johor Darul Ta'zim
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HUP SENG INDUSTRIES BERHAD (Company No: 226098-P)

annual report 2007

annual
report
2007



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
(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

Woo Ying Pun
Leong Siew Foong

REGISTERED OFFICE

Suite 6.1A, Level 6
Menara Pelangi
Jalan Kuning, Taman Pelangi
80400 Johor Bahru
Johor Darul Ta'zim
Tel : (07) - 332 3536
Fax : (07) - 332 4536

PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRAR

Symphony Share Registrars Sdn. Bhd.
Level 26, Menara Multi Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
Tel : (03) - 2721 2222
Fax : (03) - 2721 2530/1

PRINCIPAL BANKERS

RHB Bank Berhad
Malayan Banking Berhad
Public Bank Berhad
United Overseas Bank (Malaysia) Berhad
HSBC Bank Malaysia Berhad

AUDITORS

Ernst & Young
Chartered Accountants

STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia
Securities Berhad





Corporate Structure



**HUP SENG PERUSAHAAN
MAKANAN (M) SDN BHD**
(Company No: 19770-K)



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



**HUP SENG HOON YONG
BROTHERS SDN BHD**
(Company No: 31372-V)



In-Comix[®]
**IN-COMIX FOOD
INDUSTRIES SDN BHD**
(Company No: 180753-V)

Chairman's Statement

*On
behalf of the Board of
Directors, I am pleased to
present the Annual Reports and
Audited Financial Statements of
Hup Seng Industries Berhad
Group for the
financial
year ended
31 December,
2007*



REVIEW OF THE FINANCIAL PERFORMANCE

True to our concern, the Group's performance for the current financial year was adversely affected by the rising costs of raw materials and intense competition. This has affected the Group's gross profit to decrease by 11.2% or approximately RM5.6 million and the Group's profit before taxation has also decreased by 38.5% or approximately RM3.8 million. Accordingly, the gross profit margin has decreased from 26.3% to 22.8% and the net profit margin has also decreased from 3.6% to 2.4% as compared to the prior year.

Revenue, on the other hand, rose by 2.5% to RM193 million as compared with preceding year corresponding period of RM188 million amid a lower production volume. The increase was largely due to selected price adjustments necessitated by the steep increases in raw material costs.

The Group has no borrowings and has a cash balance of RM15.6 million as at the end of the financial year. Net asset per share stood at RM1.90.



Chairman's Statement (cont'd)



DIVIDEND

The Board of Directors has declared an interim dividend of 10% less 27% tax and a special dividend of 5% less 27% tax for the financial year ended 31 December, 2007. These dividends were paid on 18 December, 2007. However, there is no final dividend recommended for this financial year.

PROSPECTS

The Malaysian economy grew 6.3% last year, fuelled by domestic demand and the trend is expected to continue this year. Bank Negara has projected five to six per cent growth for the Malaysian economy this year against a backdrop of mounting external uncertainties including the US sub prime mortgage crisis and credit crunch problems. The country's gross domestic product (GDP) is set to improve in the second half of 2008 when the fiscal stimulus following the US Federal Reserve's aggressive interest cuts provide some boost to the US economy.

The Group will remain profitable in the coming financial year but would continue to face challenges with rising material costs and intense competition. Palm oil and wheat flour have now more than doubled from early 2007 and these prices are anticipated to remain at high and unprecedented level for quite a while. Higher fuel costs and the resulting inflationary pressure may also pose further threat to already shaky consumer confidence.

The Group will continue efforts to enhance operating efficiency to mitigate as much as possible the impact of higher input costs and will increase prices as and when necessary. The Group will also constantly drive for higher sales and strive to protect and grow market shares.

ACKNOWLEDGEMENT

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

KEH (KERK) CHU KOH
Chairman



Five-Year Group Financial Highlights



Financial year ended 31 December	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000
Turnover	175,812	186,482	180,968	188,338	193,115
Profit After Tax	14,791	6,564	5,098	6,807	4,757
Net Earnings Per Share	25 sen	11 sen	8.5 sen	11.3 sen	7.9 sen



Directors' Profile

Keh (Kerk) Chu Koh

Keh (Kerk) Chu Koh, Malaysian aged 65, 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 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 49 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 55, 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 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 32 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.



Directors' Profile (cont'd)



Kuo Choo Song

Kuo Choo Song, Malaysian aged 76, 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 had been a member of the Audit Committee until 12 December, 2007. 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 49 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 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.

Kerk Chian Tung

Kerk Chian Tung, Malaysian aged 37, 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, 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.



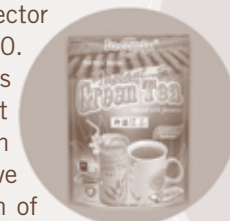
Directors' Profile (cont'd)

Teo Lee Teck

Teo Lee Teck, Malaysian aged 48, 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 numerously 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 29 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, 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.

Kerk Kar Han

Kerk Kar Han, Malaysian aged 40, 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. He 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 12 years of experience in business administration and management. He is the 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.



Directors' Profile (cont'd)



Woon Chin Chan

Woon Chin Chan, Malaysian aged 49, 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.

Mazrina Binti Arifin

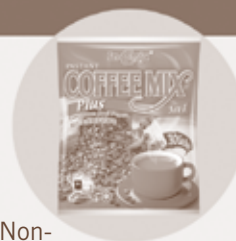
Mazrina Binti Arifin, Malaysian aged 40, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. She is the Chairman of the Nominating Committee as well as a member of the Audit Committee. She does not have any family relationship with any director and/or major shareholder, 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.



Directors' Profile (cont'd)



Norita Binti Ja'afar

Norita Binti Ja'afar, Malaysian aged 36, 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 33, was appointed as a Non-Executive Director of the Company on 14 December, 2000. He was appointed as a member of the Audit Committee on 12 December, 2007 and 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 and as Executive Director for Skirmish Paintball Asia Sdn. Bhd. since 2004.

Wee Hoe Soon @ Gooi Hoe Soon

Wee Hoe Soon @ Gooi Hoe Soon, Malaysian aged 48, 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 23 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.

Directors' Profile (cont'd)

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 Teo Lee Teck (HSIB Director) Teo Lay Gak	Kuo Liong Yok Kuo Chee Ching Kuo Chee Yoong Kuo Chee Joo Kuo Chee Hau Kuo Chee Kian Kuo Chee Koon	Kerk Kar Han (HSIB Director) Kerk Han Meng		Kerk Gau Yang Kerk Chong Yong	
Daughter				Kerk Chian Tung (HSIB Director)	Kerk Shiang Yih	

Statement on Corporate Governance

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

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

BOARD OF DIRECTORS

Composition and Attendance

Five (5) regular meetings were conducted in the financial year 2007, 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, 2007 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
Kerk Chiew Siong	Non-Executive Vice Chairman	5/5
Kuo Choo Song	Managing Director	5/5
Kerk Chian Tung	Executive Director	5/5
Teo Lee Teck	Non-Executive Director	5/5
Kerk Kar Han	Non-Executive Director	4/5
Woon Chin Chan	Senior Independent Non-Executive Director	5/5
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	4/5
Wee Hoe Soon @ Gooi Hoe Soon	Alternate Director to Woon Chin Chan	0/5

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 judgement 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 judgement 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 and the newly invited non-executive director has attended the Mandatory Accreditation Programme ("MAP") organised by Bursatra Sdn. Bhd. All the directors will continue to attend relevant seminars and programmes as a continuous process recommended by Bursa Securities. In 2007, some of the directors attended the 2008 Budget Seminar organised by Ernst & Young Tax Consultants Sdn. Bhd. and Enhancing Personal Development & Skill in Business organised by Silva Method (Malaysia) Sdn. Bhd.

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, 2007, categorised into appropriate components.

	Salary (RM)	Fees (RM)	Bonus & allowance (RM)	Benefits- in-kind (RM)
Executive	881,760	130,000	369,706	35,753
Non-Executive	1,683,480	490,000	721,181	87,175

The number of Directors whose remuneration falls into each successive band of RM50,000 for the financial year ended 31 December, 2007 is disclosed as follows:-

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,001 to RM100,000	-	4
RM200,001 to RM250,000	-	1
RM350,001 to RM400,000	1	1
RM1,050,001 to RM1,100,000	1	2

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The Directors' Responsibility Statement in relations to the Audited Financial Statements pursuant to Paragraph 15.27 (a) of the Listing Requirements of Bursa Securities is provided on page 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 provide reasonable assurance against misstatement, loss or fraud as certain threats and risks are externally driven, unforeseen and beyond the control of the Group.

The Statement of Internal Control is set out on page 24 of this report.

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.

Statement on Corporate Governance (cont'd)

ACCOUNTABILITY AND AUDIT (cont'd)

Relationship with Auditors (cont'd)

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.

CORPORATE SOCIAL RESPONSIBILITY

The Group recognises the need and responsibility to care for the community and strives to balance its social responsibility to the society with its business objectives and shareholders' expectations. On community welfare, the Group has taken some initiatives such as donating generously to a local school's building fund and some other schools and associations' fund raising activities. The Group also sponsors company products to flood victims and associations, as well to primary schools and kindergartens for children's day activities.

With regards to staff welfare, Occupational Safety and Health Programme had been installed providing a safe and healthy workplace for the employees, staff and visitors. Regular trainings at all levels are conducted in order to maintain safety awareness of the employees.

RECURRENT RELATED PARTY TRANSACTIONS ("RRPT")

Please refer to pages 66 to 67 of the audited accounts in this Annual Report and the attached Circular to the Shareholders.

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 30 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, 2007, 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.

h) Deviation in Financial Results

There was no material deviation between the results for the financial year and the unaudited results previously announced.

i) Non-Audit Fee

There were no non-audit fee paid to the external auditors for the financial year 31 December, 2007.

j) Sanctions and Penalties

There were no sanctions or penalties imposed on the Company and its subsidiaries by Bursa Securities, Securities Commission and the relevant regulatory bodies during the financial year 31 December, 2007.

k) Material Contracts

None of the Directors and major shareholders have any subsidiary during the financial year 31 December, 2007.

l) Revaluation Policy

There was no revaluation performed on all properties by the Company and its subsidiaries.

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 and retired on 12 December, 2007
- Raja Khairul Anuar Bin Raja Mokhtar
(Non-Executive Director)
Appointed on 12 December, 2007

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:

- All members of the Audit Committee should be non-executive directors and financially literate; and
- 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.

Audit Committee (cont'd)

TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)

Constitution (cont'd)

- At least one member of the Audit Committee:- (cont'd)

- iii) fulfils such other requirements as prescribed by the Bursa Malaysia Securities Berhad ("Bursa Securities").

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.

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, the internal auditors or both, excluding the attendance of other directors and employees of the Company, 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;

Audit Committee (cont'd)

TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)

Functions (cont'd)

Duties and Responsibilities (cont'd)

- a) to review and report the following to the Board: (cont'd)
 - 5) 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;
 - 6) the external auditor's management letter and management's response;
 - 7) 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;
 - 8) any letter of resignation including the written explanations of the resignation from the external auditors of the Company; and
 - 9) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.
- b) To do the following, in relation to the internal audit function:-
 - review the adequacy of the scope, functions, competency and resources of internal audit function, and that it has the necessary authority to carry out its work;
 - review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - review any appraisal or assessment of the performance of members of the internal audit function;
 - approve any appointment or termination of senior staff members of the internal audit function; and
 - take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- c) 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.
- d) 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 twice a year the Committee shall meet with the external auditors without executive Board members present.
- g) The Chairman shall be entitled, where deemed appropriate, to invite other Board members, employees, professionals and/or any person(s) with the relevant experience and expertise to attend meetings of the Committee.

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

Secretary

The Company Secretary shall be the Secretary of the Committee.

The Secretary is responsible for:-

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

Quorum

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

ACTIVITIES DURING THE YEAR

Meetings

Five (5) meetings were held during the financial year ended 31 December, 2007. 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 2007, as there was no crucial or significant matter that brought upon the need of such meeting.

Audit Committee (cont'd)

ACTIVITIES DURING THE YEAR (cont'd)

Meetings (cont'd)

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

Attended by	← Dates of Meeting →					Total meetings attended
	14 Feb, 2007	16 May, 2007	15 Aug, 2007	14 Nov, 2007	10 Dec, 2007	
Kuo Choo Song	✓	✓	✓	✓	-	4/5
Woon Chin Chan	✓	✓	✓	✓	✓	5/5
Mazrina Binti Arifin	✓	✓	✓	✓	✓	5/5
Norita Binti Ja'afar	✓	✓	✓	✓	✓	5/5

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 control systems of the Group for the year.
- Reviewed the quarterly management reports, which provided the detailed breakdown of income statements of the three subsidiaries, revenue analysis, principal markets of manufactured products, analysis of sales outlets, production output and capacity, etc;
- Reviewed and discussed Related Party Transactions ("RPT") and Recurrent 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

During the financial year, the Group has embarked on an IT system which facilitates sales ordering, recording and processing for the purpose of generating more accurate sales records and shortening sales processing time. In addition, a web reporting system has been built for management decision making purposes. These IT systems, upon implementation, have contributed positively in enhancing the internal control function of the Group and provided accurate and timely reports and analysis to the management and Board for decision making and performance appraisals. Internal Audit Function is incorporated into the IT systems that relevant personnel will be alarmed should there be an internal control problem and such problem will be brought to the management's attention. The Audit Committee will then get reports on internal control problem and subsequently bring it to the attention of the Board to manage and mitigate risks.

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 10 December, 2007, and all the committee members attended the meeting.

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.

Two (2) meetings were held on 3 January, 2007 and 17 December, 2007 during the financial year ended 31 December, 2007 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

In the financial year 2007, there was no internal audit division being set up, however, a mobile sales system was implemented in the sales division of Hup Seng Hoon Yong Brothers Sdn. Bhd. to improve efficiency and accuracy of sales order processing and a web reporting system was put in place to facilitate timely decision making and effective internal controlling for the management and the executive board members.

The Department Heads perform 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 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

As required by paragraph 15.24 of the Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed this Statement on Internal Control. Their review was performed in accordance with 'Recommended Practice Guide (RPG) 5' issued by the Malaysian Institute of Accountants. Based on their review, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of internal control of the Group.

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, 2007.

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	4,757,385	6,461,846
Attributable to:		
Equity holders of the Company	4,757,385	6,461,846

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

The amount of dividends paid by the Company since 31 December, 2006 were as follows:

In respect of the financial year ended 31 December, 2007:

	RM
Interim dividend of 10% less 27% taxation, on 60,000,000 ordinary shares	4,380,000
Special dividend of 5% less 27% taxation, on 60,000,000 ordinary shares	2,190,000
	<hr/> 6,570,000

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

Directors' Report (cont'd)

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)
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)

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.

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	1 January, 2007	Number of Ordinary Shares of RM 1 each		31 December, 2007
		Bought	Sold	
Direct interest				
Kuo Choo Song	10,000	80,000	-	90,000
Keh (Kerk) Chu Koh	118,000	220,000	-	338,000
Teo Lee Teck	82,000	156,000	-	238,000
Kerk Chian Tung	200,000	-	-	200,000
Kerk Kar Han	107,000	112,000	-	219,000

Directors' Report (cont'd)

The Company	1 January, 2007	Number of Ordinary Shares of RM 1 each		31 December, 2007
		Bought	Sold	
Deemed interest				
Kuo Choo Song	35,286,000	681,000	2,400,000	33,567,000 *
Keh (Kerk) Chu Koh	35,286,000	183,000	2,400,000	33,069,000 *
Teo Lee Teck	35,286,000	18,000	2,400,000	32,904,000 *
Kerk Kar Han	35,286,000	18,000	2,400,000	32,904,000 *
Kerk Chiew Siong	-	428,000	-	428,000 **
Holding company HSB Group Sdn. Bhd.				
Direct Interest				
Kuo Choo Song	1,099,273	233	-	1,099,506
Keh (Kerk) Chu Koh	3,030,345	643	-	3,030,988
Kerk Chiew Siong	3,756,074	797	-	3,756,871
Teo Lee Teck	2,038,069	432	-	2,038,501
Kerk Kar Han	1,533,867	325	-	1,534,192
Indirect Interest				
Kuo Choo Song	7,000	-	7,000	- #
Keh (Kerk) Chu Koh	7,000	-	7,000	- #
Kerk Kar Han	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 and Section 134 of the Companies (Amendment) Act 2007.

** Deemed interested by virtue of his interests pursuant to Section 134 of the Companies (Amendment) Act 2007.

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

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

OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps :

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts have been written off and adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

Directors' Report (cont'd)

OTHER STATUTORY INFORMATION (cont'd)

- (b) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading and inappropriate.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements and consolidated financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year under review which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 March, 2008.



KEH (KERK) 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 32 to 70 are drawn up in accordance with applicable Financial Reporting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December, 2007 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 19 March, 2008.



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 32 to 70 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 19 March, 2008



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 32 to 70. 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 Financial Reporting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 December, 2007 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


OONG KEE LEONG
1246/12/09(J)
Partner

Johor Bahru
Dated: 19 March, 2008

Income Statement of the Group for the year ended 31 December, 2007

	Note	2007 RM	2006 RM
Revenue	3	193,115,141	188,338,321
Cost of sales	4	(149,053,165)	(138,721,967)
Gross profit		44,061,976	49,616,354
Other income	3	1,572,200	1,384,413
Administrative expenses		(15,483,201)	(16,516,238)
Selling and marketing expenses		(24,019,666)	(24,518,974)
Operating profit	5	6,131,309	9,965,555
Finance cost		(6,772)	(1,250)
Profit before tax		6,124,537	9,964,305
Income tax expense	8	(1,367,152)	(3,157,454)
Profit for the year		4,757,385	6,806,851
Attributable to :			
Equity holders of the Company		4,757,385	6,806,851
Earnings per share attributable to equity holders of the Company (sen):			
Basic, for profit for the year	9	7.9	11.3
Diluted, for profit for the year	9	7.9	11.3
Dividends per share (sen)	10	10.95	7.20

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

Income Statement of the Company for the year ended 31 December, 2007

	Note	2007 RM	2006 RM
Gross dividends from subsidiaries		10,962,000	8,958,000
Interest income		194,764	157,184
Revenue		11,156,764	9,115,184
Other income		-	278
Administrative expenses		(2,234,183)	(2,379,972)
Profit before tax	5	8,922,581	6,735,490
Income tax expense	8	(2,460,735)	(1,954,832)
Profit for the year		6,461,846	4,780,658
Dividends per share (sen)	10	10.95	7.20

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

Balance Sheets

as at 31 December, 2007

	Note	2007 RM	Group 2006 RM	2007 RM	Company 2006 RM
ASSETS					
Non-current assets					
Property, plant and equipment	11	70,283,151	69,163,153	328,902	409,489
Investment properties	12	1,899,726	1,915,808	-	-
Prepaid land lease payments	13	4,651,831	3,803,261	-	-
Investment in subsidiaries	14	-	-	65,327,211	65,327,211
Goodwill on consolidation	15	13,227,508	13,227,508	-	-
Deferred tax assets	21	1,050,966	1,433,633	9,000	6,000
		91,113,182	89,543,363	65,665,113	65,742,700
Current assets					
Amount owing by subsidiaries	14	-	-	4,500,000	5,000,000
Inventories	16	21,438,292	20,013,925	-	-
Trade and other receivables	17	26,970,184	31,972,951	65,075	69,852
Tax recoverable		1,342,882	1,157,978	1,062,005	555,000
Cash and bank balances	18	15,634,694	21,222,356	7,244,950	7,345,584
		65,386,052	74,367,210	12,872,030	12,970,436
TOTAL ASSETS		156,499,234	163,910,573	78,537,143	78,713,136
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
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	796,374	429,983	-	-
Retained earnings	24	39,076,700	40,889,315	3,304,123	3,412,277
Total equity		114,206,207	115,652,431	77,637,256	77,745,410
Non-current liability					
Deferred tax liabilities	21	9,235,245	9,874,549	15,000	4,000
Current liabilities					
Trade and other payables	19	32,794,782	36,219,272	884,887	963,726
Taxation		263,000	2,164,321	-	-
		33,057,782	38,383,593	884,887	963,726
Total liabilities		42,293,027	48,258,142	899,887	967,726
TOTAL EQUITY AND LIABILITIES		156,499,234	163,910,573	78,537,143	78,713,136

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

Statement of Changes in Equity for the year ended 31 December, 2007

Group	Note	← Attributable to equity holders of the Company →				Total
		Share Capital	Non-distributable		Distributable Retained Profits	
			Share Premium	Revaluation Reserve (Note 23)		
		RM	RM	RM	RM	RM
At 1 January, 2006		60,000,000	14,333,133	694,228	38,375,727	113,403,088
As previously stated						
Effects of adopting: FRS 140		-	-	(264,245)	26,737	(237,508)
At 1 January, 2006 (restated)		60,000,000	14,333,133	429,983	38,402,464	113,165,580
Profit for the year, representing total recognised income and expenses or the year		-	-	-	6,806,851	6,806,851
Dividend paid: Interim for year 2006 - 10% less 28% tax	10	-	-	-	(4,320,000)	(4,320,000)
At 31 December, 2006		60,000,000	14,333,133	429,983	40,889,315	115,652,431
At 1 January, 2007		60,000,000	14,333,133	429,983	40,889,315	115,652,431
Amount recognised directly in equity relating to changes in tax rate		-	-	366,391	-	366,391
Net expense recognised directly in equity		60,000,000	14,333,133	796,374	40,889,315	116,018,822
Profit for the year, representing total recognised income and expenses for the year		-	-	-	4,757,385	4,757,385
Dividend paid: Interim for year 2007 - 10% less 27% tax Special for year 2007 - 5% less 27% tax	10	-	-	-	(4,380,000)	(4,380,000)
		-	-	-	(2,190,000)	(2,190,000)
At 31 December, 2007		60,000,000	14,333,133	796,374	39,076,700	114,206,207

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

Statement of Changes in Equity

for the year ended 31 December, 2007 (cont'd)

	Note	Share Capital RM	Non distributable Share Premium RM	Distributable Retained Profits (Note 24) RM	Total RM
Company					
At 1 January, 2006		60,000,000	14,333,133	2,951,619	77,284,752
Profit for the year, representing total recognised income and expenses 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)
At 31 December, 2006		60,000,000	14,333,133	3,412,277	77,745,410
At 1 January, 2007		60,000,000	14,333,133	3,412,277	77,745,410
Profit for the year, representing total recognised income and expenses for the year		-	-	6,461,846	6,461,846
Dividend paid: Interim for year 2007 - 10% less 27% tax	10	-	-	(4,380,000)	(4,380,000)
Special for year 2007 - 5% less 27% tax		-	-	(2,190,000)	(2,190,000)
At 31 December, 2007		60,000,000	14,333,133	3,304,123	77,637,256

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

Cash Flow Statements

for the year ended 31 December, 2007

	2007 RM	Group 2006 RM	2007 RM	Company 2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	6,124,537	9,964,305	8,922,581	6,735,490
Adjustments for:				
Allowance for doubtful debts	172,737	251,625	-	-
Amortisation of prepaid land lease payments	106,841	106,841	-	-
Bad debts written off	63,575	212,255	-	-
Depreciation of property, plant and equipment	4,917,071	4,947,219	80,587	119,718
Depreciation of investment property	16,082	19,378	-	-
Gain on disposal of property, plant and equipment	(32,010)	(6,046)	-	(278)
Interest expense	6,772	1,250	-	-
Interest income	(608,207)	(500,286)	(194,764)	(157,184)
Plant and equipment written off	33,425	183,504	-	-
Obsolete stocks written off	-	96,291	-	-
Operating profit before working capital changes	10,800,823	15,276,336	8,808,404	6,697,746
(Increase)/decrease in inventories	(1,424,367)	1,894,315	-	-
Decrease/(increase) in trade and other receivables	4,766,455	(4,025,300)	4,777	(31,579)
(Decrease)/increase in trade and other payables	(3,424,490)	8,341,158	(78,839)	106,668
Cash generated from operations	10,718,421	21,486,509	8,734,342	6,772,835
Taxes paid	(3,343,623)	(2,231,702)	(2,959,740)	(2,411,832)
Net cash from operating activities	7,374,798	19,254,807	5,774,602	4,361,003
CASH FLOWS FROM INVESTING ACTIVITIES				
Repayment from subsidiaries	-	-	500,000	474,031
Interest received	608,207	500,286	194,764	157,184
Proceeds from disposal of property, plant and equipment	555,890	419,474	-	359,298
Purchase of property, plant and equipment	(6,594,374)	(9,219,755)	-	(104,671)
Prepayment of land lease	(955,411)	-	-	-
Net cash (used in)/generated from investing activities	(6,385,688)	(8,299,995)	694,764	885,842

Cash Flow Statements

for the year ended 31 December, 2007 (cont'd)

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid	(6,772)	(1,250)	-	-
Dividends paid	(6,570,000)	(4,320,000)	(6,570,000)	(4,320,000)
Net cash used in financing activities	(6,576,772)	(4,321,250)	(6,570,000)	(4,320,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,587,662)	6,633,562	(100,634)	926,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	21,222,356	14,588,794	7,345,584	6,418,739
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (Note 18)	15,634,694	21,222,356	7,244,950	7,345,584

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

Notes to the Financial Statements

31 December, 2007

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 19 March, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia.

The financial statements of the Group and of the Company have also been prepared on a historical cost 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) except when otherwise indicated.

The MASB has issued FRS 6: Exploration for and Evaluation of Mineral Resources and Amendment to FRS 119₂₀₀₄: Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures which will be effective for annual periods beginning on or after 1 January, 2007. Both FRS 6 and Amendment to FRS 119₂₀₀₄ are not applicable to the Group or the Company.

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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

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

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. 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.

Except for In-comix Food Industries Sdn. Bhd. which is consolidated using the purchase method, the other subsidiaries are consolidated using the merger method under the then MASB Standard No. 21 - Business Combinations. Under the merger method, the results of the subsidiaries being merged are included as if the merger had been effected throughout the current and previous financial years. The difference between the cost of investment and the nominal value of the shares acquired has been classified as a merger deficit and are adjusted against any suitable reserve.

Under the purchase method of accounting, subsidiaries are consolidated from the date on which control is transferred to the Group. 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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(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.

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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(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 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.

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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(f) Financial Assets

Financial assets within the scope of FRS139 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

The Group does not designate any financial assets not held for trading as financial assets at fair value through profit and loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the assets to maturity. Financial assets intended to be held for an undefined period are not included in this classification. Long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the assets are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets which are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the fair value adjustment reserve until the asset is derecognised or until the asset is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(f) Financial Assets (cont'd)

(iv) Available-for-sale financial assets (cont'd)

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to the relevant exchange's quoted market bid prices at the close of business on the balance sheet date. For financial assets where there is no active market, fair value is determined using valuation techniques.

Investments in equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses.

The Group does not have financial assets classified as fair value through profit and loss, held to maturity investments and available-for-sale financial assets during 2007 and 2006.

(g) 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 and incidentals incurred in bringing the inventories to their present location and condition. 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.

(h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits, and short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

Deposits with banks carried in the balance sheets are classified and accounted for as loans and receivables under FRS 139. The accounting policy for this category of financial assets is stated in Note 2.2(f).

(i) Trade and Other Receivables

Trade and other receivables, including amounts owing by subsidiaries are classified and accounted for as loans and receivables under FRS 139. The accounting policy for this category of financial assets is stated in Note 2.2(f).

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.2(k) below.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(j) Trade and Other Payables

Liabilities for trade and other payables, which are normally settled on 30 - 90 days terms, are initially recognised at the fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(k) Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(l) Derecognition of Financial Assets and Liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The contractual rights to receive cash flows from the asset have expired; or
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and has either (a) transferred substantially all the risks and rewards of the asset, or (b) neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(m) 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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(m) Leases (cont'd)

(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.

(n) 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.

(o) 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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(p) 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").

(q) Foreign Currencies

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

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.

(r) 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 method.

(iii) Dividend income

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

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 Summary of Significant Accounting Policies (cont'd)

(r) Revenue Recognition (cont'd)

(iv) Rental income

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

2.3 Standards and Interpretations Issued but Not Yet Effective

As at the date of authorisation of these financial statements, the following new and revised FRS, amendments to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

FRS, Amendments to FRS and Interpretations	Effective for financial periods beginning on or after
FRS 107 : Cash Flow Statements	1 July, 2007
FRS 111 : Construction Contracts	1 July, 2007
FRS 112 : Income Taxes	1 July, 2007
FRS 118 : Revenue	1 July, 2007
FRS 120 : Accounting for Government Grants and Disclosures of Government Assistance	1 July, 2007
FRS 134 : Interim Financial Reporting	1 July, 2007
FRS 137 : Provision, Contingent Liabilities and Contingent Assets	1 July, 2007
Amendments to FRS 121 : The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July, 2007
IC Interpretation 1 : Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July, 2007
IC Interpretation 2 : Members' Shares in Co-operative Entities and Similar Instruments	1 July, 2007
IC Interpretation 5 : Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July, 2007
IC Interpretation 6 : Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July, 2007
IC Interpretation 7 : Applying the Restatement Approach under FRS 129 ₂₀₀₄ Financial Reporting in Hyperinflationary Economies	1 July, 2007
IC Interpretation 8 : Scope of FRS 2	1 July, 2007

The above new and revised FRS, amendment to FRS and Interpretations are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Classification between investment properties and property, plant and equipment.

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

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, 2007 were RM13,277,508 (2006 : 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, 2007 were RM70,283,151 (2006 : RM69,163,153). Further details are disclosed in Note 11.

Notes to the Financial Statements

31 December, 2007 (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Significant Accounting Estimates and Judgements (cont'd)

(b) Key Sources of Estimation Uncertainty (cont'd)

(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 RM515,385 and RM89,369 respectively (2006 : RM622,000 and RM307,000 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.

5. PROFIT FROM OPERATIONS

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
This is arrived at after charging:				
Auditors' remuneration				
Statutory audits	77,500	77,500	19,000	19,000
Other services	58,200	37,550	3,500	3,500
Allowance for doubtful debts	172,737	251,625	-	-
Amortisation of prepaid land lease payments (Note 13)	106,841	106,841	-	-
Bad debts written off	63,575	212,255	-	-
Employee benefits expenses excluding directors' remuneration (Note 6)	29,921,481	29,833,599	146,719	141,103
Directors' fees	778,333	845,000	500,000	500,000
Directors' other emoluments (Note 7)	7,100,679	7,059,448	1,269,766	1,301,940
Depreciation of property, plant and equipment (Note 11)	4,917,071	4,947,219	80,587	119,718
Depreciation of investment properties (Note 12)	16,082	19,378	-	-

Notes to the Financial Statements

31 December, 2007 (cont'd)

5. PROFIT FROM OPERATIONS (cont'd)

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Realised exchange losses	516,384	47,007	-	-
Obsolete stocks written off	-	96,291	-	-
Plant and equipment written off	33,425	183,504	-	-
Provision for tax penalties	-	833,270	-	-
Rental expenses	336,237	287,600	25,800	25,200
and crediting:				
Bad debts recovered	126,615	81,457	-	-
Gross dividend income	-	-	10,962,000	8,958,000
Gain on disposal of property, plant and equipment	32,010	6,046	-	278
Interest income	608,207	500,286	194,764	157,184
Provision for tax penalties written back	833,270	-	-	-
Rental income	105,980	92,990	-	-

6. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Wages and salaries	26,767,292	26,723,758	130,166	125,373
Employee provident fund	2,734,209	2,689,316	15,629	14,837
Social security costs	324,280	326,416	924	893
Other staff related expenses	95,700	94,109	-	-
	29,921,481	29,833,599	146,719	141,103

7. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Directors of the Company				
Executive:				
Salaries and other emoluments	1,251,466	1,283,639	1,251,266	1,283,440
Fees	130,000	140,000	100,000	100,000
Benefits-in-kind	35,753	44,120	33,984	42,303
	1,417,219	1,467,759	1,385,250	1,425,743

Notes to the Financial Statements

31 December, 2007 (cont'd)

7. KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

The remuneration of key management during the year was as follows: (cont'd)

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Non-Executive (but holding executive position in subsidiaries):				
Salaries and other emoluments	2,395,661	2,960,764	9,500	9,500
Fees	290,000	325,625	200,000	200,000
Benefits-in-kind	87,175	90,082	-	-
	2,772,836	3,376,471	209,500	209,500
Non-Executive:				
Other emoluments	9,000	9,000	9,000	9,000
Fees	200,000	200,000	200,000	200,000
	209,000	209,000	209,000	209,000
Directors of Subsidiaries				
Executive:				
Salaries and other emoluments	3,444,352	2,805,845	-	-
Fees	128,333	149,375	-	-
Benefits-in-kind	132,768	76,951	-	-
	3,705,453	3,032,171	-	-
Non-Executive				
Other emoluments	200	200	-	-
Fees	30,000	30,000	-	-
	30,200	30,200	-	-
Total	8,134,708	8,115,601	1,803,750	1,844,243
Directors' remuneration analysed by:				
Salaries and other emoluments	7,100,679	7,059,448	1,269,766	1,301,940
Fees	778,333	845,000	500,000	500,000
Benefits-in-kind	255,696	211,153	33,984	42,303
	8,134,708	8,115,601	1,803,750	1,844,243

Notes to the Financial Statements

31 December, 2007 (cont'd)

7. KEY MANAGEMENT PERSONNEL COMPENSATION (cont'd)

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

	Number of Directors	
	2007	2006
Executive Directors:		
RM350,001 - RM400,000	1	1
RM1,050,001 - RM1,100,000	1	-
RM1,100,001 - RM1,150,000	-	1
Non-Executive Directors:		
RM50,001 - RM100,000	4	4
RM200,001 - RM250,000	1	-
RM350,001 - RM400,000	1	1
RM650,001 - RM700,000	-	1
RM1,050,001 - RM1,100,000	2	1
RM1,100,001 - RM1,150,000	-	1

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

8. INCOME TAX EXPENSE

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Tax expense for the year:				
Current tax	1,553,000	2,290,087	2,447,740	1,953,240
(Over)/underprovision in prior years	(295,602)	1,331,859	4,995	592
	1,257,398	3,621,946	2,452,735	1,953,832
Deferred tax (Note 21):				
Relating to origination and reversal of temporary differences	16,375	155,789	1,000	1,000
Relating to changes in tax rates	(207,181)	(652,300)	-	-
Underprovision in prior years	300,560	32,019	7,000	-
	109,754	(464,492)	8,000	1,000
Total income tax expense	1,367,152	3,157,454	2,460,735	1,954,832

Domestic income tax is calculated at the Malaysian statutory tax rate of 27% (2006 : 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008 and to 25%, in the subsequent year of assessment. The computation of deferred tax as at 31 December, 2007 has reflected these changes.

Notes to the Financial Statements

31 December, 2007 (cont'd)

8. INCOME TAX EXPENSE (cont'd)

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:

Group	2007 RM	2006 RM
Profit before taxation	6,124,537	9,964,305
Taxation at Malaysian statutory tax rate of 27% (2006 : 28%)	1,653,625	2,790,005
Effect of preferential tax rate of 20% (2006 : 20%) on chargeable income for qualified small and medium enterprise	(35,000)	(40,000)
Effect of changes in tax rates	(207,181)	(652,300)
Effect of other expenses not deductible for tax purposes	416,296	573,774
Effect of expenses with double deduction	(300,447)	(406,191)
Effect of utilisation of reinvestment allowances	(165,099)	(471,712)
(Over)/underprovision of income tax expense in prior years	(295,602)	1,331,859
Underprovision of deferred tax in prior years	300,560	32,019
Tax expense for the year	1,367,152	3,157,454
Company		
Profit before taxation	8,922,581	6,735,490
Taxation at Malaysian statutory tax rate of 27% (2006 : 28%)	2,409,097	1,885,937
Effect of other expenses not deductible for tax purposes	39,643	68,303
Underprovision of income tax expense in prior year	4,995	592
Underprovision of deferred tax in prior year	7,000	-
Tax expense for the year	2,460,735	1,954,832

9. EARNINGS PER SHARE

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.

	2007	Group 2006
Profit attributable to ordinary equity holders of the Company (RM)	4,757,385	6,806,851
Weighted average number of ordinary shares in issue	60,000,000	60,000,000
Basic earnings per share (sen)	7.9	11.3
Diluted earnings per share (sen)	7.9	11.3

Notes to the Financial Statements

31 December, 2007 (cont'd)

10. DIVIDENDS

	Amount		Dividends per Share	
	2007 RM	2006 RM	2007 Sen	2006 Sen
Interim dividend:				
10% less 27% taxation (2006 : 10% less 28% taxation)	4,380,000	4,320,000	7.30	7.20
Special dividend:				
5% less 27% taxation (2006 : Nil)	2,190,000	-	3.65	-
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	6,570,000	4,320,000	10.95	7.20
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Notes to the Financial Statements

31 December, 2007 (cont'd)

11. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings RM	Long term leasehold buildings RM	Shortterm leasehold buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
At 31 December, 2007							
Cost or Valuation							
At 1 January, 2007	-	-	-	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
Additions	19,272,845	911,286	18,061,381	53,688,591	13,576,496	6,226,243	111,736,842
Disposals/written off	183,088	-	1,398,456	1,027,790	1,762,259	2,222,781	6,594,374
Reclassification	-	-	(34,086)	(121,891)	(1,603,522)	(65,972)	(1,825,471)
	-	-	-	-	1,390	(1,390)	-
At end of the year	19,455,933	911,286	19,425,751	54,594,490	13,736,623	8,381,662	116,505,745
Representing:							
At cost	-	-	-	54,594,490	13,736,623	8,381,662	76,712,775
At valuation	19,455,933	911,286	19,425,751	-	-	-	39,792,970
At 31 December, 2007	19,455,933	911,286	19,425,751	54,594,490	13,736,623	8,381,662	116,505,745
Accumulated Depreciation							
At 1 January, 2007	1,575,089	61,387	1,557,459	27,713,767	8,818,899	2,847,088	42,573,689
Charge for the year (Note 5)	362,687	16,998	356,808	2,669,928	867,313	643,337	4,917,071
Disposals/written off	-	-	(7,533)	(98,282)	(1,115,929)	(46,422)	(1,268,166)
At 31 December, 2007	1,937,776	78,385	1,906,734	30,285,413	8,570,283	3,444,003	46,222,594
Net Carrying Amount							
At cost	-	-	-	24,309,077	5,166,340	4,937,659	34,413,076
At valuation	17,518,157	832,901	17,519,017	-	-	-	35,870,075
At 31 December, 2007	17,518,157	832,901	17,519,017	24,309,077	5,166,340	4,937,659	70,283,151

Notes to the Financial Statements

31 December, 2007 (cont'd)

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Freehold land and buildings RM	Long term leasehold buildings RM	Shortterm leasehold buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
At 31 December, 2006							
Cost or Valuation							
At 1 January, 2006	-	-	-	50,431,255	13,555,206	5,543,089	69,529,550
At cost	17,716,458	911,286	15,904,592	-	-	-	34,532,336
At valuation	17,716,458	911,286	15,904,592	50,431,255	13,555,206	5,543,089	104,061,886
Additions	244,905	-	621,208	878,495	896,614	6,578,533	9,219,755
Disposals/written off	-	-	(47,736)	(542,395)	(875,324)	(79,344)	(1,544,799)
Reclassification	1,311,482	-	1,583,317	2,921,236	-	(5,816,035)	-
At 31 December, 2006	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
Accumulated Depreciation							
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/written 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
Net Carrying Amount							
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

31 December, 2007 (cont'd)

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Company	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Total RM
Cost				
At 1 January/31 December, 2007	31,649	12,691	666,851	711,191
Accumulated Depreciation				
At 1 January, 2007	21,634	7,667	272,401	301,702
Charge for the year (Note 5)	1,195	502	78,890	80,587
At 31 December, 2007	22,829	8,169	351,291	382,289
Net Carrying Amount	8,820	4,522	315,560	328,902
Cost				
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
Accumulated Depreciation				
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
Net Carrying Amount	10,015	5,024	394,450	409,489

- (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, 2007, had the revalued land and buildings of the Group been carried under the cost model, the carrying amount would have been RM27,273,765 (2006 : RM26,776,159).

- (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. No impairment loss was recognised during the year. 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 RM1,235,303 (2006 : RM1,390).

Notes to the Financial Statements

31 December, 2007 (cont'd)

12. INVESTMENT PROPERTIES

	2007 RM	Group 2006 RM
Cost Model		
At 1 January	1,915,808	1,935,186
Less: Charge for the year (Note 5)	(16,082)	(19,378)
At 31 December	1,899,726	1,915,808
Fair value of investment properties	2,225,541	2,241,623

13. PREPAID LAND LEASE PAYMENTS

	2007 RM	Group 2006 RM
At 1 January	3,803,261	3,910,102
Additions	955,411	-
Amortisation for the year (Note 5)	(106,841)	(106,841)
At 31 December	4,651,831	3,803,261
Analysed as:		
Long term leasehold land	882,167	894,778
Short term leasehold land	3,769,664	2,908,483
	4,651,831	3,803,261

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

	2007 RM	Company 2006 RM
Unquoted shares at cost	65,327,211	65,327,211

Notes to the Financial Statements

31 December, 2007 (cont'd)

14. INVESTMENT IN SUBSIDIARIES (cont'd)

The subsidiary companies are:

Name of Subsidiaries	Country of Incorporation	Effective Equity Interest		Principal Activities
		2007	2006	
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.

15. GOODWILL ON CONSOLIDATION

	2007 RM	Group 2006 RM
At 1 January/At 31 December	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. This subsidiary is considered as a CGU to which the goodwill was attached for the impairment test.

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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

15. GOODWILL ON CONSOLIDATION (cont'd)

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

	2007 RM	Group 2006 RM
At cost:		
Raw materials	10,037,385	9,114,835
Finished goods	1,824,686	1,637,364
Spares and fuel	2,760,544	2,311,606
Trading inventories	5,291,582	5,422,039
Work-in-progress	379,102	478,149
	20,293,299	18,963,993
At net realisable value:		
Containers	1,144,993	1,049,932
	21,438,292	20,013,925

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

	2007 RM	Group 2006 RM	Company 2007 RM	Company 2006 RM
Current				
Trade receivables				
Third parties	25,607,318	30,701,883	-	-
Less : Allowance for doubtful debts	(373,407)	(356,406)	-	-
	25,233,911	30,345,477	-	-
Other receivables				
Deposits	447,486	474,598	13,000	13,000
Interest receivable from fixed and short term deposits	142,227	61,904	41,809	46,953
Prepayments	462,102	405,282	10,266	9,899
Sundry receivables	684,458	685,690	-	-
	1,736,273	1,627,474	65,075	69,852
	26,970,184	31,972,951	65,075	69,852

Notes to the Financial Statements

31 December, 2007 (cont'd)

17. TRADE AND OTHER RECEIVABLES (cont'd)

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. There is no significant concentration of credit risk. Trade receivables are non-interest bearing.

18. CASH AND BANK BALANCES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Deposits with licensed banks	10,554,348	17,232,349	3,554,348	7,232,349
Cash and bank balances	5,080,346	3,990,007	3,690,602	113,235
Cash and cash equivalents	15,634,694	21,222,356	7,244,950	7,345,584

The weighted average interest rates during the financial year and the average maturities as at balance sheet dates were as follows:

	Weighted Average Interest Rates		Average Maturities	
	2007 %	2006 %	2007 Days	2006 Days
Deposits with licensed banks	3 - 3.6	2 - 4.1	253	5 - 217

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Current				
Trade payables				
Third parties	18,317,411	19,243,200	-	-
Other payables				
Payroll liabilities	6,245,998	7,214,343	361,625	417,353
Duties and other taxes payable	742,744	1,741,955	-	-
Sundry suppliers	2,528,918	2,199,609	-	22,874
Accrued expenses	3,203,402	3,976,444	523,262	523,499
Containers refundable deposits	1,756,309	1,839,819	-	-
Amount due to a director	-	3,902	-	-
	14,477,371	16,976,072	884,887	963,726
	32,794,782	36,219,272	884,887	963,726

Notes to the Financial Statements

31 December, 2007 (cont'd)

19. TRADE AND OTHER PAYABLES (cont'd)

(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

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 (2006 : RM2,290,000), are repayable upon demand and bear interests ranging from 1%-1.5% (2006 : 1%-1.5%) above the bank's base lending rate per annum.

21. DEFERRED TAX LIABILITIES/(ASSETS)

	2007 RM	Group 2006 RM	2007 RM	Company 2006 RM
At 1 January	8,440,916	8,905,408	(2,000)	(3,000)
Recognised in income statement (Note 8)	109,754	(464,492)	8,000	1,000
Recognised in equity	(366,391)	-	-	-
At 31 December	8,184,279	8,440,916	6,000	(2,000)
Presented after appropriate offsetting as follows:				
Deferred tax assets	(1,050,966)	(1,433,633)	(9,000)	(6,000)
Deferred tax liabilities	9,235,245	9,874,549	15,000	4,000
	8,184,279	8,440,916	6,000	(2,000)

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:

	Property, Plant and Equipment RM	Revaluation of Property, Plant and Equipment RM	Total RM
At 1 January, 2007	7,472,725	2,401,824	9,874,549
Recognised in income statement	(266,047)	(6,866)	(272,913)
Recognised in equity	-	(366,391)	(366,391)
At 31 December, 2007	7,206,678	2,028,567	9,235,245

Notes to the Financial Statements

31 December, 2007 (cont'd)

21. DEFERRED TAX LIABILITIES/(ASSETS) (cont'd)

Deferred Tax Liabilities of the Group: (cont'd)

	Property, Plant and Equipment 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

Deferred Tax Assets of the Group:

	Unutilised Losses RM	Unabsorbed Capital Allowances RM	Others RM	Total RM
At 1 January, 2007	(622,000)	(307,000)	(504,633)	(1,433,633)
Recognised in income statement	106,615	217,631	58,421	382,667
At 31 December, 2007	(515,385)	(89,369)	(446,212)	(1,050,966)
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)

Deferred Tax Liability of the Company:

	Property, Plant and Equipment 2007 RM	2006 RM
At 1 January	4,000	-
Recognised in income statement	11,000	4,000
At 31 December	15,000	4,000

Deferred Tax Asset of the Company:

	Others 2007 RM	2006 RM
At 1 January	(6,000)	(3,000)
Recognised in income statement	(3,000)	(3,000)
At 31 December	(9,000)	(6,000)

Notes to the Financial Statements

31 December, 2007 (cont'd)

22. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each		Amount	
	2007	2006	2007 RM	2006 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 revaluation reserve represents the unrealised surplus arising from the revaluation of freehold and leasehold land and building, net of deferred taxation.

24. RETAINED PROFITS

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December, 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December, 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December, 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the 108 balance as at 31 December, 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December, 2007, the Company has sufficient credit in the 108 balance and tax exempt account to pay franked dividends out of its retained earnings.

The above are subject to agreement with the Inland Revenue Board.

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	2007 RM	2006 RM
Group			
Rental of premises payable to:			
- Hup Seng Brothers Holdings Sdn. Bhd.	(i)	145,200	138,150
- Tiong Bee Industries Sdn. Bhd.	(ii)	60,000	54,000
Purchase of packing materials:			
- Tomypak Holdings Berhad	(iii)	3,056,123	2,512,152

Notes to the Financial Statements

31 December, 2007 (cont'd)

25. RELATED PARTY TRANSACTIONS (cont'd)

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: (cont'd)

	Note	2007 RM	2006 RM
Company			
From subsidiary companies:			
Dividend received		10,962,000	8,958,000

The Directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established under mutually agreed terms.

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 a subsidiary is also a substantial shareholder of Tomypak Holdings Berhad and a shareholder of Hup Seng Industries Berhad.

26. CAPITAL COMMITMENTS

	2007 RM	Group 2006 RM
Capital expenditure:		
Contracted but not provided for property, plant and equipment	2,365,915	3,078,222

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 were utilised as at the balance sheet date and the outstanding bank guarantee as at balance sheet date is RM707,350 (2006 : RM953,100).

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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

28. SEGMENTAL REPORTING (cont'd)

	Malaysia		Overseas		Consolidated	
	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM
Revenue						
Revenue from external customers by location of customers	138,708,617	140,930,301	54,406,524	47,408,020	193,115,141	188,338,321
Results						
Segment results (external)	6,385,307	9,285,184	1,785,421	2,902,881	8,170,728	12,188,065
Other income					194,764	157,462
Unallocated expenses					(2,234,183)	(2,379,972)
Finance costs					(6,772)	(1,250)
Profit before tax					6,124,537	9,964,305
Income tax expense					(1,367,152)	(3,157,454)
Net profit for the year					4,757,385	6,806,851
Assets						
Segment assets	100,867,021	111,778,047	33,694,773	30,519,093	134,561,794	142,297,140
Unallocated assets					21,937,440	21,613,433
Total assets					156,499,234	163,910,573
Liabilities						
Segment liabilities	27,695,711	35,103,642	13,697,429	12,186,774	41,393,140	47,290,416
Unallocated liabilities					899,887	967,726
Total liabilities					42,293,027	48,258,142
Other segment information						
Depreciation	3,754,135	3,761,717	1,098,431	1,085,162	4,852,566	4,846,879
Unallocated expense					80,587	119,718
					4,933,153	4,966,597
Amortisation	71,399	76,120	35,442	30,721	106,841	106,841
Capital expenditure	5,036,362	6,801,877	1,558,012	2,313,207	6,594,374	9,115,084
Unallocated expense					-	104,671
					6,594,374	9,219,755
Prepaid land lease payments	565,448	-	389,963	-	955,411	-
Non cash expense other than depreciation	259,913	640,132	9,824	103,543	269,737	743,675

Notes to the Financial Statements

31 December, 2007 (cont'd)

28. SEGMENTAL REPORTING (cont'd)

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

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

29. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The 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 deposits with licensed banks.

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.

(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.

Notes to the Financial Statements

31 December, 2007 (cont'd)

29. FINANCIAL INSTRUMENTS (cont'd)

(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, 2007

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.07 RM
Hup Seng Perusahaan Makanan (M) Sdn. Bhd.						
Lot No. 7009 (Formerly PTD 2650) No. 15, Jalan Kolek Taman Kapal Layar Tongkang Pecah 83010 Batu Pahat Johor Darul Takzim	Single-storey terrace house	Freehold	Rented out (expiring 30.04.2010)	143.0 sq. m/ 94.1 sq. m	14 years	53,170
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	8 years	13,013,866
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	25 years	14,711,209
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	-	169,200
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	17 years	126,472

List of Group Properties as at 31 December, 2007 (cont'd)

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.07 RM
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	17 years	145,295
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	28 years	192,943
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	28 years	192,943
PTD 1127 HS(D) 38435 (formerly known as HS(D) 7577) No.4, Jalan Sampan Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor	Single Storey detached Factory	60 years Leasehold (expiring on 07.11.2037)	Vacant	43,560 sq.ft	-	1,147,000

List of Group Properties as at 31 December, 2007 (cont'd)

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.07 RM
Hup Seng Hoon Yong Brothers Sdn. Bhd.						
Lot 63763, 63775 & 63776 No.4 & 4A,28 & 28A and 30 & 30A Jln Harilela, Taman Harilela, 31350 Ipoh, Perak	Double storey shophouses	Freehold	4-Rented out (expiring 30.09.2009) 4A-Rented out (expiring 30.09.2009) 28-Rented out (expiring 30.09.2008) 28A-Staff hostel 30-Vacant 30A-Staff hostel	5,226 sq. ft./ 10,078 sq. ft.	18 years	419,340
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	12 years	400,204
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	10 years	756,285

List of Group Properties as at 31 December, 2007 (cont'd)

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.07 RM
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-Vacant 1325A-Staff hostel	371.7 sq. m/ 743.4 sq. m	18 years	554,417
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	Vacant	362.4 sq. m/ 641.1 sq. m	17 years	382,356
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	9 years	256,473
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	28 years	184,891
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.	9 years	958,783

List of Group Properties as at 31 December, 2007 (cont'd)

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.07 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 31.10.2008)	1,770 sq. m/ 577.5 sq. m	9 years	678,703
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 31.10.2008)	1,208 sq. m/ 577.5 sq. m	9 years	542,134
Lot 6574 Mukim of Linau District of Batu Pahat Johor Darul Takzim	Industrial land	Freehold	Car park	9,704.38 sq. m	-	2,274,676
In-Comix Food Industries Sdn. Bhd.						
Plo No.94, Kawasan Perindustrian Senai 3, Jalan Cyber 6, 81400 Senai, Johor Darul Takzim	Double-storey detached factory	60 years leasehold (expiring 24.11.2057)	Warehouse/ office/ factory	6,313.10 sq. m/ 5,246.80 sq.m	10 years	5,261,272

Statement of Shareholdings

as at 31 March, 2008

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
7	Less than 100	260	0.00
1,065	100 to 1,000	1,035,040	1.73
960	1,001 to 10,000	4,076,100	6.79
201	10,001 to 100,000	6,429,400	10.71
37	100,001 to less than 5% of issued shares	15,573,200	25.96
1	5% and above of issued shares	32,886,000	54.81
2,271		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	32,886,000	54.81
2. Leong Pai Nyok	2,900,000	4.83
3. Chang Kwee Lan	2,298,000	3.83
4. Cekap Kapital Sdn Bhd	1,546,000	2.58
5. Goh Siew Kiew	1,093,000	1.82
6. Chang Yang @ Chen Yong	756,000	1.26
7. Bank Kerjasama Rakyat Malaysia Berhad	547,100	0.91
8. Malaysian Reinsurance Berhad	500,000	0.83
9. Noorhayati Binti Kamaluddin	499,200	0.83
10. TCL Nominees (Asing) Sdn Bhd Pledged Securities Account for Lim Hun Swee	407,800	0.68
11. Ker (Kerk) Kim Tim @ Kerk Choo Ting	288,000	0.48
12. Kerk Han Meng	282,000	0.47
13. Chong Swee Ching	273,000	0.46
14. Toh Kam Choy	266,700	0.44
15. Ke (Kek) Kim Soon @ Kerk Choo Soon	260,000	0.43
16. Teo Lee Tong	238,000	0.40
17. Teo Lee Teck	238,000	0.40
18. Keh (Kerk) Chu Koh	220,000	0.37
19. Kerk Kar Han	219,000	0.37
20. Malaysian Reinsurance Berhad	208,400	0.35
21. Malaysian Reinsurance Berhad	202,600	0.34
22. Kerk Chian Tung	200,000	0.33

Statement of Shareholdings as at 31 March, 2008 (cont'd)

TOP THIRTY LARGEST SHAREHOLDERS (cont'd)

No. Name of Shareholder	No. of Shares Held	Percentage of Shares
23. Kuo Chee Ching	176,000	0.29
24. Ang Kim Bock	170,000	0.28
25. Bong Sin Construction Company Sdn Berhad	167,900	0.28
26. Chong Swee Ching	155,000	0.26
27. EB Nominees (Tempatan) Sendirian Berhad Pledged Securities Account for Lee Yu Yong @ Lee Yuen Ying	154,000	0.26
28. Nam Heng Oil Mill Company Sdn Berhad	150,000	0.25
29. Chan Wai May	139,000	0.23
30. Teo Lay Gak	132,000	0.22

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	32,886,000	54.81	-	-
2. Kuo Choo Song	90,000	0.15	33,567,000*	55.95
3. Tan Siew Kee	-	-	32,886,000#	54.81
4. Kuo Chee Ching	176,000	0.29	32,886,000#	54.81
5. Kuo Chee Hau	48,000	0.08	32,886,000#	54.81
6. Kuo Chee Joo	75,000	0.13	32,886,000#	54.81
7. Kuo Chee Kian	47,000	0.08	32,886,000#	54.81
8. Kuo Chee Koon	61,000	0.10	32,886,000#	54.81
9. Kuo Chee Yoong	55,000	0.09	32,886,000#	54.81
10. Kuo Liong Yok	100,000	0.17	32,886,000#	54.81
11. Ke (Kek) Kim Soon @ Kerk Choo Soon	260,000	0.43	32,886,000#	54.81
12. Sim Guat Keow @ Sim Han Che	72,000	0.12	32,886,000#	54.81
13. Kerk Han Meng	282,000	0.47	32,886,000#	54.81
14. Kerk Kar Han	219,000	0.37	32,904,000*	54.84
15. Lau Ah Chik @ Yap Swee Keow	-	-	32,886,000#	54.81
16. Teo Lay Gak	132,000	0.22	32,886,000#	54.81
17. Teo Lee Teck	238,000	0.40	32,904,000*	54.84
18. Teo Lee Tong	238,000	0.40	32,886,000#	54.81
19. Keh (Kerk) Chu Koh	338,000	0.56	33,069,000*	55.12
20. Lem Leh Lee @ Lim Mok Lee	109,000	0.18	32,886,000#	54.81
21. Dato' Seri Ker (Kerk) Kim Tim @ Kerk Choo Ting	288,000	0.48	32,886,000#	54.81
22. Datin Seri Chang Yang @ Chen Yong	756,000	1.26	32,886,000#	54.81
23. Kerk Gau Yang	24,000	0.04	32,886,000#	54.81

Statement of Shareholdings

as at 31 March, 2008 (cont'd)

Substantial Shareholders (cont'd)

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: - (cont'd)

No. Name of Shareholder	Direct Interest		Deemed Interest	
	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
24. Kerk Chong Yong	24,000	0.04	32,886,000#	54.81
25. Kerk Shiang Yih	26,000	0.04	32,886,000#	54.81

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.

* Deemed interested by virtue of his interests in HSB Group Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and Section 134 of the Companies (Amendment) Act 2007.

DIRECTORS' INTERESTS

Name of Director	Direct Interests		Deemed Interests	
	No. of Shares Held	Percentage (%)	No. of Shares Held	Percentage (%)
Keh (Kerk) Chu Koh	338,000	0.56	33,069,000	55.12*
Kerk Chiew Siong	-	-	428,000	0.71#
Kuo Choo Song	90,000	0.15	33,567,000	55.95*
Kerk Chian Tung	200,000	0.33	-	-
Teo Lee Teck	238,000	0.40	32,904,000	54.84*
Kerk Kar Han	219,000	0.37	32,904,000	54.84*
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 and Section 134 of the Companies (Amendment) Act 2007.

Deemed interested by virtue of his interest Section 134 of the Companies (Amendment) Act 2007.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Sixteenth 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, 21 May, 2008 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, 2007 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, 2007. | Resolution 2 |
| 3. To re-elect the following Directors who retire during the year in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election:- | |
| - Kerk Chiew Siong - Article 76 | Resolution 3 |
| - Woon Chin Chan - Article 76 | Resolution 4 |
| - Kerk Chian Tung - Article 76 | Resolution 5 |
| 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 6 |
| 5. To re-appoint Messrs Ernst & Young who retire as Auditors of the Company and authorise the Directors to fix their remuneration. | Resolution 7 |

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following Ordinary Resolution:-
- ORDINARY RESOLUTION 1**
PROPOSED SHAREHOLDERS' MANDATE FOR NEW RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("Proposed Shareholders' Mandate")

"THAT, subject always to the provisions of the Companies Act, 1965 ("the Act"), the Memorandum & Articles of Association of the Company, the Listing Requirements of Bursa Malaysia Securities Berhad or any other regulatory authorities, approval be and is hereby given for the Company and its subsidiaries ("HSIB Group") to enter into recurrent related party transaction of a revenue or trading nature in the ordinary course of business which are necessary for the day-to-day operations of the HSIB Group as specified in section 2.1.2 of the Company's Circular to Shareholders dated 29 April, 2008 ("Circular") on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders and that authority conferred by this resolution shall take effect immediately upon the passing of this resolution and the shareholders' mandate shall continue to be in force until:-

Notice of Annual General Meeting (cont'd)

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

whichever is the earlier;

AND THAT authority be and is hereby given to the Directors of the HSIB Group to complete and do all such acts and things (including executing such documents as may be required) to give effect to such transaction as authorised by this Ordinary Resolution.

AND THAT the estimates given on the recurrent related party transactions specified in section 2.1.2 of the Circular being provisional in nature, the Directors and/or any of them be and are hereby authorised to agree to the actual amount or amounts thereof provided always that such amount or amounts comply with the review procedures set out in section 2.1.4 of the Circular."

Resolution 8

- 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
Company Secretaries

Johor Bahru
Date: 29 April, 2008

Notice of Annual General Meeting (cont'd)

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. 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.*

EXPLANATORY NOTES ON SPECIAL BUSINESS:

1. Resolution 8

The Proposed Shareholders' Mandate for recurrent related party transaction is to facilitate transaction in the normal course of business of the Company and its subsidiaries ("the Group") which are transacted from time to time with the specified classes of related parties, provided that they are carried out on an arm's length basis and on the Group's normal commercial terms and are not prejudicial to the shareholders on terms not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders.

By obtaining the shareholders' mandate on an annual basis, the necessity to convene separate general meetings from time to time to seek shareholders' approval as and when such recurrent related party transactions occur would not arise. This would reduce substantial administrative time, inconvenience and expenses associated with the convening of such meetings, without compromising the corporate objectives of the Group or adversely affecting the business opportunities available to the Group.

Further information on Proposed Shareholders' Mandate are set out in the Circular to Shareholders of the Company which is despatched together with the Annual Report of the Company for the financial year ended 31 December, 2007.

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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 **Sixteenth 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, 21 May, 2008 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.	Receive the Audited Financial Statements for the year ended 31 December, 2007 together with the Reports of the Directors and Auditors.		
2.	Approve the payment of Directors' fees for the financial year ended 31 December, 2007.		
	Re-election of Directors retiring according to the Company's Articles of Association:		
3.	- Kerk Chiew Siong (Article 76)		
4.	- Woon Chin Chan (Article 76)		
5.	- Kerk Chian Tung (Article 76)		
6.	Re-appointment of Mr Kuo Choo Song as Director pursuant to Section 129 (6) of the Companies Act, 1965.		
7.	Re-appointment of Messrs Ernst & Young as Auditors.		
8.	Proposed Shareholders' Mandate for Recurrent Related Party Transactions ("Proposed Shareholders' Mandate")		

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 _____ 2008

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. 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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