

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2015

1. Corporate information

Hup Seng Industries Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad.

2. Basis of Preparation

These condensed consolidated interim financial statements, for the year ended 31 December 2015, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2014. The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2014.

3. Significant accounting policies

The significant accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 December 2014 except for the adoption of the following which are applicable to the financial statements and are relevant to the operations:

(i) Adoption of standards and interpretations

	Effective for annual periods beginning <u>on or after</u>
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014

The adoption of the above standards and interpretations does not have significant financial impact to the Group's consolidated financial statements for the current quarter.

(ii) Standards and interpretations issued but not yet effective

At the date of authorisation of these interim financial statements, the followings standards and interpretations were issued but not yet effective and have not been applied by the Group:

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	Effective for annual periods beginning <u>on or after</u>
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments (IFRS 9 Financial Instruments as issued by IASB in July 2014)	1 January 2018

The adoption of these standards above will have no material impact on the financial statements in the year of initial adoption.

4. Comments about seasonal or cyclical factors

The Group's business operations are normally affected by seasonal factors occurring in certain periods of the financial year, such as Hari Raya Puasa, Chinese New Year, etc.

5. Unusual Items due to their nature, size or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows for the cumulative financial period ended 31 December 2015.

6. Changes in estimates

There were no changes in estimates that have had a material effect in the current quarter results.

7. Capital management, debt and equity securities

The Group's objectives of managing capital are to safeguard the Group's ability to continue in operations as a going concern in order to provide fair returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the optimal capital structure, the Group may, from time to time, adjust the dividend payout to shareholders, return capital to shareholders and issue new shares, where

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necessary. For capital management purposes, the Group considers shareholders' equity and total liabilities to be the key components in the Group's capital structure. The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as the total liabilities to total equity. Total equity is the sum of total equity attributable to shareholders. The gearing ratio as at 31 December 2015 and 31 December 2014, which are within the Group's objectives for capital management, are as follows:

	As at 31.12.2015	As at 31.12.2014
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	79,324	71,073
Total equity	165,665	154,934
Total capital	80,000	80,000
Gearing ratio	48%	46%

The increase in the gearing ratio is mainly due to the increase in total liabilities mainly arising from dividends and others payable.

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period to date.

8. Dividends

	Date of <u>payment</u>	Cumulative to date 31.12.2015 <u>RM'000</u>
Dividend paid on ordinary shares of RM0.10 each:		
-Final dividend of 1.5sen per share (single-tier) for 2014 declared on 24 April 2015	10.06.2015	12,000
-Interim dividend of 2 sen per share (single-tier) for 2015 declared on 28 August 2015	07.10.2015	16,000
-Special dividend of 2 sen per share (single-tier) for 2015 declared on 30 November 2015	08.01.2016	16,000
		<u>44,000</u>

9. Operating Segments

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

- I. The biscuit manufacturing segment is in the business of manufacture and sales of biscuits.
- II. The beverage manufacturing segment is in the business of manufacture and wholesale of coffee mix and all kinds of foodstuff.
- III. The trading division segment is in the business of sales and distribution of biscuits, confectionery and other foodstuff.

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Quarter ended 31.12.2015	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	58,443	3,017	55,773	117,233
Profit for reportable segments	13,943	525	6,229	20,697
12 months cumulative to date				
Revenue *	207,437	10,474	204,652	422,563
Profit for reportable segments	49,019	1,379	24,696	75,094

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.12.2015	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	20,697	75,094
Profit from inter-segment sales	111	101
Other income	257	982
Unallocated expenses	(962)	(3,222)
Profit before tax	20,103	72,955

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 12 months cumulative to date are RM37,162,000 and RM135,703,000 respectively.

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	31.12.2015 RM'000	31.12.2014 RM'000	31.12.2015 RM'000	31.12.2014 RM'000
Interest income	(980)	(752)	(3,626)	(2,691)
Rental income	(5)	(5)	(20)	(20)
(Reversal of)/allowance for doubtful debts	(26)	6	56	52
Bad debts written off	38	6	99	9
Depreciation of property, plant and equipment	1,338	1,287	5,309	4,844
Loss on disposal of property, plant and equipment	1	23	141	2
Inventories written off	45	14	94	32
Reversal of impairment loss on property, plant and equipment	-	-	(15)	(42)
Property, plant and equipment written off	6	3	135	356
Realised exchange loss/(gain)	196	(53)	35	144
Unrealised exchange gain	(40)	-	(40)	-

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11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	31.12.2015	31.12.2014
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	5,764	6,300
Short-term deposits	103,558	94,208
Cash and cash equivalents	109,322	100,508
Short-term deposits of more than 3 months maturity period	10,642	300
Total cash and cash balances	<u>119,964</u>	<u>100,808</u>

12. Events after the reporting period

There were no material events subsequent to the end of the current quarter.

13. Changes in composition of the Group

There were no changes in the composition of the Group for the current quarter and financial period to date.

14. Changes in contingent liabilities and contingent assets

The Group has no contingent liabilities or contingent assets since the last annual date of the statement of financial position as at 31 December 2014.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 31 December 2015 are as follows:

Purchase of property, plant and equipment	RM'000
Contracted but not provided for	<u>124</u>

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16. Related party transactions

	Current quarter ended 31.12.2015 <u>RM</u>	12 months cumulative to date 31.12.2015 <u>RM</u>
Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. #	30,000	120,000

Note: Certain directors of the Group are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd.

The Directors are of the opinion that the above transactions have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

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17. Performance review

The Group's revenue for the current quarter ended 31 December 2015 has increased by 9% to RM80,071,000 from RM RM73,646,000 in the quarter ended 31 December 2014. Benign growth in demand for biscuits in local and export market mainly contributed to increase in sales volume.

The Group registered a profit before tax of RM20,103,000 as compared to a profit before tax of RM16,742,000 in the preceding corresponding quarter, an increase of about 20% mainly due to improved sales margin brought about by lower input costs, weak Ringgit and improved efficiency in production.

For the twelve months ended 31 December 2015, the Group's turnover grew by 9% from RM262,218,000 to RM286,860,000 for the same period last year driven by both domestic and export sales. Cream Crackers continued to be the strong performer in terms of growth for the Group during the year.

The Group registered a profit before tax of RM72,955,000 as compared to a profit before tax of RM51,725,000 in the preceding corresponding period. The increase in profit before tax is mainly due to the improved sales margin brought about by lower input costs, weak Ringgit and improved efficiency in production. The increase in sales volume also contributed to the improvement in profit before tax.

18. Comment of material change in profit before taxation

Group's revenue has increased 24% to RM80,071,000 in the current quarter ended 31 December 2015 as compared to RM64,443,000 in the preceding quarter in the absence of effects of seasonality as experienced in the previous quarter.

Profit before tax has increased significantly by 30% to RM20,103,000 as compared to RM15,474,000 in the preceding quarter as a result of higher biscuits sales in domestic and export market.

19. Commentary of prospects

With sustained weakness in crude oil prices and growing fears of slow economic growth in China, the operating environment worldwide is expected to face more headwinds ahead. These prompted the government to revise the budget for 2016 with proactive measures to ensure the economy will grow despite the challenging times. Malaysian economy is expected to slow to 4%-4.5% in 2016 from 4.5%-5.5% in 2015 according to official forecasts.

To prepare for tougher market conditions in 2016, the Group will focus more on productivity improvement in all areas of operation. Notwithstanding that, the Group will continue to identify business or investment opportunities for expansion to enhance shareholders' value.

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20. Profit forecast or profit guarantee

The disclosure requirements for explanatory notes for the variance of actual profit after tax and non-controlling interest and forecast profit after tax and non-controlling interest and for the shortfall in profit guarantee are not applicable.

21. Income tax expense

	Quarter ended		12 months cumulative to date	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	4,962	3,831	18,792	13,432
-Deferred taxation	(246)	315	(568)	146
	<u>4,716</u>	<u>4,146</u>	<u>18,224</u>	<u>13,578</u>

Major components of tax expenses

	Current Quarter ended 31.12.2015 RM'000	12 months cumulative to date 31.12.2015 RM'000
Current tax expense	4,962	18,792
Deferred tax expense	(246)	(568)
	<u>4,716</u>	<u>18,224</u>
Profit before taxation	20,103	72,955
Taxation at the Malaysian statutory tax rate of 25%	5,026	18,239
Adjustments:		
-Effect of changes in tax rates	(92)	(350)
-Non-deductible expenses	284	1,010
-Expenses with double deduction	(186)	(314)
-Benefits from utilization of tax incentive	(324)	(324)
-Under/(over)provision in prior year	8	(37)
Income tax expense	<u>4,716</u>	<u>18,224</u>
Effective tax rate	23.5%	25%

22. Sale of unquoted investments and properties

There were no sale of unquoted investments and properties for the current quarter and financial year to date.

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23. Quoted securities

There were no purchase and sale of quoted securities for the current quarter and financial year to date.

24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 18 February 2016.

25. Borrowings and debt securities

There were no group borrowings and debt securities as at the end of the reporting period.

26. Derivative financial instruments

As at the reporting date of 31 December 2015, the Group has no outstanding derivative financial instruments.

27. Gains / Losses arising from fair value changes of financial liabilities

There are no gains/losses arising from fair value changes of any financial liabilities.

28. Breakdown of realised and unrealised profit or losses of the Group

	At end of current quarter 31.12.2015 <u>RM'000</u>	At end of preceding quarter 30.09.2015 <u>RM'000</u>
Total retained profits		
Realised	127,021	128,002
Unrealised	1,549	1,265
	<hr/>	<hr/>
	128,570	129,267
Less: Consolidation adjustments	(42,905)	(42,989)
Retained profits as per statement of financial position	<hr/>	<hr/>
	85,665	86,278

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 18 February 2016.

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30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment of an interim dividend of 2 sen per ordinary share of RM0.10 each under single tier system for the financial quarter under review. The entitlement date will be announced in due course.

31. Earnings per share

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

	Quarter ended		12 months cumulative to date	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
(a) Basic				
Profit for the period (RM'000)	15,387	12,596	54,731	38,147
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000	800,000	800,000
Basic earnings per share (sen)	1.92	1.57	6.84	4.77
(b) Diluted				
Diluted earnings per share (sen)	1.92	1.57	6.84	4.77

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2014 was not qualified.

33. Authorization for Issue

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the directors on 18 February 2016.