

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 June 2016

The figures have not been audited

	Note	<u>2016</u> CURRENT QUARTER ENDED 30 June RM'000	<u>2015</u> CURRENT QUARTER ENDED 30 June RM'000	<u>2016</u> 6 MONTHS CUMULATIVE TO DATE RM'000	<u>2015</u> 6 MONTHS CUMULATIVE TO DATE RM'000
Revenue		65,853	71,240	138,260	142,346
Cost of sales		(39,425)	(40,204)	(80,878)	(82,443)
Gross profit		26,428	31,036	57,382	59,903
Other income		1,041	1,081	2,243	2,110
Administrative expenses		(5,270)	(4,686)	(10,593)	(9,403)
Selling and marketing expenses		(8,208)	(7,856)	(16,840)	(15,232)
Operating profit		13,991	19,575	32,192	37,378
Finance cost		-	-	-	-
Profit before tax	10	13,991	19,575	32,192	37,378
Income tax expense	21	(3,561)	(5,025)	(8,167)	(9,599)
Profit for the period		10,430	14,550	24,025	27,779
Total comprehensive income for the period, net of tax		10,430	14,550	24,025	27,779
Profit attributable to :					
Owners of the Parent		10,430	14,550	24,025	27,779
Total Comprehensive Income for the period, net of tax attributable to :					
Owners of the Parent		10,430	14,550	24,025	27,779
Earnings per share attributable to Owners of the Parent (sen) :					
-Basic	31(a)	1.30	1.82	3.00	3.47
-Diluted	31(b)	1.30	1.82	3.00	3.47

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements)

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Financial Position****As at 30 June 2016****The figures have not been audited**

	Note	As at 30/06/2016 RM'000	As at 31/12/2015 RM'000
<u>ASSETS:</u>			
Non-current assets:			
Property, Plant and Equipment		63,363	64,653
Investment property		212	214
Deferred tax assets		68	37
<i>Sub total</i>		63,643	64,904
Current assets:			
Inventories		24,598	22,074
Trade and other receivables		30,160	37,261
Prepayments		18,527	786
Cash and cash equivalents	11	92,533	119,964
<i>Sub total</i>		165,818	180,085
TOTAL ASSETS		229,461	244,989
<u>EQUITY AND LIABILITIES:</u>			
Equity attributable to Owners of the Company :			
Share capital		80,000	80,000
Retained earnings		93,690	85,665
TOTAL EQUITY		173,690	165,665
Non-current liabilities :			
Deferred tax liabilities		7,287	7,306
<i>Sub total</i>		7,287	7,306
Current liabilities:			
Trade and other payables		40,382	49,072
Income tax payable		8,102	6,946
Dividends payable		-	16,000
<i>Sub total</i>		48,484	72,018
TOTAL LIABILITIES		55,771	79,324
TOTAL EQUITY AND LIABILITIES		229,461	244,989

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements)

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Changes in Equity****The figures have not been audited****For the period ended 30 June 2016**

	Attributable to owners of the parent		
	Non-distributable	Distributable	Total
	Share capital RM'000	Retained earnings RM'000	
Opening balance at 1 January 2016	80,000	85,665	165,665
Total comprehensive income for the period	-	24,025	24,025
Transaction with the owners			
Dividends on ordinary shares	-	(16,000)	(16,000)
Total transaction with the owners	-	(16,000)	(16,000)
Closing balance at 30 June 2016	80,000	93,690	173,690

For the corresponding period ended 30 June 2015

	Attributable to owners of the parent		
	Non-distributable	Distributable	Total
	Share capital RM'000	Retained earnings RM'000	
Opening balance at 1 January 2015	80,000	74,934	154,934
Total comprehensive income for the period	-	27,779	27,779
Transaction with the owners			
Dividends on ordinary share	-	(12,000)	(12,000)
Total transaction with the owners	-	(12,000)	(12,000)
Closing balance at 30 June 2015	80,000	90,713	170,713

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements)

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2016

The figures have not been audited

	Note	<u>2016</u> 6 months ended 30/06/2016 RM'000	<u>2015</u> 6 months ended 30/06/2015 RM'000
Cash flows from operating activities:			
Profit before tax		32,192	37,378
Adjustments for:			
Allowance for doubtful debts		25	87
Bad debts written off		3	51
Depreciation of property, plant and equipment		2,651	2,615
Loss on disposal of property, plant and equipment		19	4
Interest income		(1,784)	(1,669)
Reversal of impairment loss on property, plant and equipment		-	(15)
Inventories written off		20	24
Property, plant and equipment written off		4	109
Total adjustments		938	1,206
Operating profit before changes in working capital		33,130	38,584
Changes in working capital			
Increase in inventories		(2,544)	(1,744)
Decrease in trade and other receivables		7,073	2,310
Increase in prepayments		(17,741)	(680)
Decrease in trade and other payables		(8,690)	(6,506)
Total changes in working capital		(21,902)	(6,620)
Cash flows from operations		11,228	31,964
Taxes paid		(7,062)	(4,569)
Net cash flows from operating activities		4,166	27,395
Cash flows from investing activities			
Withdrawal of deposits for more than 3 months maturity with licensed bank		5,139	-
Interest received		1,784	1,669
Proceeds from disposal of property, plant and equipment		41	26
Purchase of property, plant and equipment		(1,423)	(1,609)
Net cash from investing activities		5,541	86
Cash flows from financing activities			
Dividends paid on ordinary shares		(32,000)	(24,000)
Net cash used in financing activities		(32,000)	(24,000)
Net (decrease)/increase in cash and cash equivalents		(22,293)	3,481
Cash and cash equivalents at beginning of financial year		109,323	100,508
Cash and cash equivalents at end of financial period	11	87,030	103,989

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements)

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2016

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 period ended 30 June 2016, 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 2015. 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 2015.

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 2015 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>
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, 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

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.

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Part A: Explanatory notes pursuant to MFRS 134

For the period ended 30 June 2016

(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:

	Effective for annual periods beginning <u>on or after</u>
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 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
MFRS15 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
MFRS 16 Leases	1 January 2019

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 30 June 2016.

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 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 30 June 2016 and 31 December 2015, which are within the Group's objectives for capital management, are as follows:

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Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2016

	As at 30.06.2016 <u>RM'000</u>	As at 31.12.2015 <u>RM'000</u>
Total liabilities	55,771	79,324
Total equity	173,690	165,665
Total capital	80,000	80,000
Gearing ratio	32%	48%

The decrease in the gearing ratio is mainly due to the decrease in trade and other payables.

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 30.06.2016 <u>RM'000</u>
Dividend paid on ordinary shares of RM0.10 each: -Interim dividend of 2 sen per share (single-tier) for 2015 declared on 7 March 2016	13.04.2016	<u>16,000</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.

Quarter ended 30.06.2016	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	48,451	2,351	48,249	99,051
Profit for reportable segments	9,381	54	5,329	14,764
6 months cumulative to date				
Revenue *	100,551	5,013	102,567	208,131
Profit for reportable segments	20,956	381	12,218	33,555

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Part A: Explanatory notes pursuant to MFRS 134

For the period ended 30 June 2016

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.06.2016	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	14,764	33,555
Profit from inter-segment sales	(78)	(138)
Other income	206	473
Unallocated expenses	(901)	(1,698)
Profit before tax	13,991	32,192

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 6 months cumulative to date are RM33,198,000 and RM69,871,000 respectively.

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest income	(873)	(891)	(1,784)	(1,669)
Rental income	(5)	(5)	(10)	(10)
Allowance for doubtful debts	7	(4)	25	87
Bad debts written off	2	15	3	51
Depreciation of property, plant and equipment	1,328	1,319	2,651	2,615
Loss on disposal of property, plant and equipment	-	-	-	4
Inventories written off	10	8	20	24
Reversal of impairment loss on property, plant and equipment	-	(15)	-	(15)
Property, plant and equipment written off	2	15	4	109
Realised exchange loss/(gain)	149	8	372	(63)

11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	30.06.2016	31.12.2015
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	5,196	5,764
Short-term deposits	81,834	103,558
Cash and cash equivalents	<u>87,030</u>	<u>109,322</u>
Short-term deposits of more than 3 months maturity period	5,503	10,642
Total cash and cash balances	<u>92,533</u>	<u>119,964</u>

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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 2015.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 30 June 2016 are as follows:

	RM'000
Contracted but not provided for:	
Purchase plant and equipment	<u>213</u>

16. Related party transactions

	Current quarter ended 30.06.2016 <u>RM</u>	6 months cumulative to date 30.06.2016 <u>RM</u>
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>60,000</u>

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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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2016

17. Performance review

The Group's revenue for the current quarter ended 30 June 2016 has decreased by 8% to RM65,853,000 from RM71,240,000 in the quarter ended 30 June 2015 mainly due to slower demand for domestic and export market.

The Group register a profit before tax of RM13,991,000 as compared to a profit before tax of RM19,575,000 in the preceding corresponding quarter, a decrease of nearly 29% as a result of lower sales recorded, higher input costs, accelerating operating and promotional expenses.

The Group's revenue for the six months ended 30 June 2016 has decreased 3% to RM138,260,000 from RM142,346,000 as compared with the preceding year corresponding period as a result of lower demand for export market.

The profit before tax has decreased to RM32,192,000 when compared with the preceding year corresponding period of RM37,378,000. The low export revenue, higher input costs, accelerating operating, advertisement and promotional expenses had resulted in the fall of profit before tax.

18. Comment of material change in profit before taxation

Group's revenue has decreased 10% to RM65,853,000 in the current quarter ended 30 June 2016 as compared to RM72,407,000 in the preceding quarter mainly as a result of slower demand in domestic market.

Profit before tax has decreased significantly by 23% to RM13,991,000 as compared to RM18,201,000 in the preceding quarter mainly due to lower sales recorded, the volatility of the Ringgit against foreign currencies and higher input costs incurred during the current quarter.

19. Commentary of prospects

The external environment is expected to remain tough with global growth slipping, a slowing Chinese economy and now the ripple aftermath effect from Brexit. However, the Group will focus more on production efficiency improvement. The Group will also continue to identify investment opportunities for expansion to grow its business. The Group's latest long term plan is to expand and increase its factory capacities for the next phase of growth.

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.

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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
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21. Income tax expense

	Quarter ended		6 months cumulative to date	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	3,507	5,143	8,217	9,751
-Deferred taxation	54	(118)	(50)	(152)
	<u>3,561</u>	<u>5,025</u>	<u>8,167</u>	<u>9,599</u>

Major components of tax expenses

	Current Quarter end 30.06.2016 RM'000	6 months cumulative to date 30.06.2016 RM'000
Current tax expense	3,507	8,217
Deferred tax expense	54	(50)
	<u>3,561</u>	<u>8,167</u>
Profit before taxation	13,991	32,192
Taxation at the Malaysian statutory tax rate of 24%	3,358	7,726
Adjustments:		
-Non-deductible expenses	305	569
-Expenses with double deduction	(102)	(128)
Income tax expense	<u>3,561</u>	<u>8,167</u>
Effective tax rate	25.5%	25.4%

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.

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 August 2016, except for the following:

Hup Seng Perusahaan Makanan (M) Sdn Bhd (“HSPM”), a wholly owned subsidiary of the Company had on 9 March 2016 entered into the following agreements:

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(i). A sale and purchase agreement with Syarikat Koon Fuat Industries Sdn Bhd (“SKFI”) for the proposed acquisition of a piece of land in Mukim Linau, Daerah Batu Pahat, Negeri Johor measuring in aggregate approximately 1.1875 acre together with a 3 storey factory building cum office for a total cash consideration of RM4,399,000 (inclusive of Goods and Services Tax (“GST”)); and

(ii). A sale and purchase agreement with SKFI for the proposed acquisition of a piece of land in Mukim Linau, Daerah Batu Pahat, Negeri Johor measuring in aggregate approximately 15428.6156 square metres (3a.3r.10p.) together with 5 units of building for a total cash consideration of RM13,091,000 (inclusive of GST).

This transaction was announced to Bursa Malaysia Securities Berhad on 9 March 2016.

The proposed acquisition for (i) and (ii) are pending completion.

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 30 June 2016, 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 30.06.2016 RM'000	At end of preceding quarter 31.03.2016 RM'000
Total retained profits		
Realised	142,742	132,199
Unrealised	1,559	1,613
	<hr/>	<hr/>
	144,301	133,812
Less: Consolidation adjustments	(50,611)	(50,552)
Retained profits as per statement of financial position	<hr/> <hr/>	<hr/> <hr/>
	93,690	83,260

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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2016

29. Changes in material litigation

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

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		6 months cumulative to date	
	30.06.2016	30.06.2015	30.06.2016	30.06.2015
(a) Basic				
Profit for the period (RM'000)	10,430	14,550	24,025	27,779
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000	800,000	800,000
Basic earnings per share (sen)	1.30	1.82	3.00	3.47
(b) Diluted				
Diluted earnings per share (sen)	1.30	1.82	3.00	3.47

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2015 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 August 2016.