

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Comprehensive Income****For the period ended 31 December 2016****The figures have not been audited**

	Note	<u>2016</u> CURRENT QUARTER ENDED 31 December RM'000	<u>2015</u> CURRENT QUARTER ENDED 31 December RM'000	<u>2016</u> 12 MONTHS CUMULATIVE TO DATE RM'000	<u>2015</u> 12 MONTHS CUMULATIVE TO DATE RM'000
Revenue		82,797	80,071	285,645	286,860
Cost of sales		(49,699)	(44,805)	(169,945)	(164,571)
Gross profit		33,098	35,266	115,700	122,289
Other income		1,058	1,184	4,300	4,313
Administrative expenses		(4,456)	(5,752)	(19,938)	(19,824)
Selling and marketing expenses		(8,974)	(10,595)	(33,766)	(33,823)
Operating profit		20,726	20,103	66,296	72,955
Finance cost		-	-	-	-
Profit before tax	10	20,726	20,103	66,296	72,955
Income tax expense	21	(5,302)	(4,716)	(16,890)	(18,224)
Profit for the period		15,424	15,387	49,406	54,731
Total comprehensive income for the period, net of tax		15,424	15,387	49,406	54,731
Profit attributable to : Owners of the Parent		15,424	15,387	49,406	54,731
Total Comprehensive Income for the period, net of tax attributable to : Owners of the Parent		15,424	15,387	49,406	54,731
Earnings per share attributable to Owners of the Parent (sen) :					
-Basic	31(a)	1.93	1.92	6.18	6.84
-Diluted	31(b)	1.93	1.92	6.18	6.84

(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 31 December 2016****The figures have not been audited**

	Note	As at 31/12/2016 RM'000	As at 31/12/2015 RM'000
<u>ASSETS:</u>			
Non-current assets:			
Property, Plant and Equipment		77,086	64,653
Investment property		213	214
Deferred tax assets		55	37
<i>Sub total</i>		77,354	64,904
Current assets:			
Inventories		22,780	22,074
Trade and other receivables		38,720	37,261
Prepayments		798	786
Cash and cash equivalents	11	105,694	119,964
<i>Sub total</i>		167,992	180,085
TOTAL ASSETS		245,346	244,989
<u>EQUITY AND LIABILITIES:</u>			
Equity attributable to Owners of the Company :			
Share capital		80,000	80,000
Retained earnings		103,071	85,665
TOTAL EQUITY		183,071	165,665
Non-current liabilities :			
Deferred tax liabilities		6,959	7,306
<i>Sub total</i>		6,959	7,306
Current liabilities:			
Trade and other payables		49,700	49,072
Income tax payable		5,616	6,946
Dividends payable		-	16,000
<i>Sub total</i>		55,316	72,018
TOTAL LIABILITIES		62,275	79,324
TOTAL EQUITY AND LIABILITIES		245,346	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)

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INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Changes in Equity****The figures have not been audited****For the period ended 31 December 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	-	49,406	49,406
Transaction with the owners			
Dividends on ordinary shares	-	(32,000)	(32,000)
Total transaction with the owners	-	(32,000)	(32,000)
Closing balance at 31 December 2016	80,000	103,071	183,071

**For the corresponding period
ended 31 December 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	-	54,731	54,731
Transaction with the owners			
Dividends on ordinary share	-	(44,000)	(44,000)
Total transaction with the owners	-	(44,000)	(44,000)
Closing balance at 31 December 2015	80,000	85,665	165,665

(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)

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INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows

For the period ended 31 December 2016

The figures have not been audited

	Note	<u>2016</u> 12 months ended 31/12/2016 RM'000	<u>2015</u> 12 months ended 31/12/2015 RM'000
Cash flows from operating activities:			
Profit before tax		66,296	72,955
Adjustments for:			
Allowance for doubtful debts		53	56
Bad debts written off		8	99
Depreciation of property, plant and equipment		5,996	5,309
Loss on disposal of property, plant and equipment		74	141
Interest income		(3,423)	(3,626)
Reversal of impairment loss on property, plant and equipment		-	(15)
Inventories written off		62	94
Property, plant and equipment written off		38	135
Unrealised exchange gain		(33)	(40)
Total adjustments		2,775	2,153
Operating profit before changes in working capital		69,071	75,108
Changes in working capital			
Increase in inventories		(768)	(1,389)
Increase in trade and other receivables		(1,487)	(1,858)
Increase in prepayments		(12)	(94)
Increase in trade and other payables		628	2,497
Total changes in working capital		(1,639)	(844)
Cash flows from operations		67,432	74,264
Taxes paid		(18,586)	(16,449)
Net cash flows from operating activities		48,846	57,815
Cash flows from investing activities			
Withdrawal/(placement) of deposits for more than 3 months maturity with licensed bank		3,015	(10,342)
Interest received		3,423	3,626
Proceeds from disposal of property, plant and equipment		645	601
Purchase of property, plant and equipment		(19,185)	(2,886)
Net cash used in investing activities		(12,102)	(9,001)
Cash flows from financing activities			
Dividends paid on ordinary shares		(48,000)	(40,000)
Net cash used in financing activities		(48,000)	(40,000)
Net (decrease)/increase in cash and cash equivalents		(11,256)	8,814
Cash and cash equivalents at beginning of financial year		109,323	100,508
Cash and cash equivalents at end of financial period	11	98,067	109,322

(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 31 December 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 31 December 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

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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:

	Effective for annual periods beginning <u>on or after</u>
Amendments to MFRS 12 Disclosure of Interests in Other Entities	1 January 2017
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to MFRSs 2014-2016 Cycle	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
MFRS15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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 2016.

6. Changes in estimates

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

HUP SENG INDUSTRIES BERHAD (226098-P)
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Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2016

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

	As at 31.12.2016 <u>RM'000</u>	As at 31.12.2015 <u>RM'000</u>
Total liabilities	62,275	79,324
Total equity	183,071	165,665
Total capital	80,000	80,000
Gearing ratio	34%	48%

The decrease in the gearing ratio is mainly due to the increase in equity through net profits earned, in excess of dividends declared.

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 31.12.2016 <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	16,000
-Interim dividend of 2 sen per share (single-tier) for 2016 declared on 30 August 2016	10.10.2016	<u>16,000</u>
		<u>32,000</u>

HUP SENG INDUSTRIES BERHAD (226098-P)

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Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2016

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 31.12.2016	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	60,279	3,877	56,502	120,658
Profit for reportable segments	12,905	718	7,598	21,221
12 months cumulative to date				
Revenue *	208,835	11,264	203,117	423,216
Profit for reportable segments	42,932	1,209	24,592	68,733

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.12.2016	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	21,221	68,733
Profit from inter-segment sales	74	(56)
Other income	171	828
Unallocated expenses	(740)	(3,209)
Profit before tax	20,726	66,296

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 12 months cumulative to date are RM37,861,000 and RM137,571,000 respectively.

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Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2016

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest income	(812)	(980)	(3,423)	(3,626)
Rental income	(5)	(5)	(20)	(20)
Allowance for doubtful debts/ (write back of allowance for doubtful debts)	24	(26)	53	56
Bad debts written off	3	38	8	99
Depreciation of property, plant and equipment	1,988	1,338	5,996	5,309
Loss on disposal of property, plant and equipment	(32)	1	74	141
Inventories written off	23	45	62	94
Reversal of impairment loss on property, plant and equipment	-	-	-	(15)
Property, plant and equipment written off	6	6	38	135
Realised exchange (gain)/loss	(2)	196	420	35
Unrealised exchange gain	(33)	(40)	(33)	(40)

11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	31.12.2016	31.12.2015
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	6,737	5,764
Short-term deposits	91,330	103,558
Cash and cash equivalents	<u>98,067</u>	<u>109,322</u>
Short-term deposits of more than 3 months maturity period	7,627	10,642
Total cash and cash balances	<u><u>105,694</u></u>	<u><u>119,964</u></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.

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For the period ended 31 December 2016

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 31 December 2016 are as follows:

	RM'000
Contracted but not provided for:	
Purchase plant and equipment	<u>973</u>

16. Related party transactions

	Current quarter ended 31.12.2016 <u>RM</u>	12 months cumulative to date 31.12.2016 <u>RM</u>
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>120,000</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 31 December 2016

17. Performance review

The Group's revenue for the current quarter ended 31 December 2016 has increased by 3% to RM82,797,000 from RM80,071,000 in the quarter ended 31 December 2015. Stronger market demand for biscuits mainly contributed to the positive growth in sales.

The Group registered a profit before tax of RM20,726,000 as compared to a profit before tax of RM20,103,000 in the preceding corresponding quarter, an increase of 3% in line with higher sales recorded.

For the twelve months ended 31 December 2016, the Group's turnover slightly declined by 0.4% from RM286,860,000 to RM285,645,000 for the same period last year.

The Group registered a profit before tax of RM66,296,000 as compared to a profit before tax of RM72,955,000 in the preceding corresponding period. Unfavourable input cost trends together with higher operating expenses have resulted in lower profit before tax against the same period of last year.

18. Comment of material change in profit before taxation

Group's revenue has increased by 28% to RM82,797,000 in the current quarter ended 31 December 2016 as compared to RM64,588,000 in the preceding quarter. A significant increase in domestic demand for biscuits in the current quarter contributed to the higher sales.

Similarly, profit before tax increased by 55% to RM20,726,000 as compared to RM13,378,000 in the preceding quarter mainly a result of higher sales volume recorded in the domestic market.

19. Commentary of prospects

The Group believes that the consumer sentiment in Malaysia will remain weak in the coming year and consumers will be more discerning in their purchases. Competition is expected to remain intense across the industry.

The Group will remain profitable in year 2017 but expects to be challenging. The greatest challenge for the Group will be the rising raw materials. The Group will therefore continue its efforts to enhance operating efficiency programmes to mitigate as much as possible the impact of higher input costs.

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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
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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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	5,401	4,962	17,255	18,792
-Deferred taxation	(99)	(246)	(365)	(568)
	<u>5,302</u>	<u>4,716</u>	<u>16,890</u>	<u>18,224</u>

Major components of tax expenses

	Current	12 months
	Quarter end	cumulative
	31.12.2016	to date
	RM'000	RM'000
Current tax expense	5,401	17,255
Deferred tax expense	(99)	(365)
	<u>5,302</u>	<u>16,890</u>
Profit before taxation	20,726	66,296
Taxation at the Malaysian statutory tax rate of 24%	4,974	15,911
Adjustments:		
-Non-deductible expenses	353	1,230
-Expenses with double deduction	(25)	(251)
Income tax expense	<u>5,302</u>	<u>16,890</u>
Effective tax rate	25.6%	25.5%

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.

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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
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24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 14 February 2017.

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 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 31.12.2016 RM'000	At end of preceding quarter 30.09.2016 RM'000
Total retained profits		
Realised	151,752	136,478
Unrealised	1,868	1,775
	<hr/>	<hr/>
	153,620	138,253
Less: Consolidation adjustments	(50,549)	(50,606)
Retained profits as per statement of financial position	<hr/> <hr/>	<hr/> <hr/>
	103,071	87,647

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 14 February 2017.

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 and special dividend of 2 sen per ordinary share of RM0.10 each under single tier system for the financial quarter under review.

HUP SENG INDUSTRIES BERHAD (226098-P)
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Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
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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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
(a) Basic				
Profit for the period (RM'000)	15,424	15,387	49,406	54,731
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000	800,000	800,000
Basic earnings per share (sen)	1.93	1.92	6.18	6.84
(b) Diluted				
Diluted earnings per share (sen)	1.93	1.92	6.18	6.84

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 14 February 2017.