

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Comprehensive Income

For the period ended 31 March 2017

The figures have not been audited

	Note	<u>2017</u> CURRENT QUARTER ENDED 31 March RM'000	<u>2016</u> CURRENT QUARTER ENDED 31 March RM'000	<u>2017</u> 3 MONTHS CUMULATIVE TO DATE RM'000	<u>2016</u> 3 MONTHS CUMULATIVE TO DATE RM'000
Revenue		73,854	72,407	73,854	72,407
Cost of sales		(45,134)	(41,453)	(45,134)	(41,453)
Gross profit		28,720	30,954	28,720	30,954
Other income		1,268	1,202	1,268	1,202
Administrative expenses		(5,081)	(5,323)	(5,081)	(5,323)
Selling and marketing expenses		(9,396)	(8,632)	(9,396)	(8,632)
Operating profit		15,511	18,201	15,511	18,201
Finance cost		-	-	-	-
Profit before tax	10	15,511	18,201	15,511	18,201
Income tax expense	21	(3,932)	(4,606)	(3,932)	(4,606)
Profit for the period		11,579	13,595	11,579	13,595
Total comprehensive income for the period, net of tax		11,579	13,595	11,579	13,595
Profit attributable to : Owners of the Parent		11,579	13,595	11,579	13,595
Total Comprehensive Income for the period, net of tax attributable to : Owners of the Parent		11,579	13,595	11,579	13,595
Earnings per share attributable to Owners of the Parent (sen) :					
-Basic	31(a)	1.45	1.70	1.45	1.70
-Diluted	31(b)	1.45	1.70	1.45	1.70

(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 March 2017****The figures have not been audited**

	Note	As at 31/03/2017 RM'000	As at 31/12/2016 RM'000
<u>ASSETS:</u>			
Non-current assets:			
Property, Plant and Equipment		76,094	77,086
Investment property		212	213
Deferred tax assets		56	55
<i>Sub total</i>		76,362	77,354
Current assets:			
Inventories		24,898	22,780
Trade and other receivables		35,155	38,720
Prepayments		1,049	798
Cash and cash equivalents	11	115,391	105,694
<i>Sub total</i>		176,493	167,992
TOTAL ASSETS		252,855	245,346
<u>EQUITY AND LIABILITIES:</u>			
Equity attributable to Owners of the Company :			
Share capital		80,000	80,000
Retained earnings		82,650	103,071
TOTAL EQUITY		162,650	183,071
Non-current liabilities :			
Deferred tax liabilities		6,790	6,959
<i>Sub total</i>		6,790	6,959
Current liabilities:			
Trade and other payables		44,709	49,700
Income tax payable		6,706	5,616
Dividends payable		32,000	-
<i>Sub total</i>		83,415	55,316
TOTAL LIABILITIES		90,205	62,275
TOTAL EQUITY AND LIABILITIES		252,855	245,346

(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 March 2017**

	Attributable to owners of the parent		
	Non-distributable	Distributable	Total
	Share capital RM'000	Retained earnings RM'000	
Opening balance at 1 January 2017	80,000	103,071	183,071
Total comprehensive income for the period	-	11,579	11,579
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 March 2017	80,000	82,650	162,650

For the corresponding period ended 31 March 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	-	13,595	13,595
Transaction with the owners			
Dividends on ordinary shares	-	(16,000)	(16,000)
Total transaction with the owners	-	(16,000)	(16,000)
Closing balance at 31 March 2016	80,000	83,260	163,260

(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 31 March 2017****The figures have not been audited**

	Note	2017 3 months ended 31/03/2017 RM'000	2016 3 months ended 31/03/2016 RM'000
Cash flows from operating activities:			
Profit before tax		15,511	18,201
Adjustments for:			
Allowance for doubtful debts		15	18
Bad debts written off		-	1
Depreciation of property, plant and equipment		1,439	1,323
Gain on disposal of property, plant and equipment		(81)	-
Interest income		(918)	(911)
Inventories written off		34	10
Property, plant and equipment written off		10	2
Total adjustments		499	443
Operating profit before changes in working capital		16,010	18,644
Changes in working capital			
(Increase)/decrease in inventories		(2,152)	89
Decrease/(increase) in trade and other receivables		3,550	(1,523)
Increase in prepayments		(251)	(260)
Decrease in trade and other payables		(4,991)	(9,298)
Total changes in working capital		(3,844)	(10,992)
Cash flows from operations		12,166	7,652
Taxes paid		(3,012)	(4,085)
Net cash flows from operating activities		9,154	3,567
Cash flows from investing activities			
Deposits for more than 3 months maturity with licensed bank		(3,000)	-
Interest received		918	911
Proceeds from disposal of property, plant and equipment		154	-
Purchase of property, plant and equipment		(529)	(555)
Net cash (used in)/from investing activities		(2,457)	356
Cash flows from financing activities			
Dividends paid on ordinary shares		-	(16,000)
Net cash used in financing activities		-	(16,000)
Net increase/(decrease) in cash and cash equivalents		6,697	(12,077)
Cash and cash equivalents at beginning of financial year		98,067	109,323
Cash and cash equivalents at end of financial period	11	104,764	97,246

(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 March 2017

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 March 2017, 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 2016. 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 2016.

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 2016 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 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 12: Disclosure of Interests in Other Entities	1 January 2017

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 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
MFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS15 Revenue from Contracts with Customers	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	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 March 2017.

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 31 March 2017 and 31 December 2016, which are within the Group's objectives for capital management, are as follows:

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	As at 31.03.2017	As at 31.12.2016
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	90,205	62,275
Total equity	162,650	183,071
Total capital	80,000	80,000
Gearing ratio	55%	34%

The increase in the gearing ratio is mainly due to the increase in total liabilities mainly arising from dividend 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 31.03.2017 <u>RM'000</u>
Dividend paid on per ordinary share: -Interim dividend of 2 sen per share (single-tier) and a special dividend of 2 sen per share (single-tier) for 2016 declared on 2 March 2017	10.04.2017	<u>32,000</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 31.03.2017	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	53,994	1,960	52,829	108,783
Profit for reportable segments	8,748	83	7,331	16,162

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Part A: Explanatory notes pursuant to MFRS 134

For the period ended 31 March 2017

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.03.2017	Quarter ended RM'000
Total profit for reportable segments	16,162
Profit from inter-segment sales	(5)
Other income	170
Unallocated expenses	(816)
Profit before tax	15,511

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter is RM34,929,000.

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended	
	31.03.2017 RM'000	31.03.2016 RM'000
Interest income	(918)	(911)
Rental income	(5)	(5)
Allowance for doubtful debts	15	18
Bad debts written off	-	1
Depreciation of property, plant and equipment	1,439	1,323
Gain on disposal of property, plant and equipment	(81)	-
Inventories written off	34	10
Property, plant and equipment written off	10	2
Realised exchange loss	114	223

11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	31.03.2017 RM'000	31.12.2016 RM'000
Cash at bank and in hand	52,474	6,737
Short-term deposits	52,290	91,330
Cash and cash equivalents	104,764	98,067
Short-term deposits of more than 3 months maturity period	10,627	7,627
Total cash and cash balances	115,391	105,694

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For the period ended 31 March 2017

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 2016.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 31 March 2017 are as follows:

	RM'000
Contracted but not provided for:	
Purchase plant and equipment	<u>1,299</u>

16. Related party transactions

	Current quarter ended 31.03.2017 <u>RM</u>
Rental of premises payable to:	
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</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
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17. Performance review

The Group's revenue for the current quarter ended 31 March 2017 has increased by 2% to RM73,854,000 from RM72,407,000 in the quarter ended 31 March 2016. Export sales grew strongly by 18% propelled by higher demand mainly from Asia region; but this growth was capped by a decline in domestic market of about 3% mainly from modern trade.

The Group registered a profit before tax of RM15,511,000 as compared to a profit before tax of RM18,201,000 in the preceding corresponding quarter, a decrease of nearly 15% . The overall rise in raw material prices are the contributing factors to the falling of profit before tax.

18. Comment of material change in profit before taxation

Group's revenue has decreased 11% to RM73,854,000 in the current quarter ended 31 March 2017 as compared to RM82,797,000 in the preceding quarter mainly as a result of slower demand from both domestic and export markets. The major contributors to this reduction came equally from wholesale/retail channels in domestic market and the Asia regions (both biscuits and beverages) of export markets.

Profit before tax has decreased by about 25% to RM15,511,000 as compared to RM20,726,000 in the preceding quarter. Lower sales coupled with higher operating costs results in drop of profit before taxation.

19. Commentary of prospects

The Group will remain profitable in 2017 but expects to be operating in challenging environment amid uncertainties arise from policies shift in major economies. The Group will continue its efforts to enhance operating efficiency programmes to mitigate as much as possible the impact of higher input costs. On the other hand, the highly competitive domestic market is yet another challenge the Group needs to face. Promotion activities to create awareness are in the plan. To address potential risk of earnings erosion from domestic market, the Group is looking into expanding the export markets especially China.

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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21. Income tax expense

	3 months Quarter ended	
	31.03.2017	31.03.2016
	RM'000	RM'000
Current income tax :		
-Malaysia income tax	4,102	4,710
-Deferred taxation	(170)	(104)
	<u>3,932</u>	<u>4,606</u>

Major components of tax expenses

	3 months cumulative to date 31.03.2017 RM'000
Current tax expense	4,102
Deferred tax expense	<u>(170)</u>
	<u>3,932</u>
Profit before taxation	15,511
Taxation at the Malaysian statutory tax rate of 24%	3,723
Adjustments:	
-Non-deductible expenses	223
-Expenses with double deduction	<u>(14)</u>
Income tax expense	<u>3,932</u>
Effective tax rate	25.3%

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 15 May 2017.

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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 March 2017, 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 31.03.2017 <u>RM'000</u>	At end of preceding quarter 31.12.2016 <u>RM'000</u>
Total retained profits		
Realised	131,165	151,752
Unrealised	2,038	1,868
	<u>133,203</u>	<u>153,620</u>
Less: Consolidation adjustments	(50,553)	(50,549)
Retained profits as per statement of financial position	<u>82,650</u>	<u>103,071</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 15 May 2017.

30. Dividend payable

The Board of Directors do not recommend the payment of any dividend for the financial quarter under review.

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.

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	3 months Quarter ended	
	31.03.2017	31.03.2016
(a) Basic		
Profit for the period (RM'000)	11,579	13,595
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000
Basic earnings per share (sen)	1.45	1.70
(b) Diluted		
Diluted earnings per share (sen)	1.45	1.70

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2016 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 15 May 2017.