**HUP SENG INDUSTRIES BERHAD (226098-P)**

(Incorporated in Malaysia)

**INTERIM FINANCIAL STATEMENTS**

**Condensed Consolidated Statement of Comprehensive Income**

**For the period ended 31 December 2018**

**The figures have not been audited**

| | Note | 2018<br>CURRENT<br>QUARTER ENDED<br>31 December<br>RM'000 | 2017<br>CURRENT<br>QUARTER ENDED<br>31 December<br>RM'000 | 2018<br>12 MONTHS<br>CUMULATIVE<br>TO DATE<br>RM'000 | 2017<br>12 MONTHS<br>CUMULATIVE<br>TO DATE<br>RM'000 |
|---|---|---|---|---|---|
| Revenue | | 85,853 | 86,218 | 307,373 | 299,665 |
| Cost of sales | | (56,186) | (53,448) | (197,611) | (186,464) |
| **Gross profit** | | 29,667 | 32,770 | 109,762 | 113,201 |
| Other income | | 1,063 | 1,050 | 4,382 | 4,444 |
| Administrative expenses | | (4,856) | (5,202) | (19,825) | (20,410) |
| Selling and marketing expenses | | (8,802) | (9,765) | (36,541) | (37,849) |
| **Operating profit** | | 17,072 | 18,853 | 57,778 | 59,386 |
| Finance cost | | - | - | - | - |
| **Profit before tax** | 10 | **17,072** | **18,853** | **57,778** | **59,386** |
| Income tax expense | 23 | (4,337) | (4,469) | (14,819) | (14,939) |
| **Profit for the period** | | **12,735** | **14,384** | **42,959** | **44,447** |
| **Total comprehensive income for the period, net of tax** | | **12,735** | **14,384** | **42,959** | **44,447** |
| Profit attributable to :<br>Owners of the Parent | | 12,735 | 14,384 | 42,959 | 44,447 |
| Total Comprehensive Income for the period, net of tax attributable to :<br>Owners of the Parent | | 12,735 | 14,384 | 42,959 | 44,447 |
| Earnings per share attributable to Owners of the Parent (sen) : | | | | | |
| -Basic | 32(a) | 1.59 | 1.80 | 5.37 | 5.56 |
| -Diluted | 32(b) | 1.59 | 1.80 | 5.37 | 5.56 |

*( 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 2018**

**The figures have not been audited**

| | Note | As at 31/12/2018 RM'000 | As at 31/12/2017 RM'000 |
|---|---|---|---|
| **ASSETS:** | | | |
| **Non-current assets:** | | | |
| Property, Plant and Equipment | | 75,681 | 77,689 |
| Investment property | | 209 | 211 |
| Deferred tax assets | | 72 | 39 |
| Prepayments for acquisition of property, plant and equipment | | 3,025 | - |
| *Sub total* | | 78,987 | 77,939 |
| **Current assets:** | | | |
| Inventories | | 25,414 | 24,858 |
| Trade and other receivables | 11 | 35,167 | 40,535 |
| Prepayments | | 576 | 723 |
| Cash and cash equivalents | 12 | 96,320 | 99,026 |
| *Sub total* | | 157,477 | 165,142 |
| **TOTAL ASSETS** | | **236,464** | **243,081** |
| **EQUITY AND LIABILITIES:** | | | |
| **Equity attributable to Owners of the Company :** | | | |
| Share capital | | 80,000 | 80,000 |
| Retained earnings | | 78,270 | 83,518 |
| **TOTAL EQUITY** *Sub total* | | **158,270** | **163,518** |
| **Non-current liabilities :** | | | |
| Deferred tax liabilities | | 5,912 | 6,344 |
| *Sub total* | | 5,912 | 6,344 |
| **Current liabilities:** | | | |
| Trade and other payables | | 49,319 | 53,097 |
| Contract liabilities | | 2,513 | - |
| Income tax payable | | 4,450 | 4,122 |
| Dividends payable | | 16,000 | 16,000 |
| *Sub total* | | 72,282 | 73,219 |
| **TOTAL LIABILITIES** | | **78,194** | **79,563** |
| **TOTAL EQUITY AND LIABILITIES** | | **236,464** | **243,081** |

*( 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 31 December 2018**

| | Attributable to owners of the parent | | |
|---|---|---|---|
| | Non-distributable | Distributable | |
| | Share capital RM'000 | Retained earnings RM'000 | Total RM'000 |
| **Opening balance at 1 January 2018** | 80,000 | 83,518 | 163,518 |
| Opening balance adjustment from the adoption of MFRS 9 | - | (207) | (207) |
| **At 1 January 2018, as restated** | 80,000 | 83,311 | 163,311 |
| Total comprehensive income for the period | - | 42,959 | 42,959 |
| Transaction with the owners | | | |
| Dividends on ordinary shares | - | (48,000) | (48,000) |
| Total transaction with the owners | - | (48,000) | (48,000) |
| **Closing balance at 31 December 2018** | **80,000** | **78,270** | **158,270** |

**For the corresponding period ended 31 December 2017**

| | Attributable to owners of the parent | | |
|---|---|---|---|
| | Non-distributable | Distributable | |
| | Share capital RM'000 | Retained earnings RM'000 | Total RM'000 |
| **Opening balance at 1 January 2017** | 80,000 | 103,071 | 183,071 |
| Total comprehensive income for the period | - | 44,447 | 44,447 |
| Transaction with the owners | | | |
| Dividends on ordinary shares | - | (64,000) | (64,000) |
| Total transaction with the owners | - | (64,000) | (64,000) |
| **Closing balance at 31 December 2017** | **80,000** | **83,518** | **163,518** |

*( 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 December 2018**

**The figures have not been audited**

| | Note | 2018<br>12 months<br>ended<br>31/12/2018<br>RM'000 | 2017<br>12 months<br>ended<br>31/12/2017<br>RM'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Profit before tax** | | **57,778** | **59,386** |
| Adjustments for: | | | |
| (Reversal of)/allowance for doubtful debts | | (67) | 57 |
| Bad debts written off | | 40 | 11 |
| Depreciation of property, plant and equipment | | 5,672 | 5,824 |
| Gain on disposal of property, plant and equipment | | (300) | (82) |
| Interest income | | (3,104) | (3,364) |
| Inventories written off | | 57 | 130 |
| Property, plant and equipment written off | | 443 | 425 |
| Total adjustments | | 2,741 | 3,001 |
| | | | |
| Operating profit before changes in working capital | | 60,519 | 62,387 |
| | | | |
| Changes in working capital | | | |
| Increase in inventories | | (613) | (5,183) |
| Decrease/(increase) in trade and other receivables | | 5,123 | (1,884) |
| (Increase)/decrease in prepayments | | (2,878) | 76 |
| (Decrease)/increase in trade and other payables | | (1,265) | 3,396 |
| Total changes in working capital | | 367 | (3,595) |
| | | | |
| Cash flows from operations | | 60,886 | 58,792 |
| Taxes paid | | (14,891) | (17,032) |
| **Net cash flows from operating activities** | | **45,995** | **41,760** |
| | | | |
| **Cash flows from investing activities** | | | |
| Placement of deposits with more than 3 months with | | | |
| licensed bank | | (803) | (570) |
| Interest received | | 3,104 | 3,364 |
| Proceeds from disposal of property, plant and equipment | | 406 | 226 |
| Purchase of property, plant and equipment | | (4,211) | (4,018) |
| **Net cash used in investing activities** | | **(1,504)** | **(998)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid on ordinary shares | | (48,000) | (48,000) |
| **Net cash used in financing activities** | | (48,000) | (48,000) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(3,509)** | **(7,238)** |
| **Cash and cash equivalents at beginning of financial year** | | **90,829** | **98,067** |
| **Cash and cash equivalents at end of financial period** | 12 | **87,320** | **90,829** |

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2018

## 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 2018, 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 2017. 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 2017.

## 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 2017, 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

| Description | Effective for annual periods beginning on or after |
|---|---|
| MFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2) | 1 January 2018 |
| MFRS 9 Financial Instruments | 1 January 2018 |
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to MFRS 140: Transfers of Investment Property | 1 January 2018 |
| Annual Improvements to MFRSs 2014-2016 Cycle | 1 January 2018 |
| IC Interpretation 22: Foreign Currency Transactions and Advance Consideration | 1 January 2018 |

The adoption of the above standards and interpretations do not have significant financial impact to the Group's consolidated financial statements for the current quarter, except as discussed below:

**MFRS 15 Revenue from Contracts with Customers**

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including

MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group adopts MFRS 15 using the modified retrospective method. The directors have assessed the effects of applying the new standard on the Group's financial statements and have identified the following areas that are affected.

(i) Variable consideration – trade incentive

Prior to the adoption of MFRS 15, the Group recognised trade incentives and certain consideration payable to customers as administrative, selling and marketing expenses. Under MFRS 15, trade incentive and certain consideration payable to customers are considered a variable consideration because it affects the amount of consideration to which the Group will be entitled to receive from the customer. The Group decided to use the most likely amount method to estimate the amount of trade incentive. Upon adoption of MFRS 15, administrative expenses of RM258,316 and selling and marketing expenses of RM5,544,734 have been classified as a reduction in revenue for the 12 months period ended 31 December 2018.

| Impact on the statement of comprehensive income for the 12 months ended 31 December 2018: | |
|---|---|
| | RM |
| Decrease in revenue | 5,803,050 |
| Decrease in selling and marketing expenses | 5,544,734 |
| Decrease in administrative expenses | 258,316 |
| Net impact on profit for the period | - |

(ii) Presentation and disclosure requirements

The Group disaggregated revenue recognised from contract with customers into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to below for the disclosure on disaggregated revenue.

Revenue from contracts with customer

| Segments | Biscuit manufacturing division RM'000 | Beverage manufacturing division RM'000 | Trading division RM'000 | Total RM'000 |
|---|---|---|---|---|
| For 12 months ended 31.12.2018 | | | | |
| Sale/Total revenue from contracts with customers | 226,594 | 9,196 | 219,239 | 455,029 |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time/Total revenue from contracts with customers | 226,594 | 9,196 | 219,239 | 455,029 |
| For 12 months ended 31.12.2017 | | | | |
| Sale/Total revenue from contracts with customers | 218,743 | 9,659 | 210,843 | 439,245 |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time/Total revenue from contracts with customers | 218,743 | 9,659 | 210,843 | 439,245 |

Sales reported above represents sales generated from the reportable segments. Inter-segment sales for the 12 months period ended 31.12.2018 and 31.12.2017 are RM147,656,000 and RM139,580,000 respectively.

**MFRS 9 Financial Instruments**

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. Retrospective application is required, but comparative information is not compulsory.

(i) Classification and measurement

Based on the assessment performed by the directors of the Company on the basis of facts and circumstances that exist at 31 December 2018, the Group does not have a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of MFRS 9, as the Group only has loans and receivables which are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyses the contractual cash flow characteristics of these instruments and conclude that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

(ii) Impairment

The Group has applied the simplified approach and record lifetime expected losses on all receivables and there were no significant impact on the Group's financial performance and position, except that the allowance accounts has increased by RM272,000 as at 1 January 2018 as a result of applying the expected credit losses model on receivables. As permitted by the transitional provisions of MFRS 9, the Group has opt not to restate comparative figures and thus these adjustments were recognised in the opening retained earnings of the current period.

(iii) Hedge accounting

The Group does not apply hedge accounting, hence no impact on the Group's financial statements upon application of the hedging requirements of MFRS 9.

(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:

| Description | Effective for annual periods beginning on or after |
|---|---|
| Amendments to MFRS 9: Prepayment Features with Negative Compensation | 1 January 2019 |
| MFRS 16 Leases | 1 January 2019 |
| Annual Improvements to MFRS Standards 2015-2017 Cycle | 1 January 2019 |
| Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| IC Interpretation 23: Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| Amendments to MFRS 2 Share-based Payment | 1 January 2020 |
| Amendments to MFRS 3 Business Combinations | 1 January 2020 |
| Amendments to MFRS 6 Exploration for and Evaluation of Mineral Resources | 1 January 2020 |
| Amendments to MFRS 14 Regulatory Deferral Accounts | 1 January 2020 |
| Amendments to MFRS 101 Presentation of Financial Statements | 1 January 2020 |
| Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors | 1 January 2020 |
| Amendments to MFRS 134 Interim Financial Reporting | 1 January 2020 |
| Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets | 1 January 2020 |
| Amendments to MFRS 138 Intangible Assets | 1 January 2020 |

| | |
|---|---|
| Amendments to IC Interpretation 12 Service Concession Arrangements | 1 January 2020 |
| Amendments to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments | 1 January 2020 |
| Amendments to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine | 1 January 2020 |
| Amendments to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration | 1 January 2020 |
| Amendments to IC Interpretation 132 Intangible Assets – Web Site Costs | 1 January 2020 |
| MFRS 17 Insurance Contracts | 1 January 2021 |
| 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 2018.

**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 December 2018 and 31 December 2017, which are within the Group's objectives for capital management, are as follows:

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2018

| | As at 31.12.2018 RM'000 | As at 31.12.2017 RM'000 |
|---|---|---|
| Total liabilities | 78,194 | 79,563 |
| Total equity | 158,270 | 163,518 |
| Total capital | 80,000 | 80,000 |
| Gearing ratio | 49% | 49% |

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 payment | Cumulative to date 31.12.2018 RM'000 |
|---|---|---|
| Dividend paid on per ordinary share: | | |
| - Third Interim dividend of 2 sen per share (single-tier) for 2017 declared on 26 February 2018 | 03.04.2018 | 16,000 |
| - Interim dividend of 2 sen per share (single-tier) for 2018 declared on 30 August 2018 | 09.10.2018 | 16,000 |
| -Second interim dividend of 2 sen per share (single-tier) for 2018 declared on 30 November 2018 | 08.01.2019 | 16,000 |
| | | 48,000 |

## 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 31.12.2018** | Biscuit manufacturing division RM'000 | Beverage manufacturing division RM'000 | Trading division RM'000 | Total RM'000 |
|---|---|---|---|---|
| Revenue * | 65,199 | 2,244 | 58,490 | 125,933 |
| Profit for reportable segments | 10,186 | 205 | 7,403 | 17,794 |
| **12months cumulative to date** | | | | |
| Revenue * | 226,594 | 9,196 | 219,239 | 455,029 |
| Profit for reportable segments | 31,501 | 805 | 28,119 | 60,425 |

Reconciliation of profit or loss

| Profit or loss for the financial period ended 31.12.2018 | Quarter ended RM'000 | Cumulative to date RM'000 |
|---|---|---|
| Total profit for reportable segments | 17,794 | 60,425 |
| Profit from inter-segment sales | (68) | (134) |
| Other income | 201 | 818 |
| Unallocated expenses | (855) | (3,331) |
| Profit before tax | 17,072 | 57,778 |

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 12 months cumulative to date are RM40,080,000 and RM147,656,000 respectively.

Trading division mainly comprises domestic sales. Biscuit remain the dominant range which represents about 95% of the total sales, while beverages and other agents' products make up the balance. The comments on Note 19 apply to the above three reportable operating segments.

**10. Profit before tax**

Included in the profit before tax are the following items:

| | Quarter ended | | Cumulative to date | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest income | (794) | (813) | (3,104) | (3,364) |
| Rental income | (3) | (6) | (18) | (21) |
| Reversal of impairment losses on trade receivable (Note 11) | - | (4) | (32) | (13) |
| Allowance for doubtful debts (Note 11) | (118) | 5 | (67) | 57 |
| Bad debts written off | 14 | 2 | 40 | 11 |
| Depreciation of property, plant and equipment | 1,441 | 1,484 | 5,672 | 5,824 |
| Gain on disposal of property, plant and equipment | (77) | (3) | (300) | (82) |
| Inventories written off | 17 | 63 | 57 | 130 |
| Property, plant and equipment written off | 102 | 405 | 443 | 425 |
| Realised exchange losses | 128 | 213 | 594 | 536 |

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 2018

## 11. Trade and other receivables

| | As at 31.12.2018 RM'000 | As at 31.12.2017 RM'000 |
|---|---|---|
| Trade receivables | | |
| Third parties | 34,702 | 39,992 |
| Less: Allowance for doubtful debts | (326) | (252) |
| Trade receivables, net | 34,376 | 39,740 |
| Other receivables | 791 | 795 |
| Total trade and other receivables | 35,167 | 40,535 |

**Trade receivables**

The ageing analysis of the Group's trade receivables is as follows:

| | As at 31.12.2018 RM'000 | As at 31.12.2017 RM'000 |
|---|---|---|
| Neither past due nor impaired | 24,401 | 29,918 |
| 1 to 30 days past due not impaired | 8,588 | 7,996 |
| 31 to 60 days past due not impaired | 1,105 | 1,135 |
| 61 to 90 days past due not impaired | 137 | 552 |
| 91 to 120 days past due not impaired | 74 | 89 |
| More than 121 days past due not impaired | 71 | 50 |
| | 9,975 | 9,822 |
| Impaired | 326 | 252 |
| | 34,702 | 39,992 |

<u>Receivables that are impaired</u>

Movement in allowance accounts :

| | 31.12.2018 RM'000 | 31.12.2017 RM'000 |
|---|---|---|
| At 1 January | 252 | 224 |
| Amounts restated through opening retained earnings | 272 | - |
| At 1 January-calculated under MFRS 9 | 524 | 224 |
| Charge for the period/year (Note 10) | (67) | 57 |
| Written off | (99) | (16) |
| Reversal of impairment losses (Note 10) | (32) | (13) |
| | 326 | 252 |

## 12. Cash and bank balances

Cash and bank balances comprised the following amounts:

| | As at | |
|---|---|---|
| | 31.12.2018 | 31.12.2017 |
| | RM'000 | RM'000 |
| Cash and bank balances | 11,220 | 11,329 |
| Short-term deposits with licensed banks | 76,100 | 79,500 |
| Cash and cash equivalents | 87,320 | 90,829 |
| Long-term deposits of more than 3 months with licensed banks | 9,000 | 8,197 |
| | 96,320 | 99,026 |

## 13. Foreign exchange exposure

The Group's exposures to foreign currency are as follows:

| | As at | |
|---|---|---|
| | 31.12.2018 | 31.12.2017 |
| | RM'000 | RM'000 |
| Trade and other receivables | | |
| United States Dollars | 1,064 | 2,449 |
| Singapore Dollars | 2,115 | 2,459 |

## 14. Events after the reporting period

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

## 15. 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.

## 16. 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 2017.

## 17. Capital commitments

Approved capital commitments not recognised in the interim financial statements as at 31 December 2018 are as follows:

| | RM'000 |
|---|---|
| Contracted but not provided for: | |
| Purchase of a new production line | 8,937 |
| Purchase of plant and equipment | 2,465 |
| | 11,402 |

## 18. Related party transactions

| | Current quarter ended 31.12.2018 RM | 12 months cumulative to date 31.12.2018 RM |
|---|---|---|
| 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.

## HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part B: Explanatory notes pursuant to Main Market Listing Requirements of Bursa Malaysia Securities Berhad

For the period ended 31 December 2018

### 19. Performance review

**Financial review for current quarter and financial year to date**

| | 3 months Quarter ended | | Changes | | 12 months cumulative to date | | Changes | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2018 RM'000 | 31.12.2017 RM'000 | Amount RM'000 | % | 31.12.2018 RM'000 | 31.12.2017 RM'000 | Amount RM'000 | % |
| Revenue | 85,853 | 86,218 | (365) | (0) | 307,373 | 299,665 | 7,708 | 3 |
| Operating profit | 17,072 | 18,853 | (1,781) | (9) | 57,778 | 59,386 | (1,608) | (3) |
| Profit before interest and tax | 17,072 | 18,853 | (1,781) | (9) | 57,778 | 59,386 | (1,608) | (3) |
| Profit before tax | 17,072 | 18,853 | (1,781) | (9) | 57,778 | 59,386 | (1,608) | (3) |
| Profit after tax | 12,735 | 14,384 | (1,649) | (11) | 42,959 | 44,447 | (1,488) | (3) |
| Profit attributable to: | | | | | | | | |
| Owners of the Parent | 12,735 | 14,384 | (1,649) | (11) | 42,959 | 44,447 | (1,488) | (3) |

The Group’s revenue for the current quarter ended 31 December 2018 has slightly decreased by 0.4% to RM85,853,000 from RM86,218,000 in the quarter ended 31 December 2017. Domestic sales registered a drop of 2% or about RM1.2 million mainly due to reclassification of a certain consideration payable to customers under selling and marketing expenses as a reduction in revenue during the current quarter. Export sales grew by 3% or 0.8 million mainly contributed from China.

The Group registered a profit before tax of RM17,072,000 as compared to a profit before tax of RM18,853,000 in the preceding corresponding quarter, a decrease of about 9% mainly due to poorer margin in certain segment couple with higher incentive and promotional sponsorship activities given to the distributors during the current quarter.

The Group’s revenue for the twelve months ended 31 December 2018 has increased by 3% to RM307,373,000 from RM299,665,000 as compared with the preceding year corresponding period. Domestic sales registered an increase of 4% or RM8 million, mainly from modern and wholesale channels. On the export front, although biscuit volume saw an increase of about 8%, sale revenue increased by a mere 0.4% or RM0.3 million mainly impacted by the exchange fluctuation of Ringgit Malaysia during the year.

Profit before tax has decreased by 3% to RM57,778,000 when compared with the preceding year corresponding period of RM59,386,000. The recorded margin at 18.8% has not been able to improve from 19.8% achieved in the corresponding period of last year mainly due to higher operating costs and lower revenue from export markets impacted by the exchange fluctuation of Ringgit Malaysia especially in the first half of this year.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 31 December 2018

## 20. Comment of material change in profit before taxation

**Financial review for current quarter compared with immediate preceding quarter**

| | Current quarter | Immediate preceding quarter | Changes | |
|---|---|---|---|---|
| | 31.12.2018 RM'000 | 30.09.2018 RM'000 | Amount RM'000 | % |
| Revenue | 85,853 | 74,639 | 11,214 | 15 |
| Operating profit | 17,072 | 13,926 | 3,146 | 23 |
| Profit before interest and tax | 17,072 | 13,926 | 3,146 | 23 |
| Profit before tax | 17,072 | 13,926 | 3,146 | 23 |
| Profit after tax | 12,735 | 10,346 | 2,389 | 23 |
| Profit attributable to: Owners of the Parent | 12,735 | 10,346 | 2,389 | 23 |

The Group's revenue has increased by 15% to RM85,853,000 in the current quarter ended 31 December 2018 as compared to RM RM74,639,000 in the preceding quarter. A significant increase in both export and domestic demand for biscuits in the current quarter contributed to the higher sales.

Similarly, profit before tax has increased by 23% to RM17,072,000 as compared to RM13,926,000 in the preceding quarter mainly a result of higher sales in both domestic and export market.

## 21. Commentary of prospects

The operating environment over the next six months is expecting weak domestic growth, uncertainty in global demand and prudent investment in business expansion. Faced with uncertain global and domestic economic prospects, consumer will once again expected to be more prudent with their spending, leading to weaker sentiment on retail consumption for 2019. The Group witnessed some margin compression arising from costs pressures amid continued growth in revenue. Nevertheless, the Group will continue its efforts to enhance operating efficiency to mitigate as much as possible the impact of higher input costs. The Group will continue to focus in improving the Group's performance by innovating products portfolio, broadening the distributor network to safeguard the Group's revenue and profitability

## 22. 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.

**23. Income tax expense**

| | 3 months Quarter ended | | 12 months cumulative to date | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current income tax : | | | | |
| -Malaysia income tax | 4,545 | 4,584 | 15,219 | 15,539 |
| -Deferred taxation | (208) | (115) | (400) | (600) |
| | 4,337 | 4,469 | 14,819 | 14,939 |

Major components of tax expenses

| | Current Quarter ended 31.12.2018 RM'000 | 12 months cumulative to date 31.12.2018 RM'000 |
|---|---|---|
| Current tax expense | 4,545 | 15,219 |
| Deferred tax expense | (208) | (400) |
| | 4,337 | 14,819 |
| Profit before taxation | 17,072 | 57,778 |
| Taxation at the Malaysian statutory tax rate of 24% | 4,097 | 13,867 |
| Adjustments: | | |
| -Non-deductible expenses | 247 | 992 |
| -Expenses with double deduction | (7) | (40) |
| Income tax expense | 4,337 | 14,819 |
| Effective tax rate | 25.4% | 25.6% |

**24. Sale of unquoted investments and properties**

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

**25. Quoted securities**

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

**26. Corporate proposals**

There were no corporate proposals announced but not completed not earlier than seven (7) days from 19 February 2019.

**27. Borrowings and debt securities**

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

**28. Derivative financial instruments**

As at the reporting date of 31 December 2018, the Group has no outstanding derivative financial instruments.

**29. Gains/losses arising from fair value changes of financial liabilities**

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

**30. Changes in material litigation**

There were no material litigation not earlier than seven (7) days from 19 February 2019.

**31. Dividend payable**

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment of a third interim single-tier dividend of 2 sen per ordinary share in respect of the year ended 31 December 2018 for the financial quarter under review. The entitlement date will be announced in due course.

**32. 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.

| | 3 months Quarter ended | | 12 months cumulative to date | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 |
| **(a) Basic** | | | | |
| Profit for the period (RM'000) | 12,735 | 14,384 | 42,959 | 44,447 |
| Weighted average number of ordinary share for earnings per share ('000) | 800,000 | 800,000 | 800,000 | 800,000 |
| Basic earnings per share (sen) | 1.59 | 1.80 | 5.37 | 5.56 |
| **(b) Diluted** | | | | |
| Diluted earnings per share (sen) | 1.59 | 1.80 | 5.37 | 5.56 |

**33. Auditors' report on preceding annual financial statements**

The auditors' report on the financial statements for the year ended 31 December 2017 was not qualified.

**34. 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 19 February 2019.