

HUP SENG INDUSTRIES BERHAD 199101015786 (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Comprehensive Income****For the period ended 31 March 2020****The figures have not been audited**

	Note	<u>2020</u> CURRENT QUARTER ENDED 31 March RM'000	<u>2019</u> CURRENT QUARTER ENDED 31 March RM'000	<u>2020</u> 3 MONTHS CUMULATIVE TO DATE RM'000	<u>2019</u> 3 MONTHS CUMULATIVE TO DATE RM'000
Revenue		80,876	75,400	80,876	75,400
Cost of sales		(55,041)	(48,926)	(55,041)	(48,926)
Gross profit		25,835	26,474	25,835	26,474
Other income		885	1,006	885	1,006
Administrative expenses		(5,097)	(4,995)	(5,097)	(4,995)
Selling and marketing expenses		(8,505)	(8,191)	(8,505)	(8,191)
Operating profit		13,118	14,294	13,118	14,294
Finance cost		(3)	(5)	(3)	(5)
Profit before tax	10	13,115	14,289	13,115	14,289
Income tax expense	23	(3,407)	(4,194)	(3,407)	(4,194)
Profit for the period		9,708	10,095	9,708	10,095
Total comprehensive income for the period, net of tax		9,708	10,095	9,708	10,095
Profit attributable to : Owners of the Parent		9,708	10,095	9,708	10,095
Total Comprehensive Income for the period, net of tax attributable to : Owners of the Parent		9,708	10,095	9,708	10,095
Earnings per share attributable to Owners of the Parent (sen) :					
-Basic	32(a)	1.21	1.26	1.21	1.26
-Diluted	32(b)	1.21	1.26	1.21	1.26

(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 199101015786 (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS**Condensed Consolidated Statement of Financial Position****As at 31 March 2020****The figures have not been audited**

	Note	As at 31/03/2020 RM'000	As at 31/12/2019 RM'000
<u>ASSETS:</u>			
Non-current assets:			
Property, plant and equipment		78,402	79,397
Investment property		1,448	1,464
Right-of-use assets		5,764	5,817
Deferred tax assets		187	166
<i>Sub total</i>		85,801	86,844
Current assets:			
Inventories		23,465	24,297
Trade and other receivables	11	35,668	36,834
Prepayments		1,015	709
Cash and bank balances	12	56,004	85,522
<i>Sub total</i>		116,152	147,362
TOTAL ASSETS		201,953	234,206
<u>EQUITY AND LIABILITIES:</u>			
Equity attributable to			
Owners of the Company :			
Share capital		80,000	80,000
Retained earnings		65,509	71,801
TOTAL EQUITY		145,509	151,801
Non-current liabilities :			
Lease liabilities		187	141
Deferred tax liabilities		7,112	7,089
<i>Sub total</i>		7,299	7,230
Current liabilities:			
Trade and other payables		42,087	53,067
Lease liabilities		195	239
Contract liabilities		3,082	2,907
Income tax payable		3,781	2,962
Dividends payable		-	16,000
<i>Sub total</i>		49,145	75,175
TOTAL LIABILITIES		56,444	82,405
TOTAL EQUITY AND LIABILITIES		201,953	234,206

(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 199101015786 (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 March 2020**

	Attributable to owners of the parent		
	Non-distributable	Distributable	Total
	Share capital RM'000	Retained earnings RM'000	
Opening balance at 1 January 2020	80,000	71,801	151,801
Total comprehensive income for the period	-	9,708	9,708
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 2020	80,000	65,509	145,509

**For the corresponding period
ended 31 March 2019**

	Attributable to owners of the parent		
	Non-distributable	Distributable	Total
	Share capital RM'000	Retained earnings RM'000	
Opening balance at 1 January 2019	80,000	78,270	158,270
Total comprehensive income for the period	-	10,095	10,095
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 2019	80,000	72,365	152,365

(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 199101015786 (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Statement of Cash Flows

For the period ended 31 March 2020

The figures have not been audited

	Note	<u>2020</u> 3 months ended 31/03/2020 RM'000	<u>2019</u> 3 months ended 31/03/2019 RM'000
Cash flows from operating activities:			
Profit before tax		13,115	14,289
Adjustments for:			
Allowance for doubtful debts		200	32
Bad debts written off		1	-
Depreciation of property, plant and equipment		1,599	1,397
Depreciation of investment properties		6	-
Depreciation of right-of-use assets		126	75
Interest expense on lease liabilities		3	5
Interest income		(564)	(707)
Inventories written off		22	12
Property, plant and equipment written off		55	182
Reversal of impairment loss on property, plant and equipment		-	(137)
Total adjustments		1,448	859
Operating profit before changes in working capital		14,563	15,148
Changes in working capital			
Decrease in inventories		810	1,888
Decrease in trade and other receivables		965	628
Increase in prepayments		(306)	(327)
Decrease in trade and other payables		(10,805)	(10,669)
Total changes in working capital		(9,336)	(8,480)
Cash flows from operations		5,227	6,668
Interest expense on lease liabilities paid		(3)	(5)
Taxes paid		(2,587)	(3,409)
Net cash flows from operating activities		2,637	3,254
Cash flows from investing activities			
Withdrawal of deposits with more than 3 months with licensed bank		4,000	-
Interest income received		564	707
Purchase of property, plant and equipment		(649)	(1,106)
Net cash from/(used in) investing activities		3,915	(399)
Cash flows from financing activities			
Repayment for lease liabilities		(70)	(75)
Dividends paid on ordinary shares		(32,000)	(16,000)
Net cash used in financing activities		(32,070)	(16,075)
Net decrease in cash and cash equivalents		(25,518)	(13,220)
Cash and cash equivalents at beginning of financial year		76,522	87,320
Cash and cash equivalents at end of financial period	12	51,004	74,100

(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 March 2020

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 2020, 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 2019. 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 2019.

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 2019, 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 amendments

Description	Effective for annual periods beginning <u>on or after</u>
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to references to the Conceptual Framework in MFRS Standards	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020

The adoption of the above amendments do not have significant financial impact to the Group's consolidated financial statements for the current quarter.

(II) Standards and amendments issued but not yet effective

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

Description	Effective for annual periods beginning <u>on or after</u>
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The adoption of the standard and amendments above will have no material impact on the financial statements in the year of initial adoption.

4. Comments about seasonal or cyclical factors

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

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

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows for the cumulative financial period ended 31 March 2020.

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 2020 and 31 December 2019, which are within the Group's objectives for capital management, are as follows:

	As at 31.03.2020	As at 31.12.2019
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	56,444	82,405
Total equity	145,509	151,801
Total capital	80,000	80,000
Gearing ratio	39%	54%

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

The decrease in the gearing ratio is mainly due to the decrease in dividends payables and 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 payment	Cumulative to date 31.03.2020 RM'000
Dividend paid on per ordinary share:		
- Interim dividend of 2 sen per share (single-tier) for 2019 declared on 25 February 2020	01.04.2020	<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 31.03.2020	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	59,861	1,982	60,639	122,482
Profit for reportable segments	7,417	170	6,349	13,936

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.03.2020	Cumulative to date RM'000
Total profit for reportable segments	13,936
Profit from inter-segment sales	(135)
Other income	194
Unallocated expenses	(880)
Profit before tax	<u>13,115</u>

* Revenue reported above represents revenue generated from the reportable segments.
Inter-segment sales for the current quarter is RM41,606,000.

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

Trading division mainly comprises domestic sales. Biscuit remain the dominant range which represents about 94% 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	
	31.03.2020	31.03.2019
	RM'000	RM'000
Interest income	(564)	(707)
Rental income	(78)	(3)
Reversal of impairment loss on property, plant and equipment	-	(137)
Reversal of impairment losses on trade receivable (Note 11)	(2)	(5)
Bad debts written off	1	-
Allowance for doubtful debts (Note 11)	200	32
Depreciation of property, plant and equipment	1,599	1,397
Depreciation of investment properties	6	-
Depreciation of right-of-use assets	126	75
Interest expense on lease liabilities	3	5
Inventories written off	22	12
Property, plant and equipment written off	55	182
Realised exchange losses	243	151

11. Trade and other receivables

	As at	
	31.03.2020	31.12.2019
	RM'000	RM'000
Trade receivables		
Third parties	35,601	36,502
Less: Allowance for doubtful debts	(477)	(292)
Trade receivables, net	35,124	36,210
Other receivables	544	624
Total trade and other receivables	35,668	36,834

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

Trade receivables

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

	As at	
	31.03.2020	31.12.2019
	RM'000	RM'000
Neither past due nor impaired	24,973	26,591
1 to 30 days past due not impaired	8,296	8,149
31 to 60 days past due not impaired	1,599	1,327
61 to 90 days past due not impaired	176	106
91 to 120 days past due not impaired	79	30
More than 121 days past due not impaired	1	7
	10,151	9,619
Impaired	477	292
	<u>35,601</u>	<u>36,502</u>

Receivables that are impaired

Movement in allowance accounts :

At 1 January	292	326
Charge for the period/year (Note 10)	200	20
Written off	(13)	(43)
Impairment losses recovered (Note 10)	(2)	(11)
	<u>477</u>	<u>292</u>

12. Cash and bank balances

Cash and bank balances comprised the following amounts:

	As at	
	31.03.2020	31.12.2019
	RM'000	RM'000
Cash and bank balances	3,704	5,972
Short-term deposits with licensed banks	47,300	70,550
Cash and cash equivalents	51,004	76,522
Long-term deposits of more than 3 months with licensed banks	5,000	9,000
	<u>56,004</u>	<u>85,522</u>

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

13. Foreign exchange exposure

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

	As at	
	31.03.2020	31.12.2019
	<u>RM'000</u>	<u>RM'000</u>
Trade and other receivables		
United States Dollars	1,714	1,746
Singapore Dollars	1,000	3,051
	<u>1,000</u>	<u>3,051</u>

The Group does not engage in any formal hedging activities.

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 2019.

17. Capital commitments

Approved capital commitments not recognised in the interim financial statements as at 31 March 2020 are as follows:

	RM'000
Contracted but not provided for:	
Purchase of plant and equipment	<u>2,482</u>

18. Related party transactions

	Current quarter ended 31.03.2020 <u>RM</u>
Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. #	<u>22,350</u>

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Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2020

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.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 31 March 2020

19. Performance review

Financial review for current quarter

	3 months Quarter ended		Changes	
	31.03.2020 RM'000	31.03.2019 RM'000	Amount RM'000	%
Revenue	80,876	75,400	5,476	7
Operating profit	13,118	14,294	(1,176)	(8)
Profit before interest and tax	13,118	14,294	(1,176)	(8)
Finance cost	(3)	(5)	2	(40)
Profit before tax	13,115	14,289	(1,174)	(8)
Profit after tax	9,708	10,095	(387)	(4)
Profit attributable to: Owners of the Parent	9,708	10,095	(387)	(4)

The Group's revenue for the current quarter ended 31 March 2020 has increased by 7% to RM80,876,000 from RM75,400,000 in the quarter ended 31 March 2019. Domestic sales grew 6% or RM3.3 million compared to previous corresponding period mainly from modern and wholesale channel. Export market sales saw a strong increase of 12% or RM2.2 million mainly from Singapore, Myanmar and Mauritius.

The Group registered a profit before tax of RM13,115,000 as compared to a profit before tax of RM14,289,000 in the preceding corresponding quarter, a decrease of about 8%. Poorer margin in certain segment and higher input costs are the contributing factors to the falling profit before tax.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
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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	
	31.03.2020 RM'000	31.12.2019 RM'000	Amount RM'000	%
Revenue	80,876	87,798	(6,922)	(8)
Operating profit	13,118	15,933	(2,815)	(18)
Profit before interest and tax	13,118	15,933	(2,815)	(18)
Finance cost	(3)	(6)	3	(50)
Profit before tax	13,115	15,927	(2,812)	(18)
Profit after tax	9,708	12,379	(2,671)	(22)
Profit attributable to: Owners of the Parent	9,708	12,379	(2,671)	(22)

The Group's revenue has decreased 8% to RM80,876,000 in the current quarter ended 31 March 2020 as compared to RM87,798,000 in the preceding quarter mainly as a result of drop in export sales due to seasonal factors. The major contributors to this reduction came from the Asia regions a reduction of 27% or RM7.4 million. Domestic sales grew by 1% or RM0.5 million mainly from modern channel.

Profit before tax has decreased by about 18% to RM13,115,000 as compared to RM15,927,000 in the preceding quarter mainly due to lower sales recorded and higher input costs incurred during the current quarter.

21. Commentary of prospects

The outbreak of the COVID-19 pandemic has to a great extent, caused destructive power to the global economy including Malaysia. The Malaysian economy is expected to see a contraction compared to 4.3% in 2019, against a highly challenging global economic outlook. The domestic economy will be impacted by the necessary global and domestic actions taken to contain the outbreak. Apart from the pandemic, the sharp decline and volatile shifts in crude oil prices and continued supply disruption in the commodities sector will also affect the domestic economy. Faced with this situation, the Government had introduced large policy measures to mitigate the economic impact of the pandemic and provide immediate relief to affected household and businesses. On the long run, domestic growth prospects are expected to improve towards the end of the year, in line with the projected recovery in global demand and amid continued support from policy measures. Nevertheless, the Group will continue to maintain and improve product quality, innovating products portfolio, reducing costs and broadening the distributor network to safeguard revenue and addressing the needs of consumers.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 31 March 2020

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	
	31.03.2020 RM'000	31.03.2019 RM'000
Current income tax :		
-Malaysia income tax	3,405	4,211
-Deferred taxation	2	(17)
	<u>3,407</u>	<u>4,194</u>

Major components of tax expenses

	3 months cumulative to date 31.03.2020 RM'000
Current tax expense	3,405
Deferred tax expense	2
	<u>3,407</u>
Profit before taxation	13,115
Taxation at the Malaysian statutory tax rate of 24%	3,148
Adjustments:	
-Non-deductible expenses	263
-Expenses with double deduction	(4)
Income tax expense	<u>3,407</u>
Effective tax rate	26.0%

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.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 31 March 2020

26. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 20 May 2020.

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 March 2020, 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 20 May 2020.

31. Dividend payable

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

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 cumulative to date	
	31.03.2020	31.03.2019
(a) Basic		
Profit for the period (RM'000)	9,708	10,095
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000
Basic earnings per share (sen)	1.21	1.26
(b) Diluted		
Diluted earnings per share (sen)	1.21	1.26

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
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33. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2019 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 20 May 2020.