

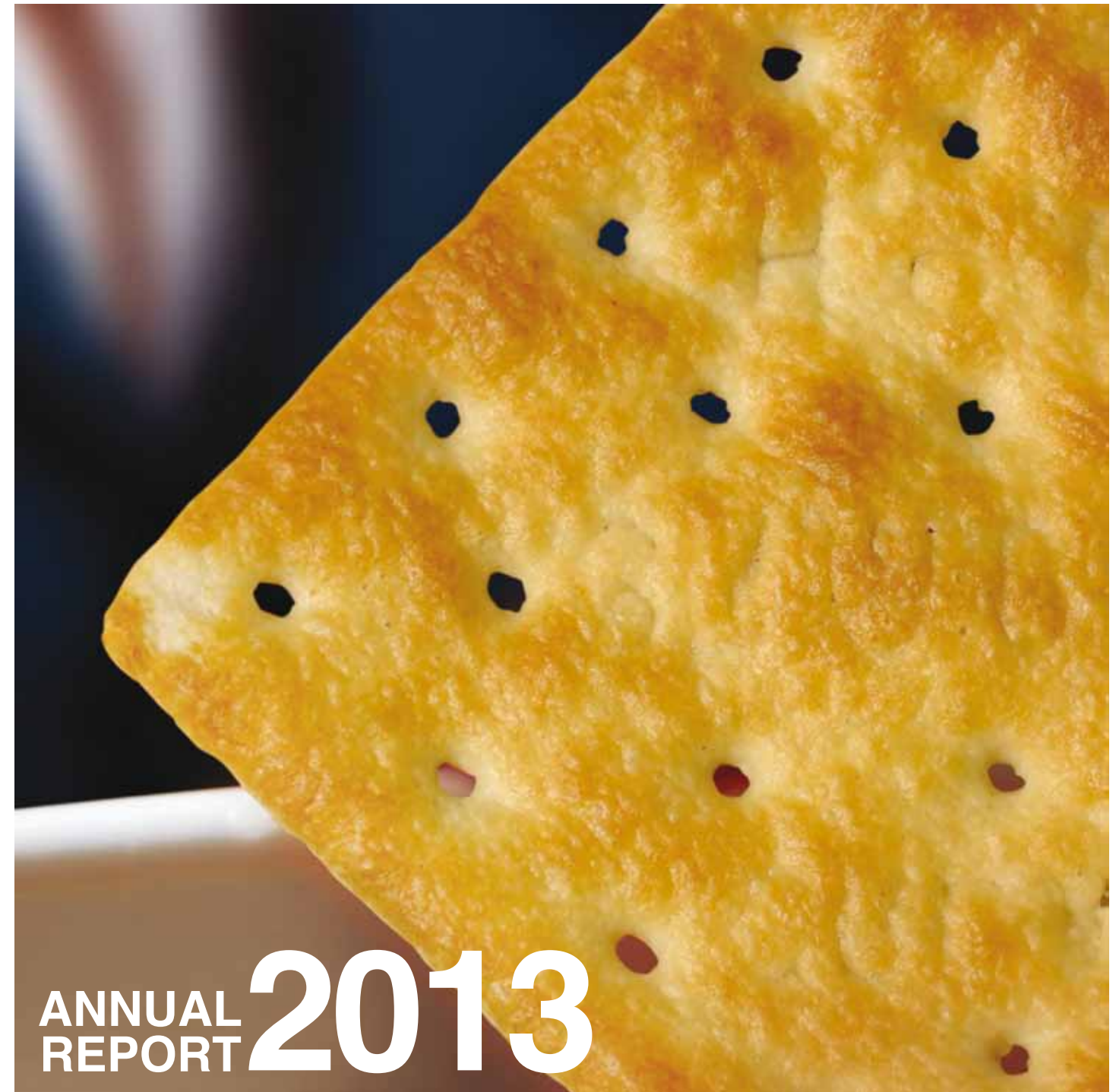


Hup Seng Industries Berhad  
(Company No: 226098-P)

Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur  
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ANNUAL REPORT 2013

Hup Seng Industries Berhad (226098-P)



# ANNUAL REPORT 2013



HUP SENG INDUSTRIES BERHAD (226098-P)

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Form of Proxy

# Corporate Information

## Directors

Y. Bhg. Dato' Keh (Kerk) Chu Koh (*Chairman*)

Kerk Chiew Siong (*Vice Chairman*)

Kuo Choo Song (*Managing Director*)

Kerk Chian Tung (*Executive Director*)

Teo Lee Teck  
(*Non-Independent Non-Executive Director*)

Kerk Kar Han  
(*Non-Independent Non-Executive Director*)

Mazrina Binti Arifin  
(*Senior Independent Non-Executive Director*)

Norita Binti Ja'afar  
(*Independent Non-Executive Director*)

Raja Khairul Anuar Bin Raja Mokhtar  
(*Independent Non-Executive Director*)

Y. Bhg. Dato' Wee Hoe Soon  
@ Gooi Hoe Soon  
(*Independent Non-Executive Director*)

Woon Chin Chan  
(*Independent Non-Executive Director,  
deceased on 9 October 2013*)

## Secretaries

Lee Wai Ngan (*LS00184*)

Chan Toye Ying (*LS00185*)

## Registered office

(w.e.f. 1 November 2013)

Plaza 138, Suite 18.03, 18th Floor  
138 Jalan Ampang  
50450 Kuala Lumpur  
Tel : (03) 2161 5466  
Fax : (03) 2163 6968

## Principal place of business

14 Jalan Kilang  
Kawasan Perindustrian Tongkang Pecah  
83010 Batu Pahat  
Johor Darul Ta'zim

## Share registrars

Symphony Share Registrars Sdn. Bhd. (378993-D)  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor  
Tel : (03) 7841 8000  
Fax : (03) 7841 8151

## Principal bankers

RHB Bank Berhad  
Malayan Banking Berhad  
Public Bank Berhad  
United Overseas Bank (Malaysia) Berhad  
HSBC Bank Malaysia Berhad

## Auditors

Ernst & Young (AF: 0039)  
Chartered Accountants

## Stock exchange listing

Main Market of Bursa Malaysia Securities Berhad  
Stock Code : 5024

# Corporate Structure



100%



HUP SENG  
PERUSAHAAN  
MAKANAN (M) SDN BHD  
(Company No. 19770-K)



合成工業有限公司  
HUP SENG  
INDUSTRIES BERHAD  
(Company No. 226098-P)

100%



HUP SENG  
HOON YONG  
BROTHERS SDN BHD  
(Company No. 31372-V)

100%



IN-COMIX FOOD  
INDUSTRIES SDN BHD  
(Company No. 180753-V)

# Chairman's Statement

On behalf of the Board of Directors of Hup Seng Industries Bhd. ("HSIB" or "the Company"), I am pleased to present the Annual Report and Audited Financial Statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 December, 2013.

## Review of the Financial Performance

We are happy to report another year of record in revenue and profits. Group achieved a 1.0% growth in revenue to RM251 million in the financial year ended 31 December, 2013 from RM248 million in the preceding year. It is indeed encouraging to see sales performance within the domestic market showing positive growth with Cream Crackers continuing to be the strong performer.

Profit before tax jumped to RM50 million from RM44 million a year ago. The underlying earnings growth came largely from improved gross profit margin of 2.1% arising mainly from favourable input costs and optimal utilization of existing operational facilities. Net profit stood at RM36.7 million which was a new record in the history of the Group.

Net assets per share stood at RM1.25 as compared to the previous corresponding year of RM1.28. Earnings per share (EPS) increased significantly from 27.12 sen in 2012 to 30.62 sen in 2013.

## Corporate Exercise

The Group has announced the following corporate exercises on 21 November, 2013 and such exercises have been subsequently duly approved by all the regulatory authorities and shareholders:

- i. share split involving the subdivision of every one (1) existing ordinary shares of RM0.50 each in the Company into five (5) new ordinary shares of RM0.10 ('Subdivided Shares') each in the Company held by shareholders of the Company;
- ii. bonus issue of 200,000,000 new Subdivided Shares ('Bonus Shares') on the basis of one (1) Bonus Share for every three (3) Subdivided Shares held.

The above corporate exercises were completed on 4 April, 2014.



### Dividend

The Board of Directors declared and paid an interim dividend of 15 sen (single tier) in 2013. Considering the bonus issue announced in November 2013, the Board of Directors recommends a further interim dividend of 5 sen and a special dividend of 3 sen, both under single tier system. With that, total dividend paid and payable for the year amounted to RM27.6 million.

### Corporate Social Responsibility

The Group recognizes the importance of a corporate culture that emphasizes good corporate social responsibility. The Group has made contributions and donations towards the local communities and various schools and associations. Committees were set up to promote awareness of safety in workplace, organizing sports activities for healthy and balanced working lifestyle for employees, encouraging networking to promote a caring culture and a sense of social responsibility among its employees.

### Outlook and Prospects

The external environment is showing some signs of recovery in the developed world with the US economy showing good signs of recovery, for example improving employment numbers and better housing market. As for Europe, although recovery is weak, the worst is most probably behind it. For China, growth will likely be slow next year. China's reforms will benefit it in the long run. ASEAN's growth trends, in contrast, are expected to be mixed on factors ranging from favourable impact of external demand rebound (Singapore and Malaysia) to transitory effects of domestic macroeconomic turbulence, political uncertainties and natural disasters (Indonesia, Thailand and Philippines).

Against this backdrop, it is constructive on Malaysia's macroeconomic picture given the steady growth momentum (GDP for 2014 is widely expected to be 5%), clarity and credibility in fiscal policy to address the budget deficit via spending and tax measures, and sustainable current account surplus. Private investment will continue to grow supported by the ongoing Economic Transformation Programme. The key thing to watch is domestic consumer spending as inflation accelerates and inflationary expectations rise in reaction to subsidy rationalization and price adjustments. Stronger export, however, may help to offset any slower pace of domestic demand.

The Group expects 2014 to be increasingly challenging in terms of managing costs pressures and sluggish consumer demand domestically, which may lead to margin compression. Nevertheless, the Group is committed to maintaining the level of performance by adopting a long term strategy of investing in manufacturing capacity to support its growth. We will continue to build the competitiveness of our products and remain active in innovating our product portfolio.

### Thank You

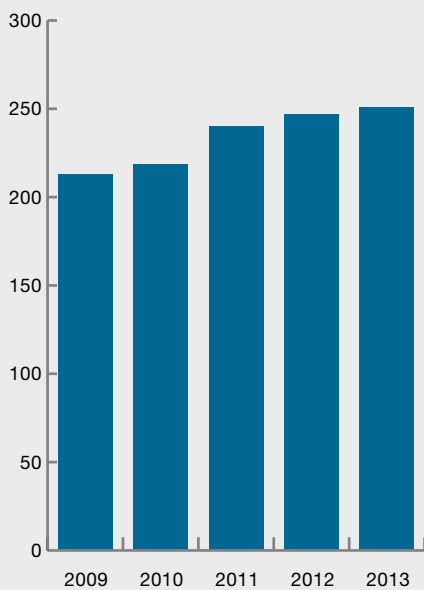
On behalf of the Board of Directors, I wish to thank our committed management and employees who continue to work hard to overcome any setbacks and challenging situations to ensure the growth of our performance.

I would also like to thank our esteemed customers, suppliers, distributors, financiers, business associates and shareholders for their continuous supports and confidence in us and our business.

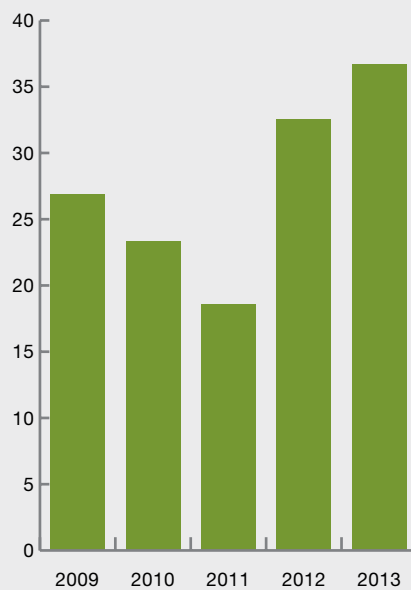
I am sad to report we lost from our team Mr Woon Chin Chan who demised in October 2013. During his tenure as our board member since 2005, he has made valuable and immense contribution in many ways to the development of the Group.

**Y. BHG. DATO' KEH (KERK) CHU KOH**  
Chairman

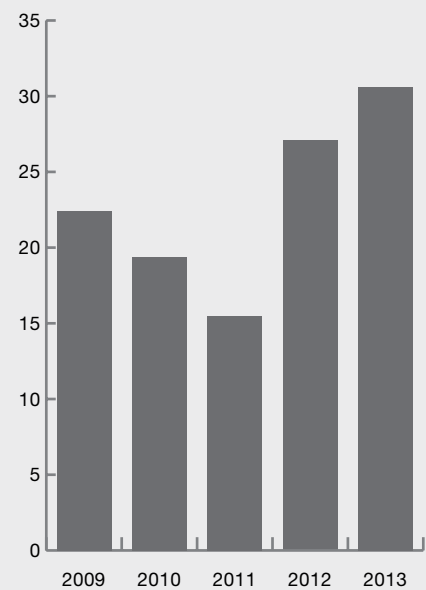
# 5-Year Group Financial Highlights



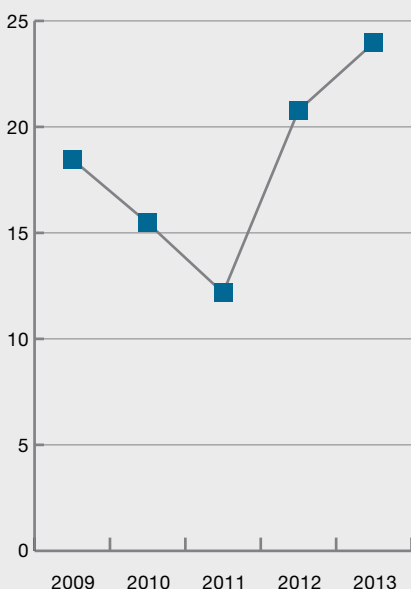
REVENUE  
(RM'MILLION)



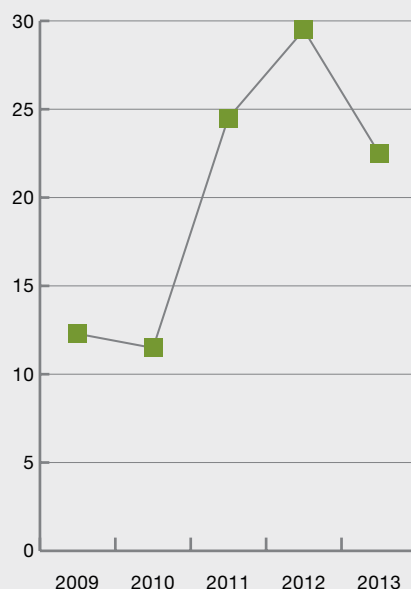
PROFIT AFTER TAX  
(RM'MILLION)



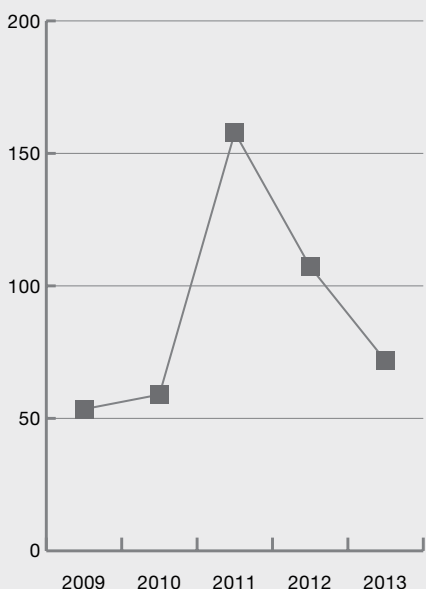
EARNINGS PER SHARE  
(SEN)



RETURN ON EQUITY  
(%)



NET DIVIDENDS PER SHARE  
(SEN)



DIVIDENDS PAYOUT RATIO  
(%)

Financial Year Ended		31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
<b>Key Result (RM)</b>						
Revenue		213,405,132	219,070,516	240,231,011	247,818,145	251,407,055
Profit after Tax		26,880,497	23,338,845	18,603,729	32,540,686	36,744,846
<b>Other Key Data (RM)</b>						
Total Assets		187,764,912	194,113,084	203,813,804	204,947,578	205,202,821
Total Liabilities		45,406,116	47,615,443	56,712,434	51,705,522	54,815,919
Shareholders' Equity		142,358,796	146,497,641	147,101,370	153,242,056	150,386,902
Capital Expenditure		1,923,670	1,309,954	5,622,041	3,988,473	2,680,777
<b>Financial Ratio (%)</b>						
Revenue Growth		(3.1)	2.7	9.7	3.2	1.4
Net Profit Growth		67.3	(13.2)	(20.3)	74.9	12.9
Net Profit Margin		12.6	10.7	7.7	13.1	14.6
Return on Equity (ROE)		18.9	15.9	12.6	21.2	24.4
<b>Share Information</b>						
Earnings per Share	sen	22.4	19.4	15.5	27.1	30.6
Net Dividends per Share	sen	12.8	12.0	25.0	30.0	23.0
Dividends Payout Ratio	%	56.9	61.7	161.3	110.6	75.1
Net Assets per Share	RM	1.19	1.22	1.23	1.28	1.25

## Directors' Profile

**Y. Bhg. Dato' Keh (Kerk) Chu Koh**, Malaysian aged 71, is the Chairman of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Managing Director on 3 August, 2000. Subsequently, he was redesignated as Chairman on 1 February, 2003. He was appointed the Deputy Managing Director of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. ("HSPM") on 13 October, 1974 and then the Managing Director of the same on 1 April, 1977. He was appointed as the Deputy Managing Director on 21 April, 1977 and subsequently the Vice Chairman of Hup Seng Hoon Yong Brothers Sdn. Bhd. ("HSHY") on 1 January, 1990. He is the brother of Kuo Choo Song and Kerk Chiew Siong, and uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of Hup Seng Industries Berhad ("HSIB")) is disclosed in page 13 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. As one of the founders of Hup Seng Co., he has approximately 55 years of experience in the biscuits industry. He plans the Group's strategic business development and production development which includes the installation of various production facilities in the Group's factory and heads the research and development team which researches new varieties of biscuits. He contributed in obtaining the Certification of HACCP (Hazard Analysis Critical Control Point) & BRC (British Retail Consortium) for HSPM in year 2008 and ISO 22000:2005 in year 2012, to ensure that product safety and quality are in line with global standard. He travels abroad extensively to keep abreast with the latest developments in the biscuits manufacturing industry and to assess new market prospects for the Group.

**Kerk Chiew Siong**, Malaysian aged 61, became a member of the Board of Directors on 4 October, 1991 and was appointed as an Executive Director on 3 August, 2000. His position as Executive Director was redesignated to Non-Executive Director on 1 February, 2003. On 17 August, 2006, he then became the Non-Executive Vice Chairman of the Company. He was appointed as the Director of HSPM on 12 March, 1981 and then as an Executive Director on 1 January, 1990 before being redesignated as Vice Chairman on 1 February, 2003. He was appointed as Director of HSHY on 15 February, 1988 and then became the Deputy Managing Director of the same on 1 January, 1990 before being redesignated as Executive Director on 1 February, 2003. He is the brother of Kuo Choo Song and Y. Bhg. Dato' Keh (Kerk) Chu Koh, and uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 13 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. He has more than 38 years of experience in the manufacturing and marketing of biscuits. As head of the Quality Assurance and Business Development Department, he is responsible for devising strategies for market development and researching the potentials of the Group's products in existing as well as new markets. He was also responsible for overlooking the achievement of consolidated certification of ISO 9001:2008, HACCP Warranty and ISO 22000:2005 which were awarded in year 2012.

**Kuo Choo Song**, Malaysian aged 82, is the Managing Director of the Company. He became a member of the Board of Directors on 4 October, 1991 and was appointed as the Executive Chairman of the Company on 3 August, 2000. Subsequently, he was redesignated as Managing Director in HSIB on 1 February, 2003. He had been a member of the Audit Committee until 12 December, 2007. He was appointed as the Managing Director of HSPM on 13 October, 1974 and as the Chairman of the same since 1 April, 1977. He was subsequently redesignated as Vice Chairman of HSPM on 1 February, 2003. He has been the Chairman of HSHY since 21 April, 1977. He is the elder brother of Y. Bhg. Dato' Keh (Kerk) Chu Koh and Kerk Chiew Siong, and uncle of Kerk Chian Tung, Teo Lee Teck and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 13 of this Annual Report. He does not have any conflict of interest with the Company except for certain recurrent related party transactions of revenue or trading nature that is necessary for day-to-day operations of the Group. He has no convictions for any offences over the past 10 years. He has over 55 years of experience in the biscuits industry at management and board levels. He is one of the founders of Hup Seng Co. which was established in 1958 and subsequently became HSPM in 1974. His job responsibilities include planning the Hup Seng Group's business development programs and representing the Group at various external functions.

**Kerk Chian Tung**, Malaysian aged 43, became a member of the Board of Directors of the Company on 15 November, 1999 and has been an Executive Director of the same since 17 August, 2000. She is the niece of Kuo Choo Song, Y. Bhg. Dato' Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Teo Lee Teck and Kerk Kar Han. Her family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 13 of this Annual Report. She does not have any conflict of interest with the Company nor conviction for any offences over the past 10 years.

She graduated with a bachelor degree in Accounting from the University of Southern Queensland, Australia in 1991 and a bachelor degree in Manufacturing Management from the University of Monash, Australia in 1994. She joined an accounting firm as an auditor in 1992 and later joined Arthur Andersen HRM (Tax Services) Sdn. Bhd., a public accounting firm as a Tax Consultant in 1995. In 1997, she was employed as an Assistant Business Development Manager in Jaya Tiasa Holdings Berhad, a public listed company involved in investment holding and provision of management services, extraction and sale of logs. She joined a trading company as a Finance Manager in 1998 and then resigned in 1999 to become an investment analyst in SBB Securities Sdn. Bhd., a company involved in stockbroking activities.

**Teo Lee Teck**, Malaysian aged 54, was appointed as a Non-Independent Non-Executive Director of the Company on 10 August, 2000. He was appointed as Director of HSHY on 2 September, 2013. He was a Director of HSPM on 20 March, 1984 and then an Executive Director of the same on 1 January, 1990. He started his career with HSPM in 1977 as a Chocolate Wafer Section supervisor and was promoted numerous times before assuming the position of Production Manager in 1987. During that period, he was actively involved in developing new products under the direction of the Chairman whilst continuously modifying and improving facilities of the machinery in the factory to move towards automation. In 1994 he was promoted to Project Manager, responsible for construction of factory and installation of new machines. He has more than 35 years of experience in biscuit manufacturing. He has been appointed as HSPM's Quality Management Representative of MS ISO 9001:2000 since 2002 and assisted in completion of the infrastructure in order to obtain HACCP & BRC Certification in 2008. He was fully responsible for leading the task force towards the achievement of consolidated certification of ISO 9001:2008, HACCP Warranty and ISO 22000:2005, awarded concurrently in year 2012. He has been appointed as a Director for In-Comix Food Industries Sdn. Bhd. since 7 July, 2009, fully responsible for the product manufacturing, quality and hygienic assurance of the company. He also provides full support to HACCP Management System; ensures the machineries & equipment of the factory is upgraded technologically in tandem with the business development; meets with the Head of Operational Unit to discuss and resolve key operational and other key management issues regularly; highlights and discusses significant issues at Board meetings. He is the nephew of Kuo Choo Song, Y. Bhg. Dato' Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Kerk Chian Tung and Kerk Kar Han. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 13 of this Annual Report. He does not have any conflict of interest with the Company. He has no convictions for any offences over the past 10 years.

**Kerk Kar Han**, Malaysian aged 46, was appointed as a Non-Independent Non-Executive Director of the Company on 15 August, 2006. He became a member of the Remuneration Committee on 18 February, 2014. He was appointed as Director of HSPM on 2 September, 2013. He joined HSHY on 20 September, 1995 as a Management Executive. He was promoted to Admin Senior Executive in July, 1997. On 10 March, 1998, he was appointed as the Executive Director of HSHY. Subsequently, he was redesignated as Director cum Admin Senior Executive on 24 January, 2003. On 1 January, 2004, he was promoted to Director cum Assistant Admin Manager. On 1 January, 2011, he was promoted to Director cum Sales and Admin Manager, fully responsible for maintaining and improving the organizational administration system, sales and marketing performance, ensuring the compliance of company policies, overseeing branches performance and participating in sales and marketing strategic planning and decision making as well as supervising, overseeing and co-ordinating operations of sales and marketing. He reports directly to Business Development Executive Director. He has more than 18 years of experience in business administration and management. He has been appointed as a Director for In-Comix Food Industries Sdn. Bhd. since 7 July, 2009, fully responsible for administration, marketing & sales and material purchase of the company and provides full support to HACCP Management System. He meets with the Head of Operational Unit to discuss and resolve key operational, financial and other key management issues regularly, and highlights and discusses significant issues at Board meetings. He was appointed as management representative to oversee the implementation of the Halal Assurance Management System of In-Comix Food Industries Sdn. Bhd. on 1 January, 2014. He is the nephew of Kuo Choo Song, Y. Bhg. Dato' Keh (Kerk) Chu Koh and Kerk Chiew Siong, and cousin of Kerk Chian Tung and Teo Lee Teck. His family relationship with shareholders of HSB Group Sdn. Bhd. (major shareholder of HSIB) is disclosed in page 13 of this Annual Report. He does not have any conflict of interest with the Company. He has no convictions for any offences over the past 10 years.

**Woon Chin Chan**, Malaysian aged 54, was appointed as an Alternate Director to Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon (Independent Non-Executive Director) on 6 March, 2003. On 3 January, 2005, he became an Independent Non-Executive Director, Chairman of both the Audit Committee and Remuneration Committee whilst being a member of the Nominating Committee. On 22 February, 2011, he resigned as Chairman of the Remuneration Committee and remained as a member. On 1 June, 2013, he was redesignated as Chairman of Nominating Committee while becoming a member of Audit Committee from Chairman of such Committee. On 9 October, 2013, he passed away. He did not have any family relationship with any director and/or major shareholder, nor any conflict of interest with the Company. He had no convictions for any offences over the past 10 years.

He was a member of Malaysian Institute of Certified Public Accountant ("MICPA") and Malaysian Institute of Accountant ("MIA"). He acquired accounting qualification in the Malaysian Association of Certified Public Accountants in 1983. He was a consultant cum trainer in financial and related matters. Since 1990, he had been a project manager to various working groups that develop MASB Standard and conducted training for the professional staff of Bursa Malaysia Securities Berhad ("Bursa Securities") and Securities Commission. He also provided consultancy services to SME on financial issues and reporting. From 1988 to 1990, he was a technical manager in MICPA developing various technical materials on accounting, taxation and company law. He acted as secretary to technical committees and liaison bodies with the statutory bodies on accounting matters. He joined a major international accounting firm from 1980 to 1988, holding the position as an audit manager. While in the accounting firm, he was involved in various audit assignments and listing exercises, and engaged in due diligence and share valuation projects. He sat on the board of directors of Padini Berhad.

**Mazrina Binti Arifin**, Malaysian aged 46, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. She is a member of the Audit Committee. She had been the Chairperson of the Nominating Committee until 22 February, 2011 and redesignated as a member. On 13 November, 2013, she was re-appointed as Chairperson of Nominating Committee. She does not have any family relationship with any director and/or major shareholder, nor any conflict of interest with the Company. She has no convictions for any offences over the past 10 years.

She obtained a Bachelor of Science majoring in Accounting from the University of Hull, United Kingdom in 1991. She is qualified as a Certified Chartered Accountant from the Chartered Association of Certified Accountants in England since 1993. She was attached with Arthur Andersen HRM (Tax Services) Sdn. Bhd. from 1995 to 1998 and was a Senior Tax Consultant prior to her leaving the firm. She was the Founder and Managing Director of Under6'ers, Child Enrichment Centres, in Kuala Lumpur and Selangor from 1999 to 2006.

She was appointed as Finance Director for Springboard4 MALAYSIA Sdn. Bhd., a UK based IT Consulting and Training firm and Director for Paddy Schubert Consultants Sdn. Bhd. since 2005.

**Raja Khairul Anuar Bin Raja Mokhtar**, Malaysian aged 39, was appointed as a Non-Executive Director of the Company on 14 December, 2000 and subsequently became Independent Non-Executive Director on 15 March, 2012. He was appointed as a member of the Audit Committee on 12 December, 2007. He became Chairman of the Remuneration Committee on 22 February, 2011. He does not have any family relationship with any director and/or major shareholder. He does not have any conflict of interest with the Company nor convictions for any offences over the past 10 years.

He holds a Bachelor of Commerce (majoring in Finance and Marketing) and a Diploma of Commerce from Curtin University of Technology, Perth Western Australia in 1998. He started his career as an Executive at L&M Corporate (M) Bhd. from 1998 to 2000 and subsequently joined a Multinational IT company, Hewlett-Packard Sales (M) Sdn. Bhd., as a Business Analyst from 2001 to 2002. He was with EMKAY (Paradigma Intan Sdn. Bhd.) a property development company from 2004 to 2011. He now sits on the board of directors of several private companies while attached to Impian Arti Sdn. Bhd.

**Norita Binti Ja'afar**, Malaysian aged 42, was appointed as an Independent Non-Executive Director of the Company on 11 August, 2000. She is a member of the Audit Committee and has become Chairperson of the Nominating Committee on 22 February, 2011. On 1 June, 2013 she was redesignated to become Chairperson of Audit Committee and from Chairperson of Nominating Committee to become a member of such Committee. She does not have any family relationship with any director and/or major shareholder, nor any conflict of interest with the Company. She has no convictions for any offences over the past 10 years.

She obtained a Bachelor of Arts (Hons.) majoring in Economics from the University of Nottingham, United Kingdom in 1994. She obtained a Master of Science majoring in Fiscal Policy in Economics from the University of Bath, United Kingdom in 1995. She joined Arthur Andersen HRM (Tax Services) Sdn. Bhd. as a Tax Consultant from 1996 to 1997. Subsequently, she joined KAF Group of Companies as a Financial Analyst from 1997 to 1999. She went on to join FIMA Securities Sdn. Bhd. as Vice-President of Research from 1999 to 2000. She was the Managing Director of Sal's Food Industries Sdn. Bhd. from 2001 to 2011. She has vast experience in the export market, particularly for Halal food. She was awarded Top 20 for Success Stories by Halal Development Corporation in 2010. She also has exposure with the country's Innovation Policy via her exposure with Agensi Inovasi Malaysia, under the Prime Minister's office.

**Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon**, Malaysian aged 53, was appointed as an Independent Non-Executive Director of the Company on 27 June, 2000. He was appointed as the Chairman of both the Audit Committee and Remuneration Committee whilst being a member of the Nominating Committee until year 2004. On 3 January, 2005, he resigned from being an Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee as well as member of the Nominating Committee and became an Alternate Director to Woon Chin Chan. He was invited back to the Board as an Independent Non-Executive Director as well as member of Audit Committee, Nominating Committee and Remuneration Committee since 13 November, 2013.

Y. Bhg. Dato' Gooi is a member of Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. He has more than 31 years of experience in the fields of accounting and corporate finance and was Finance Director of several private and public listed companies.

He had been instrumental in the successful implementation of several corporate exercises, which included merger and acquisition and corporate debt restructuring exercises undertaken by public listed companies.

In 1999, Y. Bhg. Dato' Gooi was appointed to the Board of Avenue Capital Resources Berhad as a Non-Executive Director and subsequently appointed as Group Managing Director in 2001 and Deputy Chairman in 2004; holding this last post until 2006. He was also the CEO/Executive Director-Dealing of Avenue Securities Sdn Bhd.

In 2008, Y. Bhg. Dato' Gooi was appointed to the Board of EON Bank Berhad and was subsequently appointed Chairman of the Board in 2009, a position that he held until May, 2012. In 2009, he was appointed to the Board of Amity Bond Berhad (formerly known as EON Capital Berhad) and in the same year assumed Chairmanship, a position that he still continues to hold.

Y. Bhg. Dato' Gooi does not have any family relationship with any director and/or substantial shareholder of the Company or any conflict of interest with the Company. He has not been convicted of any offence within the past 15 years. He now sits on the board of directors of several public companies such as Hong Leong Investment Bank Berhad (formerly known as MIMB Investment Bank Berhad), American International Assurance Bhd and Perusahaan Sadur Timah Malaysia (Perstima) Berhad.

*Note: Please refer to page 14 of this Annual Report on the number of Board Meetings attended in the financial year.*

Family Relations between  
HSB Group Sdn. Bhd.'s shareholders and  
Hup Seng Industries Bhd.'s (HSIB)  
Directors are as follows:-

HSB Group's Shareholders		Kuo Choo Song (HSIB Director)	Ke (Kek) Kim Soon @ Kerk Choo Soon	Dato' Seri Ker (Kerk) Kim Tim @ Kerk Choo Ting	Y. Bhg. Dato' Keh (Kerk) Chu Koh (HSIB Director)	Kerk Chiew Siong (HSIB Director)
Wife			Sim Guat Keow @ Sim Han Che	Datin Seri Chang Yang @ Chen Yong	Datin Lem Leh Lee @ Lim Mok Lee	
Son	Teo Lee Tong Teo Lee Teck (HSIB Director) Teo Lay Gak	Kuo Liong Yok Kuo Chee Ching Kuo Chee Yoong Kuo Chee Joo Kuo Chee Hau Kuo Chee Kian Kuo Chee Koon	Kerk Kar Han (HSIB Director) Kerk Han Meng		Kerk Gau Yang Kerk Chong Yong	
Daughter		Kuo Lee Ai Kuo Lee Yong Kuo Lee Hun		Kerk Chian Tung (HSIB Director)	Kerk Shiang Yih	

# Statement on Corporate Governance

The Board recognises its role in realising the best interests of the shareholders and enhancing the financial performance of the Group. The Board believes that through good corporate governance, will corporate accountability be enhanced and thus long term shareholders' values be realised.

The Group has complied with majority of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities") and applied majority of the Principles of Malaysian Code on Corporate Governance 2012 ("MCCG"). The extent of the application is shown as follows:-

## BOARD OF DIRECTORS

### *Composition and Attendance*

Five (5) regular meetings were conducted in the financial year 2013, discussing and reviewing quarterly and annual financial results, internal audit reports, dividend proposals, related party transactions, corporate strategy and corporate exercises. The composition of the Board and the attendance of the individual directors during the financial year ended 31 December, 2013 are as follows:-

Name of Director	Designation	No. of meetings attended (out of the total 5 meetings held)
Y. Bhg. Dato' Keh (Kerk) Chu Koh	Non-Executive Chairman	5/5
Kerk Chiew Siong	Non-Executive Vice Chairman	4/5
Kuo Choo Song	Managing Director	5/5
Kerk Chian Tung (f)	Executive Director	5/5
Teo Lee Teck	Non-Independent Non-Executive Director	5/5
Kerk Kar Han	Non-Independent Non-Executive Director	5/5
Woon Chin Chan	Independent Non-Executive Director	3/5
Mazrina Binti Arifin (f)	Senior Independent Non-Executive Director (w.e.f. 13 November, 2013)	4/5
Norita Binti Ja'afar (f)	Independent Non-Executive Director	5/5
Raja Khairul Anuar Bin Raja Mokhtar	Independent Non-Executive Director	4/5
Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	Independent Non-Executive Director from 13 November, 2013, before that an Alternate Director to Woon Chin Chan	1/5

## **BOARD OF DIRECTORS** (cont'd)

The Board meetings are scheduled in advance, and are held at least once every quarter, to deliberate on business operations and developments, review performance and risk of business, financial performance of the Group, propose dividend, approve the release of the quarterly and full year results and discuss corporate exercises in the best interest of the shareholders and the Group.

The Board meets the requirements imposed by Bursa Securities of having one-third of its Board members being Independent Non-Executive Directors. This board structure provides an effective balance of corporate accountability to the Group as the Independent Directors contribute their independent judgment and knowledge to the management whilst the Executive Directors conduct their day-to-day duties.

The Board concurs with MCCG which encourages the Chairman to be an Independent Non-Executive Director or failing which the majority of the Board should comprise of Independent Directors. Through years of experience on the Board, members of the Board considered that currently the effectiveness and independence of the Board is not affected with a Non-Independent Chairman. Members of the Board regularly evaluate the most optimum alternative to keep the effectiveness of the Board while observing MCCG Recommendation 3.5. The Nominating Committee assesses this matter on an annual basis.

The Company has embedded gender diversity in its corporate culture since the day it was listed. The Board has a healthy mix of both genders and will continue to upkeep such gender diversity.

On 13 November, 2013, Mazrina Binti Arifin has been identified by the Board as the Senior Independent Non-Executive Director to whom any concerns may be conveyed.

### ***Duties and Responsibilities***

The Board recognises their roles and responsibilities of optimising the operations of the Company and its subsidiaries in order to maximise shareholders' values. The Board has assumed most of the recommendations as prescribed in MCCG to effectively lead the Group. The Board members possess professional expertise, industrial knowledge and working experience in various fields that contribute effectively to the formulating as well as the achieving of corporate goals and strategic plans of the Group. The terms of reference of the Board Committees clearly stated that all the committees have the authority to act on behalf of the Board or to examine a particular issue and report back to the Board with recommendation.

In line with the MCCG, the roles and responsibilities of Chairman and Managing Director are separated. The responsibility of Chairman is primarily to ensure that conduct and working of the Board is in an orderly and effective manner whilst the Managing Director manages the daily running of business and implementation of Board policies. The Managing Director is accountable for the profitable operation and strategic development of the Group, and obliged to refer major matters back to the Board.

The Independent Non-Executive Directors on the Board were elected with the objective of safeguarding the shareholders' interests whilst contributing impartial and objective judgment to the decision making process of the Board. Through these years, these Independent Non-Executive Directors have provided invaluable advices to the Board and practised fair professional judgments while considering corporate matters.

The Board is aware of the importance of succession planning and has been developing and engaging suitable programmes to ensure that operations at all levels are run smoothly and continuously.

## BOARD OF DIRECTORS (cont'd)

### *Supply and Access to Information*

Prior to Board meetings, the Company Secretary and management would provide agenda and board papers to the Board members on a timely basis. The board papers include minutes of previous meeting, quarterly financial results, internal audit reports, supporting management reports, directors' interests and copies of signed resolution for the months concerned. In addition, the Board also receives qualitative information from relevant departments of the Group, as needs arise.

The Board members have full and unrestricted access to all information pertaining to the Group's business affairs. When necessary, the Board members may seek external professional advice, whether as a full Board or in their individual capacity, to enable them to discharge their duties with adequate knowledge at the expense of the Company. All directors may gain full access to the advice and services of the Company Secretary, who is responsible for advising and ensuring that Board procedures are followed and that relevant rules and regulations are complied with. The Company Secretary attends all Board meetings, and all proceedings and conclusion from the Board meetings are minuted and signed by Chairman.

### *Board Charter*

A formal Board Charter is in the process of being formulated, within which the structure, strategic intents and responsibilities of the Board will be stated while the code of conduct of the Group will be incorporated. The Company has observed the suggestions in Recommendation 1.7 of MCCG and will formalise a Board Charter which will be published on the corporate website and be reviewed regularly.

### *Re-election*

Article 76 of the Articles of Association of the Company provides that all the Directors of the Company shall retire from office once at least in every three (3) years but shall be eligible for re-election. The Articles of Association also provide that at the Annual General Meeting ("AGM") in every subsequent year, one-third (1/3) of the existing Directors or if their number is not three (3) or a multiple of three (3), then the number nearest to one-third (1/3) shall retire from office and be eligible for re-election.

According to Article 83 of the Articles of Association of the Company, Directors who are appointed by the Board are subject to election by shareholders at the first opportunity after their appointment.

In accordance with Section 129(6) of the Companies Act, 1965, directors over seventy years of age are required to submit themselves for re-appointment annually. Y. Bhg. Dato' Keh (Kerk) Chu Koh, the Chairman and Kuo Choo Song, the Managing Director, are due for re-appointment pursuant to Section 129(6) of the Companies Act, 1965 at the forthcoming AGM.

### *Reinforce Independence*

The Board assessed the independence of the Independent Non-Executive Directors by adopting the criteria used in defining "independent directors" in the Listing Requirements and concluded that all the Independent Non-Executive Directors continued to conduct and behave independently for the financial year ended 31 December, 2013. Independence criteria such as whether each of the Independent Non-Executive Directors is independent of the Company's management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interest of the Company and shareholders, have all been considered and assessed. The Board is of the view that the Independent Non-Executive Directors have remained independent and objective throughout their years of services and most importantly, they discharged their duty with integrity and competence.

The Board noted Recommendations 3.2 and 3.3 of MCCG that tenure of independent director(s) should not exceed a cumulative term of nine (9) years and the Board must justify and seek shareholders' approval to retain independent director(s) who has served more than nine (9) years. Two (2) Independent Non-Executive Directors, namely Mazrina Binti Arifin and Norita Binti Ja'afar, have been with the Board for more than nine (9) years and the Board holds the opinion that their independence have not been compromised or impaired in any way. The Board noted that it was because of the cumulative years of being in the industry that gave the Independent Non-Executive Directors greater in-sight and in-depth knowledge of the Group and therefore contributed to the Board more effectively and relevantly.

The Board strongly recommends the retention of these two (2) Independent Non-Executive Directors who have served the Board for more than nine (9) years and will be tabling the relevant Ordinary Resolutions to shareholders at the forthcoming AGM.

**BOARD OF DIRECTORS** (cont'd)**Directors' Training**

Directors are encouraged to attend any form of training to enhance their knowledge and expertise in relations to the industry, laws and regulations, business environment and etc. To date, all existing Directors have attended the Mandatory Accreditation Programme ("MAP") and sufficient Continuing Education Programme ("CEP") as required by Bursa Securities. The Directors continue to attend relevant seminars and programmes to keep their knowledge and expertise updated.

In 2013, training programmes attended by directors of the Company are as follows:-

1.	Y. Bhg. Dato' Keh (Kerk) Chu Koh	»	Excellent Leadership Skills	16/04/2013
2.	Kuo Choo Song	»	Excellent Leadership Skills	16/04/2013
3.	Kerk Chiew Siong	»	Excellent Leadership Skills	16/04/2013
4.	Kerk Chian Tung	»	C-Suite Tax Briefing – Ernst & Young	30/10/2013
5.	Teo Lee Teck	»	Internal Auditing for ISO 9001, HACCP & ISO 22000 Integrated System	22 & 23/02/2013
		»	7 QC Tools	10 & 11/04/2013
		»	Excellent Leadership Skills	16/04/2013
6.	Kerk Kar Han	»	Excellent Leadership Skills	16/04/2013
		»	Excellent Sales Team	14/12/2013
7.	Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	»	Financial Services Act & Islamic Financial Services Act	31/05/2013
		»	Advanced Risk Governance & Risk Management Program	17 & 18/09/2013
8.	Norita Binti Ja'afar	»	Audit Committee Conference 2013 - Powering for Effectiveness	12/3/2013

The late Woon Chin Chan, was a seminar speaker by profession and had conducted numerous seminars organised by Bursatra Sdn. Bhd. in 2013. He therefore was deemed to be exempted from the CEP requirements.

In addition to the above, Directors are updated on the recent developments in the areas of statutory and regulatory requirements from briefings by the External Auditors, Company Secretary and the Internal Auditors during the Audit Committee and Board Meetings. Raja Khairul Anuar Bin Raja Mokhtar and Mazrina Binti Arifin did not attend seminars in year 2013 for their own personal reasons.

**DIRECTORS' REMUNERATION*****Directors' Remuneration***

Listed below is a summary of the aggregate remuneration package of the Directors received/receivable from the Company and its subsidiaries for the financial year ended 31 December, 2013, categorised into appropriate components.

	Salary (RM)	Fees (RM)	Bonus & allowance (RM)	Benefits-in-kind (RM)
Executive	982,560	165,239	386,429	42,642
Non-Executive	1,874,160	588,497	1,022,704	133,385

The number of Directors whose remuneration falls into each successive band of RM50,000 for the financial year ended 31 December, 2013 is disclosed as follows:-

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM0 - RM50,000	–	2
RM50,001 to RM100,000	–	3
RM400,001 to RM450,000	–	1
RM500,001 to RM550,000	1	–
RM600,001 to RM650,000	–	1
RM1,000,001 to RM1,050,000	1	–
RM1,100,001 to RM1,150,000	–	1
RM1,150,001 to RM1,200,000	–	1

**ACCOUNTABILITY AND AUDIT*****Financial Reporting***

The Board of Directors recognises its responsibilities in ensuring that the financial statements are prepared in accordance with the applicable approved accounting standards in Malaysia and provisions of the Companies Act, 1965. The Board also acknowledges its responsibility for presenting a fair and reasonable assessment of the financial position of the Group in the forms of annual and quarterly financial statements to its shareholders. Upon recommendations given by the Audit Committee of the financial statements, the Board will engage in discussions and reviews before approving them and subsequently releasing them to the public, Securities Commission ("SC") and Bursa Securities.

The Directors' Responsibility Statement in relation to the Audited Financial Statements pursuant to Paragraph 15.27 (a) of the Listing Requirements of Bursa Securities is provided on page 21 herein. In addition, the Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is included in this Annual Report.

## ACCOUNTABILITY AND AUDIT (cont'd)

### *Risk Management and Internal Control*

The Board is aware of the importance of establishing and maintaining a sound system in Risk Management and Internal Control in the Company and its subsidiaries to safeguard shareholders' interest and Group's assets. Management of the Group recognizes that it is accountable to the Board to implement and monitor the system of risk management and internal control, and provide assurance to the Board in due course of its efforts. The Board continuously reviews and examines the effectiveness and efficiency of the risk management and internal control system on financial, operational and compliance risk, and seeks alternative ways for improvement should any weakness be detected and identified.

The Board makes sure that there is free flow of risk information throughout the Group and there is continuous monitoring of risk management processes in order to detect and minimize risks against corporate objectives on a timely basis. The engagement of internal auditors is one of the many ways of reviewing and assessing the effectiveness of the risk management and internal control system of the Group. Both the Board and Management will rectify the weaknesses detected by the internal auditors through either adopting the recommendations made by the internal auditors or developing its own alternatives to eliminate such weaknesses.

The risk management and internal control system can only provide reasonable but not absolute assurance against misstatement, loss or fraud as certain threats and risks are externally driven, unforeseen and beyond the control of the Group.

The Statement on Risk Management and Internal Control is set out on pages 31 of this report.

### *Relationship with Auditors*

The Board maintains a formal relationship with the auditors in seeking their advice to ensure compliance with the applicable accounting standards. The external auditors regularly bring up relevant matters that need to be addressed during the Audit Committee meetings and Board meetings.

The re-appointment and the remuneration of the external auditors have been recommended by the Audit Committee and the Board of Directors and are subject to the approval of shareholders in the forthcoming AGM.

The role of the internal auditors is outlined in the Audit Committee Report.

## SHAREHOLDERS AND INVESTORS

The Annual Report, press release as well as disclosures and announcements to Bursa Securities, such as quarterly and annual financial results are the primary means of communication between the Company and shareholders. The Board acknowledges the importance of disseminating information adhering to the disclosure requirements of the Bursa Securities to the shareholders on a timely basis and consequently ensures that the investors are well informed of any major developments of the Group. Notice of the AGM is issued to the shareholders at least 21 days prior to the date of AGM, in which separate resolutions to be proposed at the AGM for each distinct issue are provided.

The AGM serves as the primary forum to foster dialogue with shareholders. The Board ensures that adequate time is allocated for the question and answer session so that shareholders can clarify matters in relation to resolutions being proposed at the meeting as well as operational and corporate affairs. Upon request, the Directors will also meet up with the investors, press and investment analysts, and disseminate information adhering to the disclosure requirements of Bursa Securities.

While conducting presentations and interviews, the Board takes necessary precautions to ensure that price sensitive and information regarded as material undisclosed information about the Group is not revealed until after the prescribed announcement to the Bursa Securities has been made. With all the above means, the Company strives to ensure that an open and transparent channel of communication is maintained with its shareholders, institutional investors and the investing public at large.

In line with MCGG, the Company is in the process of improving the corporate website with the purpose of providing information on board charter, corporate developments of the Group, rights of shareholders, quarterly results and annual reports through a more user friendly and timely manner.

## CORPORATE SOCIAL RESPONSIBILITY

The Group recognises the need and responsibility to care for the community and strives to balance its social responsibility to the society with its business objectives and shareholders' expectations. The Group has continued to take initiatives in reducing carbon footprints in all areas of its operations, e.g. improve on the efficiency of its manufacturing process in such a way that leads to reduction in diesel and gas usage as well as production wastages and streamline administrative processes to cut down on paper waste.

In 2013, the Group continued to donate monies to local schools and associations. In addition, the Group sponsored products to universities, colleges, secondary schools and primary schools as well as associations in Malaysia. Through these associations, products of the Group were donated to single parent families, the handicapped and families under poverty. On the charity front, the Group sponsored products for fund raising activities in schools, religious bodies and charity organisations.

With regards to staff welfare, Occupational Safety and Health Programme had been installed providing a safe and healthy workplace for the employees, staff and visitors. Regular trainings at all levels are conducted in order to maintain safety awareness of the employees.

## RECURRENT RELATED PARTY TRANSACTIONS ("RRPT")

Please refer to page 82 of the audited accounts in this Annual Report.

# Statement of Directors' Responsibilities in Relation to Financial Statement

The Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the income statement and cash flows of the Company and the Group for the financial year. The Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 is stated on page 39 of the Annual Report.

The Directors are of the view that, in preparing the financial statements of the Company and the Group for the year ended 31 December, 2013, the Company has adopted appropriate accounting policies that are consistently applied and supported by reasonable and prudent judgments and estimates. The Directors have also considered that all applicable accounting standards have been followed during the preparation of the financial statements.

The Directors are responsible for ensuring that the Company keeps adequate accounting records that disclose with reasonable accuracy the financial position of the Company and the Group, and hence enable them to ensure that the financial statements comply with the requirements of the Companies Act, 1965.

The Directors have ensured timely release of quarterly and annual financial results of the Company and Group to Bursa Securities so that the public and investors are informed of the Group's development.

The Directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group, and to detect and prevent fraud and other irregularities.

# Other Compliance Information

**a) Share Buybacks**

There were no share buybacks by the Company during the financial year.

**b) Utilisation of Proceeds**

No proceeds were raised by the Company from any corporate proposal during the financial year.

**c) Depository Receipts Programme**

The Company did not sponsor any Depository Receipts Programme during the financial year.

**d) Profit Estimate, Forecast or Projection**

The Company did not release any profit estimate, forecast or projection for the financial year.

**e) Profit Guarantee**

There was no profit guarantee given by the Company during the financial year.

**f) Options or convertible securities**

There were no options or convertible securities issued during the financial year.

**g) Contracts Relating to Loan**

There were no contracts relating to a loan by the Company and its subsidiaries in respect of the preceding terms.

**h) Deviation in Financial Results**

There was no material deviation between the results for the financial year and the unaudited results previously announced.

**i) Non-Audit Fee**

There was no non-audit fee paid to the external auditors for the financial year 31 December, 2013.

**j) Sanctions and Penalties**

There were no sanctions or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year 31 December, 2013.

**k) Material Contracts**

None of the Directors and major shareholders has any material contract with the Company and/or its subsidiaries during the financial year.

**l) Revaluation Policy**

There were no revaluations performed on all properties of the Group during the financial year.

# Audit Committee

## COMPOSITION

The Committee comprises four (4) members, all of whom are Independent Non-Executive Directors. One (1) member of the Committee is a member of the Malaysian Institute of Accountants (“MIA”). The current members of the Committee and their respective designations are as follows:-

- Norita Binti Ja’afar  
(Independent Non-Executive Director)  
Appointed on 1 June, 2013 as Chairman of Audit Committee
- Mazrina Binti Arifin  
(Senior Independent Non-Executive Director w.e.f. 13 November, 2013)  
Appointed on 3 August, 2000
- Y. Bhg. Dato’ Wee Hoe Soon @ Gooi Hoe Soon  
(Independent Non-Executive Director)  
Appointed on 13 November, 2013  
Member of MIA
- Raja Khairul Anuar Bin Raja Mokhtar  
(Independent Non-Executive Director)  
Appointed on 12 December, 2007

## TERMS OF REFERENCE FOR AUDIT COMMITTEE

### *Constitution*

The Committee shall be appointed by the Board from amongst their number (pursuant to a resolution of the Board of Directors) excluding alternate director and shall consist of not fewer than three (3) members of whom a majority must be independent directors as defined in the Listing Requirements.

The Audit Committee shall ensure:

- All members of the Audit Committee should be non-executive directors and financially literate; and
- At least one member of the Audit Committee:-
  - i) must be a member of the Malaysian Institute of Accountants; or
  - ii) If he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years’ working experience and:-
    - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
    - (bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

**TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)*****Constitution (cont'd)***

The Audit Committee shall ensure: (cont'd)

- iii) fulfils such other requirements as prescribed by the Bursa Malaysia Securities Berhad ("Bursa Securities").

The members of the Committee shall select a Chairperson from amongst their number who shall be an independent director.

If a member of the Committee resigns, dies or for any other reason ceases to be member with the result that the number of members is reduced below three (3), the Board of Directors shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

The Board shall review the terms of office and performance of the Committee and each of its members at least once every three (3) years.

***Authority***

The Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice;
- f) be able to convene meeting(s) with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary; and
- g) have authority to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

## TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)

### *Functions*

#### **Duties and Responsibilities**

- a) to review and report the following to the Board:
  - 1) with the external auditor, the audit plan;
  - 2) with the external auditor, his evaluation of the system of internal control;
  - 3) with the external auditor, his audit report;
  - 4) the assistance given by the Company's officers to the external auditor;
  - 5) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
    - i) changes in or implementation of major accounting policy changes;
    - ii) significant and unusual events; and
    - iii) compliance with accounting standards and other legal requirements;
  - 6) the external auditor's management letter and management's response;
  - 7) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
  - 8) any letter of resignation including the written explanations of the resignation from the external auditors of the Company; and
  - 9) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.
- b) To do the following, in relation to the internal audit function:-
  - review the adequacy of the scope, functions, competency and resources of internal audit function, and that it has the necessary authority to carry out its work;
  - review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;
  - review any appraisal or assessment of the performance of members of the internal audit function;
  - approve any appointment or termination of senior staff members of the internal audit function; and
  - take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- c) To recommend or consider the nomination of a person or persons as external auditors together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.
- d) To verify the criteria for allocation of options pursuant to share scheme for employee.

**TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)*****Meeting and Reporting Procedure***

- a) The Committee shall meet as the Chairperson deems necessary but not less than four (4) times a year.
- b) The external auditors may request a meeting if they consider that one is necessary and shall have the rights to appear and be heard at any meeting of the Committee.
- c) The Chairperson shall convene a meeting whenever any member of the Committee requests for a meeting.
- d) Written notice of the meeting together with the agenda shall be given to the members of the Committee and external auditor where applicable.
- e) The Financial Controller, the Head of Internal Audit (where such a function exists) and a representative of the external auditors shall normally attend meetings.
- f) At least twice a year the Committee shall meet with the external auditors without executive Board members present.
- g) The Chairperson shall be entitled, where deemed appropriate, to invite other Board members, employees, professionals and/or any person(s) with the relevant experience and expertise to attend meetings of the Committee.

The Committee meeting minutes are to be extended to the Chairman of the Board of Hup Seng Industries Berhad who will report to the Board of Directors.

***Secretary***

The Company Secretary shall be the Secretary of the Committee.

The Secretary is responsible for:-

- 1) sending out notices of meetings; and
- 2) preparing and keeping minutes of meetings.

***Quorum***

Two members of the Committee present at the meeting shall constitute a quorum and the majority of members present must be independent directors.

**ACTIVITIES DURING THE YEAR*****Meetings***

The Audit Committee meets regularly, with four (4) meetings held during the financial year ended 31 December, 2013. Prior to each Audit Committee meeting, a full set of Audit Committee papers and due notice of issues to be discussed are given on a timely basis. All meetings are attended with the presence of Company Secretary whereby all proceedings and conclusion from the Audit Committee meetings are minuted and signed by the Chairperson. The Internal and External Auditors and Group Financial Controller were invited to attend these meetings to advise and clarify the accounting issues and company matters. Chairperson of the Audit Committee maintained a constant flow of communication with the senior management, e.g. Chairman of the Board, Managing Director, Group Financial Controller, Head of External and Internal Auditors, to be kept informed and updated with matters affecting the Group. At least two (2) meetings between the Audit Committee and the External Auditors without the presence of executive director(s) were held during calendar year 2013.

**ACTIVITIES DURING THE YEAR (cont'd)****Meetings (cont'd)**

The dates and attendees of the meetings held are stated below:-

Attended by	Dates of Meeting				Total meetings attended
	21 Feb 2013	15 May 2013	21 Aug 2013	13 Nov 2013	
Woon Chin Chan (demised on 9 October, 2013)	√	√	√	–	3/4
Mazrina Binti Arifin	√	√	√	√	4/4
Norita Binti Ja'afar	√	√	√	√	4/4
Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	–	–	–	√	1/4
Raja Khairul Anuar Bin Raja Mokhtar	√	√	√	–	3/4

The Audit Committee carried out the following activities during the financial year:-

- Reviewed the quarterly unaudited financial reports before recommending them to the Board of Directors for subsequent consideration and approval.
- Reviewed the audited financial statements before submitting them to the Board, ensuring that the financial statements were prepared in accordance with the applicable approved accounting standards and provisions of the Companies Act, 1965.
- Evaluated the performance of the External Auditors and made recommendations on their appointment to the Board.
- Discussed and attended to the key aspects of business operations that would affect the profitability and growth of the Company and its subsidiaries.
- Reviewed the risk management and internal control systems of the Group for the year.
- Reviewed Internal Audit reports by external Internal Auditors to ensure the effectiveness of internal controls.
- Met and discussed with External Auditors and the Financial Controller, without the presence of management to discuss financial issues and other related matters thereof.
- Reviewed the quarterly management reports, which provided the detailed breakdown of income statements of the three subsidiaries, revenue analysis, principal markets of manufactured products, analysis of sales outlets, production output and capacity, etc.
- Reviewed and discussed Related Party Transactions (“RPT”) and Recurrent Related Party Transactions (“RRPT”) with the Group Financial Controller, the External Auditors and the Company Secretary, to ascertain if the transactions are conducted at arm’s length and on normal commercial terms, and such transactions are not detrimental to the interest of minority shareholders.

Duties and responsibilities of the Committee were discharged according to its Terms of Reference.

#### **INTERNAL AUDIT ACTIVITIES DURING THE YEAR**

Internal audit function was conducted by an outsourced professional firm with an objective that independent feedback and reviews will be provided to the Audit Committee and subsequently the Board of Directors. The Audit Committee reviewed through the findings of the internal auditors to ensure that any major weaknesses are recognized and rectified on a timely basis and an effective and efficient risk management and internal control systems are maintained.

Two (2) internal audit reports were provided to the Audit Committee this year. The internal auditors reported on their findings, recommended corrective measures to be taken by the management and the management responses thereto. Subsequently, the internal auditors followed up on the extent of their recommendations being implemented by the management.

During the financial year, there was no material internal control weakness that would have resulted in any significant loss to the Group.

Further review on internal control system was also done by the Audit Committee through discussion with relevant management during the Board meeting whereby other concerns were addressed.

# Board Committee

## NOMINATING COMMITTEE

All the three (3) Nominating Committee members appointed are Independent Non-Executive Directors and they are namely:-

- Mazrina Binti Arifin  
(Chairperson, Senior Independent Non-Executive Director – appointed on 13 November, 2013)
- Norita Binti Ja'afar  
(Member, Independent Non-Executive Director)
- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon  
(Member, Independent Non-Executive Director – appointed on 13 November, 2013)

The Nominating Committee is responsible for:-

- Reviewing composition of the Board and making recommendation on the appointment of new Director and Board Committees member to the Board.
- Conducting annual review on the required mix of skills, experience, core competencies, integrity and time commitment of the Directors, in order to determine if the Directors have effectively discharged their duties.
- Reviewing on an annual basis the appropriate balance and size of the Board for determination of the number and suitability of Directors on the Board.
- Recommending suitable orientation, educational and training programmes to continuously train and equip the existing and new Directors.
- Assessing the effectiveness of the Board, the Board Committees and the contribution of each individual director.
- Reviewing and assessing the gender diversity of the Board.
- Reviewing the succession plan of the Board.
- Assessing and recommending to the Board, the continuation of terms of office of Independent Directors while applying MCCG 2012.

The Committee may use the services of professional recruitment companies to source for the appropriate candidates for directorship. In carrying out its duties and responsibilities, the Nominating Committee will basically have full, free and unrestricted access to the Company's records, properties and personnel.

Nominating Committee conducts annual assessment on the effectiveness of the Board as a whole, the Board Committees and the contribution of each individual director, including independent non-executive directors as well as the managing director. These assessments are properly documented. The Board has been maintaining gender diversity since listed and has three female directors in the Board.

During the financial year, the Committee convened two (2) meetings on 13 November, 2013 and 17 December, 2013, with full attendance except Y. Bhg. Dato' Gooi who was absent from the November 2013 meeting.

## REMUNERATION COMMITTEE

All of the Committee members appointed are Non-Executive Directors. Members of the Remuneration Committee are namely:-

- Raja Khairul Anuar Bin Raja Mokhtar  
(Chairperson, Independent Non-Executive Director)
- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon  
(Member, Independent Non-Executive Director – appointed on 13 November, 2013)
- Teo Lee Teck  
(Member, Non-Independent Non-Executive Director – resigned on 18 February, 2014)
- Kerk Kar Han  
(Member, Non-Independent Non-Executive Director– appointed on 18 February, 2014)

The Remuneration Committee is responsible for:-

- Assessing the performance and commitment of the Group's Directors and senior management officers and ensuring their remuneration package reflects their involvement, responsibility undertaken, contributions and level of performance for the year.
- Recommending to the Board on the appropriateness of the remuneration package of the Directors and senior management officers based on their assessment.

The individual Directors, including Executive Directors and Non-Executive Directors (including the Non-Executive Chairman) should abstain from the deliberations and voting on decisions in respect of their own remuneration package and entitlement.

In carrying out its duties and responsibilities, the Remuneration Committee will in principle have full, free and unrestricted access to the Company's records, properties and personnel. The Remuneration Committee may obtain the advice of external consultants on the appropriateness of remuneration package.

One (1) meeting was held on 17 December, 2013 and all the Remuneration Committee members attended the meeting.

# Statement on Risk Management and Internal Control

## INTRODUCTION

The Board of Directors (“the Board”) of Hup Seng Industries Berhad is pleased to present its Statement on Risk Management and Internal Control for financial year ended 31 December, 2013. This Statement has been prepared pursuant to paragraph 15.26(b) of Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements, made reference to Malaysian Code on Corporate Governance 2012 (“the Code”) and guided by the Statement on Risk Management & Internal Control (Guidelines for Directors of Listed Issuers) (“the Guideline”). This statement outlines the nature and state of the risk management and internal control of the Group.

## BOARD RESPONSIBILITY

The Board acknowledges that it is responsible for the Group’s internal control and risk management system to safeguard shareholders’ investment and the Group’s assets as well as reviewing the adequacy and effectiveness of such system.

Because of the limitations that are inherent in any system of internal control, such systems can only manage rather than eliminate the risk of failure to achieve business objectives. Accordingly, this system can only provide reasonable and not absolute assurances against material misstatement or loss.

## RISK MANAGEMENT

The Board, through Senior Management and Audit Committee, ensures that there is an on-going process for identifying, evaluating and managing significant risks faced by the Group. This includes examining principal business risks in critical areas and identifying measures to mitigate these risks. This process is reviewed by the Audit Committee and the Board and accords with the Statement on Risk Management & Internal Control (Guidelines for Directors of Listed Issuers). The process has been in place during the year under review and up to the date of approval of this statement for inclusion in the annual report.

Within the Group, Executive Directors, Key Management Personnel and Heads of Department, are responsible for managing the risks of their respective sections and departments, and monthly management meetings are attended by all these personnel. During these monthly management meetings, significant risks identified will be discussed and tackled, and corresponding internal controls will be implemented. The significant risks identified and internal control measurements will also be brought to the attention of Board members at their scheduled meetings.

The abovementioned process serves as the on-going process used to identify, evaluate and manage risks faced by the Group during the financial year under review and up to the date of approval of this statement. The Board shall continue to evaluate the Group’s risk management process to ensure it remains relevant to the Group’s requirements.

## INTERNAL AUDIT FUNCTION

The responsibility for reviewing the adequacy and effectiveness of the internal control system has been delegated by the Board to the Audit Committee. In turn, the Audit Committee assesses the adequacy and effectiveness of the internal control system through independent reviews performed by the internal audit function, external auditors and Management.

The internal audit function is outsourced to a professional firm. During the financial year under review, the internal audit function conducted internal audit in accordance with the approved internal audit plan for the purposes of assessing the adequacy and effectiveness of the internal control system. The results of the audit and recommendations for improvement co-developed with Management were presented at the Audit Committee meetings. Although certain internal control weaknesses were identified, none of the weaknesses have resulted in any material losses or contingencies that would require separate disclosure in this annual report.

The cost incurred for the internal audit function in the financial year ended 31 December, 2013 amounted to RM42,000.

## KEY ELEMENTS OF INTERNAL CONTROL SYSTEM

The Group's internal control key processes include the following:

- » An organization structure which formally defines lines of responsibility and delegation of authority.
- » Policies and procedures of most operating units within the Group are documented in the Standard Practice Instructions.
- » Key functions such as corporate affairs, finance, tax, treasury and human resources are controlled centrally.
- » Incompatible responsibilities are properly segregated.
- » There is an annual budgeting and target setting process which includes forecasts for each operating unit with detailed reviews at all levels of operations.
- » Monetary limits are set up at different levels of authorized positions so that unauthorized transactions can be minimized.
- » There is effective reporting system in place to ensure timely generation of financial information for management review.
- » Operating units meetings are conducted regularly to review financial performance, business development and deliberate on management issues.
- » Managing Director and Executive Directors meet with senior management/all operating units to discuss and resolve key operational, financial and other key management issues. Significant issues are highlighted and discussed at Board meetings.
- » The Audit Committee has access to external auditors and their reports and meets with them to discuss on their findings and reports.
- » The Group has a policy on financial limits and approving authority for its operating and capital expenditure.

## CONCLUSION

The Board recognises the necessity to closely monitor the adequacy and effectiveness of the Group's system of risk management and internal control, taking into consideration the changing business environment. The Board shall continuously put in place appropriate action plans to further enhance the Group's system of risk management and internal control when necessary.

The Board is of the view that the risk management and internal control systems of the Group are satisfactory and shall take the appropriate and necessary measures, where required, to improve the Group's risk management and internal control system in meeting the Group's business objectives.

The Board has identified the Managing Director as CEO of the Company and also assigned Group Financial Controller as CFO of the Company in 2013. The Managing Director and CFO have given the assurance to the Board that the present risk management and internal control system is adequate and effective.

This Statement on Risk Management & Internal Control has been reviewed by the External Auditors in relation to paragraph 15.23 of the Main Market Listing Requirements. Such review was conducted according to the Recommended Practice Guide 5 ("RPG 5") issued by the Malaysian Institute of Accountants. RPG 5 does not require the external auditor to form an opinion on the adequacy and effectiveness of the risk management and internal control system of the Group.

# Financial Statements

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# Directors' Report

## Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

## Principal activity

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are manufacture and sales of biscuits and coffee mix, and dealers in biscuits, confectionery and other foodstuff.

There have been no significant changes in the nature of these activities during the financial year.

## Results

	Group RM	Company RM
Profit net of tax	36,744,846	29,579,913
Profit attributable to owners of the parent	36,744,846	29,579,913

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## Dividends

The amount of dividends paid by the Company since 31 December 2012 were as follows :

	RM
In respect of the financial year ended 31 December 2012 as reported in the directors' report of that year :	
Interim tax exempt (single-tier) dividend of 15 sen on 120,000,000 ordinary shares, declared on 13 March 2013 and paid on 24 April 2013	18,000,000
Special tax exempt (single-tier) dividend of 3 sen on 120,000,000 ordinary shares, declared on 13 March 2013 and paid on 24 April 2013	3,600,000
In respect of the financial year ended 31 December 2013 :	
Interim tax exempt (single-tier) dividend of 15 sen on 120,000,000 ordinary shares, declared on 12 September 2013 and paid on 24 October 2013	18,000,000
	39,600,000

**Dividends (cont'd)**

The Directors recommend an interim tax exempt (single-tier) of 5 sen and special tax exempt (single-tier) of 3 sen in respect of the financial year ended 31 December 2013 on 120,000,000 ordinary shares, amounting to a dividend payable of RM9,600,000. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, when approved, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2014.

**Directors**

The names of the Directors of the Company in office since the date of the last report and at the date of this report are :

Y. Bhg. Dato' Keh (Kerk) Chu Koh	(Chairman)
Kerk Chiew Siong	(Vice Chairman)
Kuo Choo Song	(Managing Director)
Kerk Chian Tung	(Executive Director)
Teo Lee Teck	(Non-Independent Non-Executive Director)
Kerk Kar Han	(Non-Independent Non-Executive Director)
Woon Chin Chan	(Independent Non-Executive Director, deceased on 9 October 2013)
Norita Binti Ja'afar	(Independent Non-Executive Director)
Mazrina Binti Arifin	(Independent Non-Executive Director)
Raja Khairul Anuar Bin Raja Mokhtar	(Independent Non-Executive Director)
Y. Bhg. Dato' Wee Hoe Soon	(Independent Non-Executive Director, appointed on 13 November 2013)
@ Gooi Hoe Soon	(Alternate Director to Woon Chin Chan, resigned on 9 October 2013)

**Directors' benefits**

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement, to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive benefits (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 8 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he/she is a member or with a company in which he/she has a substantial financial interest, except as disclosed in Note 21 to the financial statements.

**Directors' interests**

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

<b>The Company</b>	<b>&lt;----- Number of Ordinary Shares of RM0.50 Each -----&gt;</b>			
	<b>1 January 2013</b>	<b>Acquired</b>	<b>Sold</b>	<b>31 December 2013</b>
<b>Direct interest</b>				
Kuo Choo Song	436,000	–	286,000#	150,000
Y. Bhg. Dato' Keh (Kerk) Chu Koh	1,096,000	–	–	1,096,000
Teo Lee Teck	774,000	–	–	774,000
Kerk Chian Tung	2,060,000	–	–	2,060,000
Kerk Kar Han	708,000	223,000##	–	931,000
Kerk Chiew Siong	200,000	–	–	200,000
<b>Deemed interest</b>				
Kuo Choo Song	66,426,400	286,000	–	66,712,400*
Y. Bhg. Dato' Keh (Kerk) Chu Koh	61,912,000	–	–	61,912,000*
Teo Lee Teck	61,280,000	–	–	61,280,000*
Kerk Kar Han	61,236,000	–	–	61,236,000*
Kerk Chiew Siong	1,706,000	–	–	1,706,000**
<b>Holding company</b>				
<b>HSB Group Sdn Bhd</b>	<b>&lt;----- Number of Ordinary Shares of RM1 Each -----&gt;</b>			
	<b>1 January 2013</b>	<b>Acquired</b>	<b>Sold</b>	<b>31 December 2013</b>
<b>Direct Interest</b>				
Kuo Choo Song	1,099,506	–	–	1,099,506
Y. Bhg. Dato' Keh (Kerk) Chu Koh	3,030,988	–	–	3,030,988
Kerk Chiew Siong	3,756,871	–	–	3,756,871
Teo Lee Teck	2,150,103	–	–	2,150,103
Kerk Kar Han	1,534,192	–	–	1,534,192
<b>Deemed interest</b>				
Kuo Choo Song	5,818,459	–	–	5,818,459**
Y. Bhg. Dato' Keh (Kerk) Chu Koh	2,486,094	–	–	2,486,094**

# Being shares transferred to his son and daughter, Kuo Chee Hau and Kuo Lee Hun.

## Being shares transferred from his father, Ke (Kek) Kim Soon @ Kerk Choo Soon.

\* Deemed interested by virtue of his and/or his associates' interests in HSB Group Sdn Bhd pursuant to Section 6A of the Companies Act, 1965 and Section 134 of the Companies (Amendment) Act 2007.

\*\* Deemed interested by virtue of his interests pursuant to Section 134 of the Companies (Amendment) Act 2007.

Kuo Choo Song, Y. Bhg. Dato' Keh (Kerk) Chu Koh, Teo Lee Teck and Kerk Kar Han, by virtue of their interests in the Company, are deemed interested in the shares of the subsidiary companies to the extent that the Company has an interest. The other Directors in office at the end of the financial year had no interest in shares in the Company and its related corporations during the financial year.

**Other statutory information**

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts have been written off and adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render :
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist :
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors :
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet its obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

**Subsequent events**

Details of subsequent events are disclosed in Note 29 to the financial statements.

**Auditors**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 March 2014.

**Y. Bhg. Dato' Keh (Kerk) Chu Koh**

**Kuo Choo Song**

# Statement by Directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Y. Bhg. Dato' Keh (Kerk) Chu Koh and Kuo Choo Song, being two of the Directors of Hup Seng Industries Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 42 to 90 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the year then ended.

The supplementary information set out in Note 31 on page 91 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 March 2014.

**Y. Bhg. Dato' Keh (Kerk) Chu Koh**

**Kuo Choo Song**

# Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Quek Ah Kow, being the officer primarily responsible for the financial management of Hup Seng Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 42 to 91 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the abovenamed Quek Ah Kow )  
at Batu Pahat in the State of Johor )  
Darul Ta'zim on 19 March 2014 )

**Quek Ah Kow**

Before me,

**Ng Swee Chiang (J236)**  
Commissioner for Oaths

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# Independent Auditors' Report

To the members of Hup Seng Industries Berhad (Incorporated in Malaysia)

## **Report on the financial statements**

We have audited the financial statements of Hup Seng Industries Berhad, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 90.

## ***Directors' responsibility for the financial statements***

The directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

#### Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

#### Other reporting responsibilities

The supplementary information set out in Note 31 on page 91 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

#### Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**Ernst & Young**  
AF 0039  
Chartered Accountants

**Lee Ming Li**  
2983/03/14(J)  
Chartered Accountant

Johor Bahru, Malaysia  
Date: 19 March, 2014

# Statements of Comprehensive Income

For the financial year ended 31 December, 2013

	Note	2013 RM	Group 2012 RM
<b>Revenue</b>	4	251,407,055	247,818,145
Cost of sales	5	(156,828,994)	(159,924,152)
<b>Gross profit</b>		94,578,061	87,893,993
<b>Other items of income</b>			
Interest income		2,505,487	2,364,565
Other income		779,776	895,537
<b>Other items of expense</b>			
Administrative expenses		(17,644,701)	(17,435,317)
Selling and marketing expenses		(30,136,899)	(29,367,686)
Finance cost		–	(7)
<b>Profit before tax</b>	6	50,081,724	44,351,085
Income tax expense	9	(13,336,878)	(11,810,399)
<b>Profit net of tax, representing total comprehensive income for the year</b>		36,744,846	32,540,686
<b>Profit attributable to:</b>			
Owners of the parent		36,744,846	32,540,686
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		36,744,846	32,540,686
<b>Earnings per share attributable to owners of the parent (sen):</b>			
Basic, for profit for the year	10	30.62	27.12
Diluted, for profit for the year	10	30.62	27.12

Statements of Comprehensive Income (cont'd)  
For the financial year ended 31 December, 2013

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		Company	
	Note	2013 RM	2012 RM
Gross dividends from subsidiaries		31,824,000	46,512,400
Interest income		925,714	696,381
<b>Revenue</b>	4	32,749,714	47,208,781
Other income		—	—
Administrative expenses		(2,960,305)	(2,755,750)
<b>Profit before tax</b>	6	29,789,409	44,453,031
Income tax expense	9	(209,496)	(945,104)
<b>Profit net of tax, representing total comprehensive income for the year</b>		29,579,913	43,507,927
<b>Profit attributable to:</b>			
Owners of the parent		29,579,913	43,507,927
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		29,579,913	43,507,927

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Financial Position

As at 31 December, 2013

	Note	2013 RM	Group 2012 RM	2013 RM	Company 2012 RM
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	64,834,110	66,889,803	487,685	554,057
Investment properties	12	216,889	218,255	–	–
Investment in subsidiaries	13	–	–	54,686,703	54,686,703
Deferred tax assets	18	37,000	37,000	–	–
		65,087,999	67,145,058	55,174,388	55,240,760
<b>Current assets</b>					
Inventories	14	20,817,932	20,586,831	–	–
Trade and other receivables	15	35,872,644	36,275,153	53,950	59,813
Prepayments		2,017,310	727,961	14,423	15,097
Tax recoverable		262,021	796,908	262,021	796,908
Cash and bank balances	16	81,144,915	79,415,667	28,964,294	38,204,043
		140,114,822	137,802,520	29,294,688	39,075,861
<b>Total assets</b>		<b>205,202,821</b>	<b>204,947,578</b>	<b>84,469,076</b>	<b>94,316,621</b>
<b>Equity and liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	17	42,215,855	39,346,211	1,287,230	1,119,775
Income tax payable		4,872,092	4,401,800	–	–
		47,087,947	43,748,011	1,287,230	1,119,775
<b>Non-current liability</b>					
Deferred tax liabilities	18	7,727,972	7,957,511	5,590	503
<b>Total liabilities</b>		<b>54,815,919</b>	<b>51,705,522</b>	<b>1,292,820</b>	<b>1,120,278</b>
<b>Equity attributable to owners of the parent</b>					
Share capital	19	60,000,000	60,000,000	60,000,000	60,000,000
Share premium		14,333,133	14,333,133	14,333,133	14,333,133
Retained earnings	20	76,053,769	78,908,923	8,843,123	18,863,210
<b>Total equity</b>		<b>150,386,902</b>	<b>153,242,056</b>	<b>83,176,256</b>	<b>93,196,343</b>
<b>Total equity and liabilities</b>		<b>205,202,821</b>	<b>204,947,578</b>	<b>84,469,076</b>	<b>94,316,621</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Changes in Equity

For the financial year ended 31 December, 2013

Group	Note	<----- Attributable to owners of the parent ----->			Total RM
		<-- Non-distributable --> Share capital RM	Share premium RM	Distributable Retained earnings RM	
<b>At 1 January 2012</b>		60,000,000	14,333,133	72,768,237	147,101,370
<b>Total comprehensive income</b>		–	–	32,540,686	32,540,686
<b>Transaction with the owners</b>					
Dividends on ordinary shares	28	–	–	(26,400,000)	(26,400,000)
<b>Total transaction with the owners</b>		–	–	(26,400,000)	(26,400,000)
<b>At 31 December 2012</b>		60,000,000	14,333,133	78,908,923	153,242,056
<b>At 1 January 2013</b>		60,000,000	14,333,133	78,908,923	153,242,056
<b>Total comprehensive income</b>		–	–	36,744,846	36,744,846
<b>Transaction with the owners</b>					
Dividends on ordinary shares	28	–	–	(39,600,000)	(39,600,000)
<b>Total transaction with the owners</b>		–	–	(39,600,000)	(39,600,000)
<b>At 31 December 2013</b>		60,000,000	14,333,133	76,053,769	150,386,902

Statements of Changes in Equity (cont'd)  
For the financial year ended 31 December, 2013

Company	Note	<----- Attributable to owners of the parent ----->			Total RM
		<-- Non-distributable --> Share capital RM	Share premium RM	Distributable Retained earnings RM	
<b>At 1 January 2012</b>		60,000,000	14,333,133	1,755,283	76,088,416
<b>Total comprehensive income</b>		–	–	43,507,927	43,507,927
<b>Transaction with the owners</b>					
Dividends on ordinary shares	28	–	–	(26,400,000)	(26,400,000)
<b>Total transaction with the owners</b>		–	–	(26,400,000)	(26,400,000)
<b>At 31 December 2012</b>		60,000,000	14,333,133	18,863,210	93,196,343
<b>At 1 January 2013</b>		60,000,000	14,333,133	18,863,210	93,196,343
<b>Total comprehensive income</b>		–	–	29,579,913	29,579,913
<b>Transaction with the owners</b>					
Dividends on ordinary shares	28	–	–	(39,600,000)	(39,600,000)
<b>Total transaction with the owners</b>		–	–	(39,600,000)	(39,600,000)
<b>At 31 December 2013</b>		60,000,000	14,333,133	8,843,123	83,176,256

# Statements of Cash Flows

For the financial year ended 31 December, 2013

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>Operating activities</b>				
Profit before tax	50,081,724	44,351,085	29,789,409	44,453,031
Adjustments for :				
Allowance for doubtful debts	71,081	148,492	-	-
Bad debts written off	34,997	10,110	-	-
Depreciation of property, plant and equipment	4,382,357	4,221,948	97,577	130,394
Depreciation of investment property	1,366	1,394	-	-
Gain on disposal of property, plant and equipment	(9,023)	(6,914)	-	-
Interest expense	-	7	-	-
Interest income	(2,505,487)	(2,364,565)	(925,714)	(696,381)
Impairment loss on property, plant and equipment	-	195,769	-	-
Inventories written off	17,851	62,532	-	-
Property, plant and equipment written off	214,953	860,842	2,517	-
<b>Operating cash flows before changes in working capital</b>	52,289,819	47,480,700	28,963,789	43,887,044
(Increase)/decrease in inventories	(248,952)	1,743,324	-	-
Decrease/(increase) in trade and other receivables	296,431	(251,308)	5,863	13,439
(Increase)/decrease in prepayments	(1,289,349)	(318,547)	674	(5,405)
Increase in trade and other payables	2,869,644	122,668	167,455	42,307
<b>Cash flows from operations</b>	53,917,593	48,776,837	29,137,781	43,937,385
Income taxes( paid)/refund	(12,561,238)	(9,562,326)	330,478	270,423
<b>Net cash flows from operating activities</b>	41,356,355	39,214,511	29,468,259	44,207,808

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Cash Flows (cont'd)  
For the financial year ended 31 December, 2013

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>Investing activities</b>				
Interest received	2,505,487	2,364,565	925,714	696,381
Proceeds from disposal of property, plant and equipment	148,183	370,233	–	–
Purchase of property, plant and equipment	(2,680,777)	(3,988,473)	(33,722)	–
<b>Net cash flows (used in)/from investing activities</b>	<b>(27,107)</b>	<b>(1,253,675)</b>	<b>891,992</b>	<b>696,381</b>
<b>Financing activities</b>				
Interest paid	–	(7)	–	–
Dividends paid on ordinary shares	(39,600,000)	(32,400,000)	(39,600,000)	(32,400,000)
<b>Net cash flows used in financing activities</b>	<b>(39,600,000)</b>	<b>(32,400,007)</b>	<b>(39,600,000)</b>	<b>(32,400,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,729,248</b>	<b>5,560,829</b>	<b>(9,239,749)</b>	<b>12,504,189</b>
<b>Cash and cash equivalents at 1 January</b>	<b>79,415,667</b>	<b>73,854,838</b>	<b>38,204,043</b>	<b>25,699,854</b>
<b>Cash and cash equivalents at 31 December (Note 16)</b>	<b>81,144,915</b>	<b>79,415,667</b>	<b>28,964,294</b>	<b>38,204,043</b>

# Notes to the Financial Statements

31 December, 2013

## 1. Corporate information

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur. The principal place of business of the Company is located at 14, Jalan Kilang, Kawasan Perindustrian Tongkang Pecah, 83010 Batu Pahat, Johor Darul Ta'zim.

The immediate and ultimate holding company of the Company is HSB Group Sdn. Bhd., which is incorporated and domiciled in Malaysia. Related companies are those companies within the HSB Group Sdn. Bhd. group.

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries are manufacture and sales of biscuits and coffee mix, and dealers in biscuits, confectionery and other foodstuff. There have been no significant changes in the nature of the principal activities during the financial year.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

These financial statements for the year ended 31 December 2013 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Group and of the Company have been prepared on the historical cost basis.

The financial statements are presented in Ringgit Malaysia (RM) except when otherwise indicated.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2013, the Group and the Company adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2013.

**2. Summary of significant accounting policies (cont'd)****2.2 Changes in accounting policies (cont'd)**

Description	Effective for annual periods beginning on or after
Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Annual Improvements 2009-2011 Cycle	1 January 2013
Amendments to MFRS 1: Government Loans	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except for discussed below:

**MFRS 13 Fair Value Measurement**

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price. As a result of the guidance in MFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. MFRS 13 also requires additional disclosures.

Application of MFRS 13 has not materially impacted the fair value measurement of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

**2.3 Standards and interpretations issued but not yet effective**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

## 2. Summary of significant accounting policies (cont'd)

### 2.3 Standards and interpretations issued but not yet effective (cont'd)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities	1 January 2014
Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21 Levies	1 January 2014
Amendments to MFRS 119: <i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

#### MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

- (i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation (cont'd)

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- (i) The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- (ii) Potential voting rights held by the Company, other vote holders or other parties;
- (iii) Rights arising from other contractual arrangements; and
- (iv) Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations involving entities under common control are accounted for by applying the merger method under the MASB Standard No. 21 - Business Combinations except for In-Comix Food Industries Sdn. Bhd. which is accounted for by applying the acquisition method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as merger reserve. The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities have always been combined since the date the entities had come under common control.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

#### ***Business combinations***

Acquisition of subsidiary is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation (cont'd)

#### *Business combinations (cont'd)*

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for goodwill is set out in Note 2.8.

### 2.5 Foreign currency

#### (a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

#### (b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

All exchange differences are recognised in profit or loss.

**2. Summary of significant accounting policies (cont'd)****2.6 Property, plant and equipment and depreciation**

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. Land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated. Leasehold land is amortised over the lease term of 60 and 99 years on the straight line method. Capital work-in-progress are not depreciated as these assets are not available for use. Depreciation on other property, plant and equipment is computed on the straight line method over the following estimated useful life of the assets :

Buildings	50 years
Plant and equipment	3 - 15 years
Motor vehicles	5 years
Other assets (other than capital work-in-progress)	3 - 15 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

**2.7 Investment properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment losses. Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on the straight line method over the following estimated useful life of the assets :

Buildings	50 years
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Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

## 2. Summary of significant accounting policies (cont'd)

### 2.8 Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

### 2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

## 2. Summary of significant accounting policies (cont'd)

### 2.10 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

- (i) Power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) Exposure, or rights, to variable returns from its investment with the investee; and
- (iii) The ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

### 2.11 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

#### (a) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that is held primarily for trading purposes are presented as current whereas financial assets that is not held primarily for trading purposes are presented as current or non-current based on the settlement date.

## 2. Summary of significant accounting policies (cont'd)

### 2.11 Financial assets (cont'd)

#### (b) Loans and receivables

Financial assets include trade and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

#### (c) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Held-to-maturity investments are classified as non-current assets, except for those having maturity within 12 months after the reporting date which are classified as current.

#### (d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

## 2. Summary of significant accounting policies (cont'd)

### 2.11 Financial assets (cont'd)

#### (d) Available-for-sale financial assets (cont'd)

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group and the Company commit to purchase or sell the asset.

The Group does not have financial assets classified as fair value through profit and loss, held-to-maturity investments and available-for-sale financial assets during 2013 and 2012.

### 2.12 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### (a) Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account. Bad debts are written off when identified.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### (b) Unquoted equity securities carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Impairment of financial assets (cont'd)

#### (c) Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on available-for-sale equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a first-in first-out basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 2. Summary of significant accounting policies (cont'd)

### 2.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

#### (a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Group and the Company have not designated any financial liabilities at fair value through profit or loss.

#### (b) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables and other payables.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.17 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

## 2. Summary of significant accounting policies (cont'd)

### 2.18 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

### 2.19 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available, are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Policies and procedures are determined by senior management for both recurring fair value measurement and for non-recurring measurement.

## 2. Summary of significant accounting policies (cont'd)

### 2.19 Fair value measurement (cont'd)

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided by senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, classes of assets and liabilities are determined based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 2.20 Current versus non-current classification

Assets and liabilities in statement of financial position are presented based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 2.21 Employee benefits

#### (a) Defined contribution plans

The Group makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (b) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Employee entitlements to annual leave are recognised as liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

## 2. Summary of significant accounting policies (cont'd)

### 2.22 Leases

#### (a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### (b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.23(d).

### 2.23 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

#### (a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer and measured net of sales taxes.

#### (b) Interest income

Interest income is recognised on an accrual basis using the effective yield method.

#### (c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

#### (d) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

## 2. Summary of significant accounting policies (cont'd)

### 2.24 Income tax

#### (a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

#### (b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax items in relation to the underlying transaction that do not affect profit or loss are recognised either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2. Summary of significant accounting policies (cont'd)

### 2.24 Income tax (cont'd)

#### (c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

### 2.25 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 27, including the factors used to identify the reportable segments and the measurement basis of segment information.

### 2.26 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

### 2.27 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

## 3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

### 3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 3. Significant accounting estimates and judgements (cont'd)

#### 3.1 Key sources of estimation uncertainty (cont'd)

##### (a) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In last financial year, the Group has recognised an impairment loss in respect of a subsidiary's property, plant and equipment. Where there is objective evidence of impairment, the Group will carry out the impairment test based on a variety of estimation including the value in use of the cash-generating units ("CGU") to which property, plant and equipment are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment of the Group and the Company as at 31 December 2013 were RM64,834,110 (2012 : RM66,889,803) and RM487,685 (2012 : RM554,057) respectively. Further details of the impairment losses for property, plant and equipment are disclosed in Note 11(a).

##### (b) Impairment of investment in subsidiaries, loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Further details of the carrying value and impairment losses recognised for investment in subsidiaries are disclosed in Note 13. The carrying amount of the Group's loans and receivables at the reporting date is disclosed in Note 15.

##### (c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statements of financial position and the amount of unrecognised tax losses and unrecognised temporary differences. The carrying value of recognised tax losses of the Group as at 31 December 2012 was RM31,808.

##### (d) Useful lives of property, plant and equipment

The cost of property, plant and equipment are depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these property, plant and equipment to be within 50 years. These are common life expectancies applied in the food and beverage industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of this asset, therefore, future depreciation charges could be revised. The carrying amount of the Company's property, plant and equipment as at the reporting date is disclosed in Note 11.

#### 4. Revenue

Revenue of the Group represents the invoiced value of goods sold less returns and trade discounts. Intragroup transactions are excluded from the Group's revenue.

Revenue of the Company principally consists of dividend income from subsidiaries and interest income.

#### 5. Cost of sales

Cost of sales represents cost of inventories sold.

#### 6. Profit before tax

The following items have been included in arriving at profit before tax:

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Auditors' remuneration				
Statutory audits	109,000	109,000	33,000	33,000
Other services	47,100	47,800	11,800	11,700
Underprovision in prior year	2,500	-	1,000	-
Allowance for doubtful debts (Note 15)	71,081	148,492	-	-
Bad debts written off	34,997	10,110	-	-
Employee benefits expenses excluding directors' remuneration (Note 7)	37,414,349	34,902,258	293,500	248,112
Directors' fees (Note 8)	968,833	835,000	595,258	550,000
Directors' other emoluments (Note 8)	8,501,090	8,128,643	1,392,489	1,441,138
Depreciation of property, plant and equipment (Note 11)	4,382,357	4,221,948	97,577	130,394
Depreciation of investment properties (Note 12)	1,366	1,394	-	-
Impairment loss on property, plant and equipment (Note 11)	-	195,769	-	-
Inventories written off	17,851	62,532	-	-
Property, plant and equipment written off	214,953	860,842	2,517	-
Realised exchange losses	103,591	329,984	-	-
Rental expenses	237,168	225,962	30,150	29,400

and crediting :

Gross dividend income	-	-	31,824,000	46,512,400
Gain on disposal of property, plant and equipment	9,023	6,914	-	-
Interest income	2,505,487	2,364,565	925,714	696,381
Reversal of impairment loss on trade receivables (Note 15)	52,559	39,093	-	-
Rental income	19,350	19,080	-	-

**7. Employee benefits expense**

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Wages and salaries	33,431,423	31,085,850	259,464	219,195
Defined contribution plan	3,525,493	3,380,336	32,500	27,677
Social security costs	342,922	328,107	1,536	1,240
Other staff related expenses	114,511	107,965	-	-
	37,414,349	34,902,258	293,500	248,112

**8. Key management personnel compensation**

The details of remuneration for key management during the year are as follows :

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>Directors of the Company</b>				
Executive :				
Salaries and other emoluments	1,320,046	1,297,146	1,318,346	1,295,946
Defined contribution plan	48,943	120,692	48,943	120,692
Fees	165,239	140,000	120,000	110,000
Benefits-in-kind	42,642	42,434	39,908	40,767
	1,576,870	1,600,272	1,527,197	1,567,405
Non-Executive (but holding executive position in subsidiaries):				
Salaries and other emoluments	2,578,821	2,534,595	13,300	14,000
Defined contribution plan	306,143	300,872	-	-
Fees	353,239	310,000	240,000	220,000
Benefits-in-kind	133,385	129,883	-	1,683
	3,371,588	3,275,350	253,300	235,683
Non-Executive :				
Other emoluments	11,900	10,500	11,900	10,500
Fees	235,258	220,000	235,258	220,000
	247,158	230,500	247,158	230,500

8. Key management personnel compensation (cont'd)

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>Directors of Subsidiaries</b>				
Executive :				
Salaries and other emoluments	3,784,065	3,452,155	-	-
Defined contribution plan	451,172	411,883	-	-
Fees	215,097	135,000	-	-
Benefits-in-kind	170,981	172,419	-	-
	4,621,315	4,171,457	-	-
Non-Executive				
Other emoluments	-	800	-	-
Fees	-	30,000	-	-
	-	30,800	-	-
<b>Total</b>	<b>9,816,931</b>	<b>9,308,379</b>	<b>2,027,655</b>	<b>2,033,588</b>
Directors' remuneration analysed by:				
Salaries and other emoluments	7,694,832	7,295,196	1,343,546	1,320,446
Defined contribution plan	806,258	833,447	48,943	120,692
Total directors' remuneration (excluding benefits-in-kind) (Note 6)				
	8,501,090	8,128,643	1,392,489	1,441,138
Fees (Note 6)	968,833	835,000	595,258	550,000
Benefits-in-kind	347,008	344,736	39,908	42,450
<b>Total directors' remuneration</b>	<b>9,816,931</b>	<b>9,308,379</b>	<b>2,027,655</b>	<b>2,033,588</b>

The number of directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

	Number of Directors	
	2013	2012
Executive Directors:		
RM500,001 - RM550,000	1	1
RM1,000,001 - RM1,050,000	1	-
RM1,050,001 - RM1,100,000	-	1
Non-Executive Directors:		
RM0 - RM50,000	2	-
RM50,001 - RM100,000	3	4
RM400,001 - RM450,000	1	1
RM550,001 - RM600,000	-	1
RM600,001 - RM650,000	1	-
RM1,100,001 - RM1,150,000	1	1
RM1,151,001 - RM1,200,000	1	1

The remuneration of Non-Executive Directors is inclusive of 4 directors holding executive positions in subsidiaries.

**9. Income tax expense**Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Statements of comprehensive income:				
Current income tax :				
- Malaysia income tax	13,601,926	11,763,329	204,926	810,000
- (Over)/underprovision in prior years	(35,509)	120,524	(517)	136,230
	13,566,417	11,883,853	204,409	946,230
Deferred tax (Note 18) :				
- Origination and reversal of temporary differences	(246,913)	(70,125)	5,087	(1,126)
- Under/(over)provision in prior years	17,374	(3,329)	-	-
	(229,539)	(73,454)	5,087	(1,126)
Income tax expense recognised in profit or loss	13,336,878	11,810,399	209,496	945,104

Reconciliation between tax expense and accounting profit

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2013 and 2012 are as follows :

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Profit before tax	50,081,724	44,351,085	29,789,409	44,453,031
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	12,520,431	11,087,771	7,447,352	11,113,258
Adjustments :				
Income not subject to tax	-	-	(7,956,000)	(10,947,000)
Non-deductible expenses	1,041,582	902,599	718,661	642,616
Expenses with double deduction	(207,000)	(185,561)	-	-
Benefits from utilisation of tax incentive	-	(111,605)	-	-
(Over)/underprovision of income tax expense in prior years	(35,509)	120,524	(517)	136,230
Under/(over)provision of deferred tax in prior years	17,374	(3,329)	-	-
Income tax expense recognised in profit or loss	13,336,878	11,810,399	209,496	945,104

**9. Income tax expense (cont'd)**

Domestic income tax is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the year.

**10. Earnings per share**

Earnings per share amounts are calculated by dividing profit for the year, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

	<b>2013</b>	<b>Group 2012</b>
Profit net of tax attributable to owners of the parent (RM)	36,744,846	32,540,686
Weighted average number of ordinary shares in issue	120,000,000	120,000,000
Basic earnings per share (sen)	30.62	27.12
Diluted earnings per share (sen)	30.62	27.12

## 11. Property, plant and equipment

Group	Freehold land and buildings RM	Long term leasehold land and buildings RM	Short term leasehold land and buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
<b>Cost</b>							
<b>At 1 January 2012</b>	19,185,477	1,929,536	28,799,805	56,464,923	14,849,866	7,346,150	128,575,757
Additions	315,963	-	599,641	1,057,059	1,380,679	635,131	3,988,473
Disposals/written off	-	-	-	(8,179,322)	(1,068,367)	(60,458)	(9,308,147)
Reclassification from investment property	57,390	-	-	-	-	-	57,390
Reclassification	-	-	440	-	1,000	(1,440)	-
<b>At 31 December 2012 and 1 January 2013</b>	19,558,830	1,929,536	29,399,886	49,342,660	15,163,178	7,919,383	123,313,473
Additions	99,104	-	99,361	965,036	953,820	563,456	2,680,777
Disposals/written off	-	-	-	(1,357,609)	(602,953)	(292,239)	(2,252,801)
Reclassification	-	-	214,150	-	-	(214,150)	-
<b>At 31 December 2013</b>	19,657,934	1,929,536	29,713,397	48,950,087	15,514,045	7,976,450	123,741,449

11. Property, plant and equipment (cont'd)

Group	Freehold land and buildings RM	Long term leasehold land and buildings RM	Short term leasehold land and buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
<b>Accumulated depreciation and impairment loss:</b>							
<b>At 1 January 2012</b>	3,157,646	279,516	4,541,522	39,010,850	8,365,735	4,728,651	60,083,920
Depreciation charge for the year (Note 6)	298,814	29,457	543,517	1,833,426	1,130,719	386,015	4,221,948
Disposals/written off	-	-	-	(7,272,793)	(772,511)	(38,682)	(8,083,986)
Reclassification from investment property	6,019	-	-	-	-	-	6,019
Impairment loss recognised in profit or loss (Note 6)	-	-	-	195,769	-	-	195,769
<b>At 31 December 2012 and 1 January 2013</b>	3,462,479	308,973	5,085,039	33,767,252	8,723,943	5,075,984	56,423,670
Depreciation charge for the year (Note 6)	295,248	29,111	539,528	1,891,751	1,010,823	615,896	4,382,357
Disposals/written off	-	-	-	(1,148,859)	(495,554)	(254,275)	(1,898,688)
<b>At 31 December 2013</b>	3,757,727	338,084	5,624,567	34,510,144	9,239,212	5,437,605	58,907,339
<b>Net carrying amount:</b>							
At 31 December 2012	16,096,351	1,620,563	24,314,847	15,575,408	6,439,235	2,843,399	66,889,803
At 31 December 2013	15,900,207	1,591,452	24,088,830	14,439,943	6,274,833	2,538,845	64,834,110

## 11. Property, plant and equipment (cont'd)

Company	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Total RM
<b>Cost</b>				
<b>At 1 January 2012 and 31 December 2012 and 1 January 2013</b>	33,058	12,691	884,039	929,788
Additions	33,542	180	–	33,722
Written off	(3,383)	–	–	(3,383)
<b>At 31 December 2013</b>	63,217	12,871	884,039	960,127
<b>Accumulated depreciation</b>				
<b>At 1 January 2012</b>	26,305	9,711	209,321	245,337
Charge for the year (Note 6)	1,005	294	129,095	130,394
<b>At 31 December 2012 and 1 January 2013</b>	27,310	10,005	338,416	375,731
Charge for the year (Note 6)	7,774	564	89,239	97,577
written off	(866)	–	–	(866)
<b>At 31 December 2013</b>	34,218	10,569	427,655	472,442
<b>Net carrying amount:</b>				
At 31 December 2012	5,748	2,686	545,623	554,057
At 31 December 2013	28,999	2,302	456,384	487,685

- (a) In prior year, the management of Hup Seng Perusahaan Makanan (M) Sdn. Bhd., a subsidiary of the Group, carried out a review of the recoverable amount of its property, plant and equipment. The recoverable amount was based on value-in-use and was determined at the cash-generating unit ("CGU"). In determining value-in-use for the CGU, the cash flows were discounted at a rate of 10% on a pre-tax basis. An impairment loss of RM195,769, representing the write-down of the assets to the recoverable amount was recognised in "Cost of Sales" line item of the statement of comprehensive income for the financial year ended 31 December 2012.
- (b) Other assets include computer, office equipment, electrical installation, renovation, furniture and fittings and capital work-in-progress which comprises machinery under installation amounting to RM91,513 (2012 : RM214,150).

**11. Property, plant and equipment (cont'd)**

- (c) During the financial year, the Group and the Company conducted an operational efficiency review on its property, plant and equipment. The Group and the Company changed its method of computing depreciation from reducing balance method to straight-line method and revised the estimates of the remaining useful life of its property, plant and equipment. The changes in method and revision in estimate have been applied on a prospective basis from 1 January 2013. The effects of above revision on depreciation charge in current and future periods are as follows :

	2013 RM	2014 RM	2015 RM	2016 and subsequent years RM
<b>Group</b>				
Increase/(decrease) in depreciation expense	432,874	782,636	1,100,136	(2,315,646)
<b>Company</b>				
Increase/(decrease) in depreciation expense	1,058	17,956	32,369	(51,383)

**12. Investment properties**

	2013 RM	Group 2012 RM
<b>Cost Model</b>		
At 1 January	218,255	271,020
Reclassification to property, plant and equipment	–	(51,371)
Depreciation charge for the year (Note 6)	(1,366)	(1,394)
At 31 December	216,889	218,255
Fair value of investment properties (Note 24)	334,365	335,733

These properties are held to earn rentals or for capital appreciation or both.

**13. Investment in subsidiaries**

	<b>Company</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares, at cost	67,914,211	67,914,211
Less : Impairment loss	(13,227,508)	(13,227,508)
	<b>54,686,703</b>	<b>54,686,703</b>

The subsidiary companies are :

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>Proportion (%) of ownership interest</b>	
			<b>2013</b>	<b>2012</b>
Hup Seng Perusahaan Makanan (M) Sdn. Bhd.	Malaysia	Manufacture and sales of biscuits	100%	100%
Hup Seng Hoon Yong Brothers Sdn. Bhd.	Malaysia	Sales and distribution of biscuits, confectionery and other foodstuff	100%	100%
In-Comix Food Industries Sdn. Bhd.	Malaysia	Manufacture and wholesale of coffee mix and all kinds of foodstuff	100%	100%

**14. Inventories**

	<b>Group</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
At cost :		
Raw materials	9,054,564	9,250,893
Finished goods	4,071,887	4,175,590
Spares and fuel	4,843,114	4,642,735
Trading inventories	1,616,077	1,260,634
Work-in-progress	261,219	324,387
	<b>19,846,861</b>	<b>19,654,239</b>
At net realisable value:		
Containers	971,071	932,592
	<b>20,817,932</b>	<b>20,586,831</b>

Inventories of containers are stated at estimated net realisable value based on the estimated quantity of tin containers in circulation at the date of the statement of financial position.

15. Trade and other receivables

	Group	
	2013 RM	2012 RM
<b>Current</b>		
<b>Trade receivables</b>		
Third parties	35,453,983	35,059,460
Less : Allowance for doubtful debts	(270,620)	(324,317)
<b>Trade receivables, net</b>	<b>35,183,363</b>	<b>34,735,143</b>
<b>Other receivables</b>		
Deposits	148,911	138,346
Interest receivable from fixed and short term deposits	160,702	116,859
Sundry receivables	379,668	1,284,805
	689,281	1,540,010
<b>Total trade and other receivables (current), represented loans and receivables</b>	<b>35,872,644</b>	<b>36,275,153</b>
	<b>Company</b>	
	<b>2013 RM</b>	<b>2012 RM</b>
<b>Other receivables</b>		
Deposits	11,500	11,500
Interest receivable from fixed and short term deposits	42,450	48,313
<b>Total trade and other receivables (current), represented loans and receivables</b>	<b>53,950</b>	<b>59,813</b>

**Trade receivables**

Trade receivables are non-interest bearing and are generally on 30 to 60 day (2012: 30 to 60 day) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

**15. Trade and other receivables (cont'd)**Ageing analysis of trade receivables

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

	2013 RM	Group 2012 RM
Neither past due nor impaired	24,905,840	25,349,563
1 to 30 days past due not impaired	6,261,762	6,351,071
31 to 60 days past due not impaired	1,929,882	2,059,900
61 to 90 days past due not impaired	452,008	223,831
91 to 120 days past due not impaired	247,908	395,160
More than 121 days past due not impaired	1,386,323	355,618
	10,277,883	9,385,580
Impaired	270,260	324,317
	35,453,983	35,059,460

Receivables that are neither past due nor impaired

Trade receivables and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM10,277,883 (2012 : RM9,385,580) that are past due at the reporting date but not impaired.

At the reporting date, trade receivables arising from export sales amounting to RM440,204 (2012 : RM577,445) have been arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based. The remaining balance of receivables that are past due but not impaired are unsecured in nature. Although these balances are unsecured in nature, they are mostly due from creditworthy customers.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

**15. Trade and other receivables (cont'd)**

Movement in allowance accounts (individually impaired):

	<b>Group</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
At 1 January	324,317	240,778
Charge for the year (Note 6)	71,081	148,492
Written off	(72,219)	(25,860)
Reversal of impairment losses (Note 6)	(52,559)	(39,093)
<b>At 31 December</b>	<b>270,620</b>	<b>324,317</b>

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

**16. Cash and bank balances**

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Deposits with licensed banks	75,872,418	69,979,561	28,732,418	35,000,000
Cash and bank balances	5,272,497	9,436,106	231,876	3,204,043
<b>Cash and cash equivalents</b>	<b>81,144,915</b>	<b>79,415,667</b>	<b>28,964,294</b>	<b>38,204,043</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day to one year depending on the immediate cash requirements of the Group and the Company, and earn interests at the respective short-term deposit rates.

The weighted average effective interest rates (per annum) for deposits with licensed banks as at the reporting date were as follows:

	<b>Interest rate</b>	
	<b>2013</b>	<b>2012</b>
	<b>%</b>	<b>%</b>
Group	3.66	3.14
Company	3.22	2.80

**17. Trade and other payables**

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<b>Current</b>				
<b>Trade payables</b>				
Third parties	19,211,840	19,333,394	–	–
<b>Other payables</b>				
Payroll liabilities	8,682,346	8,001,056	150,568	141,855
Duties and other taxes payable	1,068,168	1,047,013	–	–
Sundry suppliers	2,444,341	2,040,311	41,532	–
Accrued expenses	8,246,964	6,460,389	1,095,130	977,920
Containers refundable deposits	2,562,196	2,464,048	–	–
	23,004,015	20,012,817	1,287,230	1,119,775
Total trade and other payables, represented total financial liabilities carried at amortised cost	42,215,855	39,346,211	1,287,230	1,119,775

**Trade payables**

Trade payables are non-interest bearing. Trade payables are normally settled on 30-90 day (2012 : 30-90 day) terms.

**18. Deferred tax liabilities/(assets)**

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
At 1 January	7,920,511	7,993,965	503	1,629
Recognised in profit or loss (Note 9)	(229,539)	(73,454)	5,087	(1,126)
At 31 December	7,690,972	7,920,511	5,590	503
Presented after appropriate offsetting as follows :				
Deferred tax assets	(292,643)	(312,545)	(11,048)	(10,648)
Deferred tax liabilities	7,983,615	8,233,056	16,638	11,151
	7,690,972	7,920,511	5,590	503

**18. Deferred tax liabilities/(assets) (cont'd)**

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows :

**Deferred tax liabilities of the Group :**

	<b>Property, plant and equipment</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
At 1 January	8,233,056	8,617,758
Recognised in profit or loss	(249,441)	(384,702)
<b>At 31 December</b>	<b>7,983,615</b>	<b>8,233,056</b>

**Deferred tax assets of the Group :**

	<b>Unutilised tax losses</b>	<b>Unabsorbed capital allowances</b>	<b>Others</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
At 1 January 2013	(31,808)	–	(280,737)	(312,545)
Recognised in profit or loss	31,808	–	(11,906)	19,902
<b>At 31 December 2013</b>	<b>–</b>	<b>–</b>	<b>(292,643)</b>	<b>(292,643)</b>
At 1 January 2012	(159,508)	(57,273)	(407,012)	(623,793)
Recognised in profit or loss	127,700	57,273	126,275	311,248
<b>At 31 December 2012</b>	<b>(31,808)</b>	<b>–</b>	<b>(280,737)</b>	<b>(312,545)</b>

**Deferred tax liability of the Company :**

	<b>Property, plant and equipment</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
At 1 January	11,151	12,031
Recognised in profit or loss	5,487	(880)
<b>At 31 December</b>	<b>16,638</b>	<b>11,151</b>

**18. Deferred tax liabilities/(assets) (cont'd)****Deferred tax asset of the Company :**

	<b>2013 RM</b>	<b>Others 2012 RM</b>
At 1 January	(10,648)	(10,402)
Recognised in profit or loss	(400)	(246)
At 31 December	<b>(11,048)</b>	<b>(10,648)</b>

**19. Share capital**

	<b>Number of Ordinary Shares</b>		<b>Amount</b>	
	<b>2013</b>	<b>2012</b>	<b>2013 RM</b>	<b>2012 RM</b>
Authorised :				
At 1 January/31 December	200,000,000	200,000,000	100,000,000	100,000,000
Issued and fully paid :				
At 1 January/31 December	120,000,000	120,000,000	60,000,000	60,000,000

**20. Retained earnings**

The Company may distribute dividends out of its entire retained earnings as at 31 December 2013 and 31 December 2012 under the single tier system.

**21. Related party transactions**

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	<b>Note</b>	<b>2013 RM</b>	<b>2012 RM</b>
<b>Group</b>			
Rental of premises payable to :			
- Hup Seng Brothers Holdings Sdn. Bhd.	(i)	120,000	116,400
<b>Company</b>			
From subsidiary companies :			
Dividend received		31,824,000	46,512,400

## 21. Related party transactions (cont'd)

The Directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established under mutually agreed terms.

Note :

- (i) Certain directors of the Company and subsidiaries are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd.
- (b) Compensation of key management during the year was as follows :

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Short-term employee benefits	9,010,673	8,474,932	1,978,712	1,912,896
Defined contribution plan	806,258	833,447	48,943	120,692
	9,816,931	9,308,379	2,027,655	2,033,588

## 22. Capital commitments

	Group	
	2013 RM	2012 RM
Capital expenditure :		
Contracted but not provided for property, plant and equipment	4,895,880	385,767

## 23. Contingent liabilities (unsecured)

The Company has given corporate guarantee to banks for bank guarantee and banking facilities extended to subsidiaries. None of the banking facilities were utilised as at the reporting date and the outstanding bank guarantee as at reporting date is RM610,600 (2012 : RM578,000).

The value of financial guarantees provided by the Company to its subsidiaries is determined by reference to the difference in the interest rates, by comparing the actual rates charged by the bank if these guarantees has not been available. The directors have assessed the fair value of these financial guarantees to have no material financial impact on the results and the accumulated profits of the Company.

## 24. Fair value of financial instruments

### Determination of fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

**24. Fair value of financial instruments (cont'd)**

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	<u>Note</u>
Trade and other receivables (current)	15
Trade and other payables (current)	17

The carrying amounts of the trade and other receivables and payables are reasonable approximation of their fair values due to their relatively short maturity periods.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets by valuation technique :

Level 1 : Quoted (unadjusted) prices in active markets for identical assets and liabilities.

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013, the Group held the following assets disclosed at fair value :

	<b>Total RM</b>	<b>Level 1 RM</b>	<b>Level 2 RM</b>	<b>Level 3 RM</b>
<b>At 31 December 2013</b>				
Investment Properties (Note 12)	334,365	–	–	334,365
<b>At 31 December 2012</b>				
Investment Properties (Note 12)	335,733	–	–	335,733

For investment properties, the Group used the fair value which has been determined based on valuation performed on 21 December 2009 adjusted by the depreciation rate of 2% per annum. The valuation techniques is based on open market values basis.

There were no transfers between the various fair value measurement levels during the financial year.

**25. Financial risk management objectives and policies**

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and foreign currency risk.

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer, Head of Treasury and Head of Credit Control. The audit committee provides independent oversight to the effectiveness of the risk management process.

It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken and do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

## 25. Financial risk management objectives and policies (cont'd)

### (a) Credit risk

Credit risk is the risk of loss that and may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Head of Credit Control.

#### Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Information regarding credit enhancements for trade receivables is disclosed in Note 15.

#### Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date is as follows:

	Group			
	2013			2012
	RM	% of total	RM	% of total
<b>By country:</b>				
Malaysia	31,417,296	89%	30,413,427	87%
Asia	2,558,200	7%	3,375,800	10%
Other countries	1,207,867	4%	945,916	3%
	35,183,363	100%	34,735,143	100%

	Group			
	2013			2012
	RM	% of total	RM	% of total
<b>By industry sectors:</b>				
Biscuits	3,062,372	9%	3,975,345	11%
Beverages	704,013	2%	346,371	1%
Trading	31,416,978	89%	30,413,427	88%
	35,183,363	100%	34,735,143	100%

**25. Financial risk management objectives and policies (cont'd)****(a) Credit risk (cont'd)**Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired is disclosed in Note 15. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable banks with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 15.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain sufficient levels of cash or cash convertible investments to meet its working capital requirements and maintain available banking facilities at a reasonable level to its overall debt position.

The table below summarises the maturity profile of the Group's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	<b>2013</b>	<b>Group</b>	<b>2012</b>
	<b>RM</b>		<b>RM</b>
Trade and other payables			
- On demand or within 1 year	42,215,855		39,346,211

**(c) Foreign currency risk**

The Group is exposed to transactional currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations to which they relate. Foreign exchange exposures in transactional currencies other than functional currency of the Group are kept to an acceptable level. The Group does not engage in any formal hedging activities.

Sensitivity analysis of foreign exchange rate changes

	<b>As at</b>		<b>As at</b>
	<b>2013</b>		<b>2012</b>
RM/United States Dollars (USD) exchange rate	+/- 2.00%	+/-	2.00%
USD denominated accounts receivable (RM)	1,667,748	1,402,329	
Net income (RM)	+/- 33,355	+/-	28,047
RM/Singapore Dollars (SGD) exchange rate	+/- 2.50%	+/-	2.50%
SGD denominated accounts receivable (RM)	2,089,581	2,894,510	
Net income (RM)	+/- 52,240	+/-	72,363

## 26. Capital management

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 2013 and 2012, which are within the Group's objectives for capital management, are as follows:

	2013 RM	2012 RM
Total liabilities	54,815,919	51,705,522
Total equity	150,386,902	153,242,056
Gearing ratio	36%	34%

## 27. Segment information

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.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

## 27. Segment information (cont'd)

	Biscuit manufacturing division		Beverage manufacturing division		Trading division		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012
	RM	RM	RM	RM	RM	RM	RM	RM
<b>Revenue</b>								
Revenue	175,790,744	170,183,961	10,436,715	11,303,721	183,742,550	179,626,568	369,970,009	361,114,250 (A)
<b>Results</b>								
Segment profit	31,082,039	25,532,682	1,000,051	678,575	20,037,657	19,552,088	52,119,747	45,763,345 (B)
Profit from inter-segment sales							(3,432)	647,116
Other income							925,714	696,381
Unallocated expenses							(2,960,305)	(2,755,750)
Finance costs							-	(7)
Profit before tax							50,081,724	44,351,085
Income tax expense							(13,336,878)	(11,810,399)
<b>Profit net of tax</b>							36,744,846	32,540,686

(A) Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current year is RM118,562,954 (2012 : RM113,296,105).

(B) Segment profit represents the profit earned by each segment without allocation of the central administration costs, investment income, financial costs and income tax expense. This is the measure reported to the decision maker for the purposes of resources allocation and assessment of segment performance.

27. Segment information (cont'd)

	Biscuit manufacturing division		Beverage manufacturing division		Trading division		Consolidated	
	2013 RM	2012 RM	2013 RM	2012 RM	2013 RM	2012 RM	2013 RM	2012 RM
<b>Assets</b>								
Segment assets	96,273,584	92,736,364	12,902,408	11,637,048	66,244,456	60,944,248	175,420,448	165,317,660
Unallocated assets							29,782,373	39,629,918
Total assets							205,202,821	204,947,578
<b>Liabilities</b>								
Segment liabilities	37,250,196	36,675,960	2,007,201	1,763,396	14,265,702	12,145,888	53,523,099	50,585,244
Unallocated liabilities							1,292,820	1,120,278
Total liabilities							54,815,919	51,705,522
<b>Other segment information</b>								
Depreciation	2,907,261	2,886,062	310,241	272,755	1,068,644	934,131	4,286,146	4,092,948
Unallocated expense							97,577	130,394
							4,383,723	4,223,342
Impairment losses recognised in profit or loss	-	195,769	-	-	-	-	-	195,769
Additions of non-current assets	1,641,808	2,443,722	90,684	4,862	914,563	1,539,889	2,647,055	3,988,473
Unallocated expense							33,722	-
							2,680,777	3,988,473
Non cash expense other than depreciation	190,296	848,597	2,260	44,034	143,809	189,345	336,365	1,081,976
Unallocated expense							2,517	-
							338,882	1,081,976

**28. Dividends**

	<b>Group and Company</b>	
	<b>2013</b>	<b>2012</b>
	<b>RM</b>	<b>RM</b>
<b>Recognised and paid during the financial year:</b>		
Dividends paid on ordinary shares:		
- Special tax exempt (single-tier) dividend for 2011: 10 sen per share	-	12,000,000
- Interim tax exempt (single-tier) dividend for 2012: 12 sen per share	-	14,400,000
- Interim tax exempt (single-tier) dividend for 2012: 15 sen per share	18,000,000	-
- Special tax exempt (single-tier) dividend for 2012: 3 sen per share	3,600,000	-
- Interim tax exempt (single-tier) dividend for 2013: 15 sen per share	18,000,000	-
	39,600,000	26,400,000
<b>Proposed but not recognised as a liability as at 31 December:</b>		
- Interim tax exempt (single-tier) dividend for 2012: 15 sen per share	-	18,000,000
- Special tax exempt (single-tier) dividend for 2012: 3 sen per share	-	3,600,000
- Interim tax exempt (single-tier) dividend for 2013: 5 sen per share	6,000,000	-
- Special tax exempt (single-tier) dividend for 2013: 3 sen per share	3,600,000	-
	9,600,000	21,600,000

The directors recommend an interim tax exempt (single-tier) of 5 sen and a special tax exempt (single-tier) dividend of 3 sen in respect of the financial year ended 31 December 2013 on 120,000,000 ordinary shares, amounting to a dividend payable of RM9,600,000. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, when approved, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2014.

**29. Subsequent events**

On 18 February 2014, the shareholders passed the following resolutions through Extraordinary General Meeting:

- (a) Proposed share split involving the subdivision of every one existing ordinary share of RM0.50 each into five new ordinary shares of RM0.10 each ("Subdivided Shares") in Hup Seng Industries Berhad ("HSIB") held by the entitled shareholders of the Company on an entitlement date to be determined and announced later;
- (b) Proposed bonus issue of 200,000,000 new ordinary shares of RM0.10 each in HSIB after the Proposed Share Split on the basis of one Bonus Share for every three Subdivided Shares held on the Entitlement Date; and
- (c) Proposed amendments to the Memorandum of Association of the Company to facilitate the Proposed Share Split.

**30. Authorisation of financial statements for issue**

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 19 March 2014.

**31. Supplementary Information - Breakdown of Retained profits into Realised and Unrealised**

The breakdown of the retained profits of the Group and of the Company as at 31 December 2013 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Total retained profits				
- Realised	117,883,583	120,964,844	8,848,713	18,863,713
- Unrealised	1,090,860	861,321	(5,590)	(503)
	118,974,443	121,826,165	8,843,123	18,863,210
Less: Consolidation adjustments	(42,920,674)	(42,917,242)	-	-
Retained profits as per financial statements	76,053,769	78,908,923	8,843,123	18,863,210

# Top 10 Properties of the Group

As at 31 December, 2013

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.13 RM
<b>Hup Seng Perusahaan Makanan (M) Sdn. Bhd.</b>						
Lot 1336 14-A, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	Single storey detached factory an annex with 3 storey office building incorporating a basement area	Freehold	Warehouse/ office	9,940 sq. m/ 13,285.27 sq. m	14 years	12,079,988
PTD 1858 14, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	Single storey detached factory an annex with 2 storey office building and other ancillary buildings	60 years leasehold (Expiring 24.05.2040)	Factory/ office	20,234.11 sq. m/ 14,829.52 sq. m	31 years	14,880,268
PTD 1127 HS(D) 38435 (Formerly HS(D) 7577) 4, Jalan Sampan Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	Single storey detached factory	60 years leasehold (Expiring on 07.11.2037)	Store	4,047.00 sq. m/ 2,091.40 sq. m	–	1,200,629
PTD 1853 HS(D) 10338 9, Jalan Perahu Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	Single storey detached factory cum 2 storey office building	60 years leasehold (Expiring on 23.03.2040)	Vacant	6,647.03 sq. m/ 5,160.60 sq. m	25 years	1,950,000

Top 10 Properties of the Group (cont'd)  
As at 31 December, 2013

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Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.13 RM
<b>Hup Seng Perusahaan Makanan (M) Sdn. Bhd. (cont'd)</b>						
PTD 1871 HS(D) 11676 1A, Jalan Kapal Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	Single storey detached factory	60 years leasehold (Expiring on 26.09.2040)	Factory/ warehouse	4,047.00 sq. m/ 1,880.38 sq. m	21 years	966,890
<b>Hup Seng Hoon Yong Brothers Sdn. Bhd.</b>						
P.T. No. 50277 1, Jalan Jaya Gading 2 Kawasan MIEL Jaya Gading 25050 Kuantan Pahang Darul Makmur	1 1/2 storey semi-detached factory building	66 years leasehold (Expiring 18.05.2063)	Branch office/ warehouse	1,613.09 sq. m/ 1,001.9 sq. m	16 years	674,150
Lot No. 4107 1323, Jalan Bukit Tengah Taman Indah 14000 Bukit Mertajam Pulau Pinang	Double storey shophouses	Freehold	Branch office/ store	371.7 sq. m/ 743.4 sq. m	24 years	356,368
Lot No. 305884, PN149251 (Formerly PT 149442) 12, Hala Rapat Baru 18 Taman Perusahaan Ringan Kinta Jaya 31350 Ipoh Perak Darul Ridzuan	1 1/2 storey detached factory	99 years leasehold (Expiring 25.06.2096)	Branch office/ warehouse	1,586 sq. m/ 12,050 sq. ft.	15 years	917,302
Lot 6574 Mukim of Linau District of Batu Pahat Johor Darul Ta'zim	Industrial land	Freehold	Car park	9,704.38 sq. m	-	2,069,978
<b>In-Comix Food Industries Sdn. Bhd.</b>						
Plo No. 94 Kawasan Perindustrian Senai 3 Jalan Cyber 6 81400 Senai Johor Darul Ta'zim	Double storey detached factory	60 years leasehold (Expiring 08.06.2056)	Warehouse/ office/ factory	6,328.94 sq. m/ 5,059 sq. m	16 years	4,927,043

# Statement of Shareholdings

As at 31 March, 2014

Authorised Share Capital	:	RM100,000,000.00
Issued Share Capital	:	120,000,000
Paid-Up Share Capital	:	RM60,000,000.00
Class of Shares	:	Ordinary Shares of RM0.50 each
Voting Rights	:	One vote per shareholder on a show of hands One vote per Ordinary Share on a poll

## ANALYSIS OF SHAREHOLDINGS

### DISTRIBUTION OF SHAREHOLDING AS AT 31 MARCH, 2014

Holdings	No. of Holders	%	Total Holdings	%
Less than 100 shares	12	0.43	130	0.00
100 to 1,000	429	15.27	326,970	0.27
1,001 to 10,000	1,919	68.32	6,980,500	5.82
10,001 to 100,000	378	13.46	10,329,700	8.61
100,001 to less than 5% of issued shares	70	2.49	41,162,700	34.30
5% and above of issued shares	1	0.04	61,200,000	51.00
<b>TOTAL</b>	<b>2,809</b>	<b>100.00</b>	<b>120,000,000</b>	<b>100.00</b>

### LIST OF TOP 30 SHAREHOLDERS AS AT 31 MARCH, 2014

	Name Of Shareholders	No. of Shares Held	Percentage (%)
1.	HSB Group Sdn Bhd	61,200,000	51.00
2.	Chang Kwee Lan	4,034,100	3.36
3.	Goh Siew Kiew	3,911,000	3.26
4.	Cekap Kapital Sdn Bhd	3,092,000	2.58
5.	Kerk Chian Hui	2,600,000	2.17
6.	Kerk Chian Tung	2,060,000	1.72
7.	Chang Yang @ Chen Yong	1,712,000	1.43
8.	Ker (Kerk) Kim Tim @ Kerk Choo Ting	1,290,000	1.08
9.	Chong Swee Ching	1,206,000	1.00
10.	Keh (Kerk) Chu Koh	1,096,000	0.91
11.	Kuo Chee Ching	1,068,400	0.89

## LIST OF TOP 30 SHAREHOLDERS AS AT 31 MARCH, 2014 (cont'd)

	Name Of Shareholders	No. of Shares Held	Percentage (%)
12.	Kerk Kar Han	931,000	0.78
13.	Kerk Han Meng	784,000	0.65
14.	Teo Lee Tong	776,000	0.65
15.	Teo Lee Teck	774,000	0.65
16.	Mary Kerk Beng Ley	700,000	0.58
17.	Kuo Liong Yok	620,000	0.52
18.	Kuo Chee Hau	594,000	0.50
19.	Kuo Chee Kian	554,000	0.46
20.	Sim Guat Keow @ Sim Han Che	544,000	0.45
21.	Ng Ee Kim	518,000	0.43
22.	Kuo Lee Yong	516,000	0.43
23.	Kuo Chee Joo	510,000	0.43
24.	Kerk Ke Yee	500,000	0.42
25.	Kuo Lee Ai	496,000	0.41
26.	Wan Lay Hoon	460,000	0.38
27.	Kuo Lee Hun	452,000	0.38
28.	Lem Leh Lee @ Lim Mok Lee	426,000	0.36
29.	Ong Chee Joon	426,000	0.36
30.	Kuo Chee Yoong	400,000	0.33

## SUBSTANTIAL SHAREHOLDERS

According to the Register that is required to be kept under Section 69L of the Companies Act, 1965, the following are the substantial shareholders of the Company as at 31 March, 2014:-

	Name of Shareholder	<----- Direct Interest ----->		<---- Deemed Interest ---->	
		No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
1.	HSB Group Sdn Bhd	61,200,000	51.00	-	-
2.	Kuo Choo Song	150,000	0.13	66,712,400*	55.59
3.	Kuo Chee Ching	1,068,400	0.89	61,200,000#	51.00
4.	Kuo Chee Hau	594,000	0.50	61,200,000#	51.00
5.	Kuo Chee Joo	510,000	0.43	61,200,000#	51.00
6.	Kuo Chee Kian	554,000	0.46	61,200,000#	51.00
7.	Kuo Chee Koon	302,000	0.25	61,200,000#	51.00
8.	Kuo Chee Yoong	400,000	0.33	61,200,000#	51.00
9.	Kuo Liong Yok	620,000	0.52	61,200,000#	51.00
10.	Ke (Kek) Kim Soon @ Kerk Choo Soon	150,000	0.13	61,200,000#	51.00
11.	Sim Guat Keow @ Sim Han Che	544,000	0.45	61,200,000#	51.00

**SUBSTANTIAL SHAREHOLDERS (cont'd)**

	Name of Shareholder	<----- Direct Interest ----->		<---- Deemed Interest ---->	
		No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
12.	Kerk Han Meng	784,000	0.65	61,200,000#	51.00
13.	Kerk Kar Han	931,000	0.78	61,236,000*	51.03
14.	Teo Lay Gak	280,000	0.23	61,200,000#	51.00
15.	Teo Lee Teck	774,000	0.65	61,280,000*	51.07
16.	Teo Lee Tong	776,000	0.65	61,200,000#	51.00
17.	Keh (Kerk) Chu Koh	1,096,000	0.91	61,912,000*	51.59
18.	Lem Leh Lee @ Lim Mok Lee	426,000	0.36	61,200,000#	51.00
19.	Dato' Seri Ker Kim Tim @ Kerk Choo Ting	1,290,000	1.08	61,200,000#	51.00
20.	Datin Seri Chang Yang @ Chen Yong	1,712,000	1.43	61,200,000#	51.00
21.	Kerk Gau Yang	94,000	0.08	61,200,000#	51.00
22.	Kerk Chong Yong	94,000	0.08	61,200,000#	51.00
23.	Kerk Shiang Yih	98,000	0.08	61,200,000#	51.00
24.	Kuo Lee Ai	496,000	0.41	61,200,000#	51.00
25.	Kuo Lee Yong	516,000	0.43	61,200,000#	51.00
26.	Kuo Lee Hun	452,000	0.38	61,200,000#	51.00

Note:

# Deemed interested by virtue of his/her and/or his/her associates' interests in HSB Group Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

\* Deemed interested by virtue of his interests in HSB Group Sdn Bhd pursuant to Section 6A and Section 134 of the Companies Act, 1965.

**DIRECTORS' INTERESTS**

as at 31 March, 2014

	Name of Director	<-----Direct Interest----->		<-----Deemed Interest----->	
		No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
1.	Dato' Keh (Kerk) Chu Koh	1,096,000	0.91	61,912,000*	51.59
2.	Kerk Chiew Siong	200,000	0.17	1,706,000#	1.42
3.	Kuo Choo Song	150,000	0.13	66,712,400*	55.59
4.	Kerk Chian Tung	2,060,000	1.72	-	-
5.	Teo Lee Teck	774,000	0.65	61,280,000*	51.07
6.	Kerk Kar Han	931,000	0.78	61,236,000*	51.03
7.	Mazrina Binti Arifin	-	-	-	-
8.	Norita Binti Ja'afar	-	-	-	-
9.	Raja Khairul Anuar Bin Raja Mokhtar	-	-	-	-
10.	Dato' Wee Hoe Soon @ Gooi Hoe Soon	-	-	-	-

Note:

\* Deemed interested by virtue of his interests in HSB Group Sdn Bhd pursuant to Section 6A and Section 134 of the Companies Act, 1965.

# Deemed interested by virtue of his interest pursuant to Section 134 of the Companies Act, 1965.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Twenty-Second Annual General Meeting of Hup Seng Industries Berhad will be held at Mezzanine Floor, The Katerina Hotel, 8, Jalan Zabedah, 83000 Batu Pahat, Johor Darul Ta'zim on Tuesday, 20 May, 2014 at 11.30 a.m. for the following purposes:-

## AGENDA

### ORDINARY BUSINESS

- |    |  |  |
|----|--|--|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December, 2013 together with the Directors' and Auditors' Report thereon.  | <b>Resolution 1</b>                            |
| 2. | To approve the payment of Directors' Fees for the financial year ended 31 December, 2013.  | <b>Resolution 2</b>                            |
| 3. | To re-elect the following Directors who retire in accordance with Article 76 of the Company's Articles of Association and being eligible, offer themselves for re-election:-<br>- Mr Kerk Chiew Siong<br>- Ms Kerk Chian Tung  | <b>Resolution 3</b><br><b>Resolution 4</b>     |
| 4. | To re-elect the following Director who retires in accordance with Article 83 of the Company's Articles of Association and being eligible, offers himself for re-election:-<br>- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon   | <b>Resolution 5</b>                            |
| 5. | To consider, and if thought fit, to pass the following resolutions:-<br>"THAT pursuant to Section 129(6) of the Companies Act, 1965, Y. Bhg. Dato' Keh (Kerk) Chu Koh be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting."<br><br>"THAT pursuant to Section 129(6) of the Companies Act, 1965, Mr Kuo Choo Song be and is hereby re-appointed as Director of the Company to hold office until the conclusion of the next Annual General Meeting." | <b>Resolution 6</b><br><br><b>Resolution 7</b> |
| 6. | To re-appoint Messrs Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and authorise the Directors to fix their remuneration.   | <b>Resolution 8</b>                            |

### AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following Ordinary Resolutions :-

#### 7. ORDINARY RESOLUTION 1

##### RETENTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR

"THAT approval be and is hereby given to Puan Mazrina Binti Arifin to continue to serve as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting in accordance with the Malaysian Code on Corporate Governance 2012."

**Resolution 9**

**8. ORDINARY RESOLUTION 2****RETENTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

“**THAT** approval be and is hereby given to Puan Norita Binti Ja’afar to continue to serve as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting in accordance with the Malaysian Code on Corporate Governance 2012.”

**Resolution 10**

9. To transaction any other business of which due notice shall have been given.

**BY ORDER OF THE BOARD**

LEE WAI NGAN (LS00184)  
CHAN TOYE YING (LS00185)  
Company Secretaries

Kuala Lumpur  
28 April, 2014

**NOTES:**

1. *A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting.*
2. *A member shall be entitled to appoint more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same meeting.*
3. *Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
4. *Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 (“SICDA”) which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“omnibus account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus accounts it holds. Where a member is an authorised nominee as defined under SICDA, it may appoint one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if such appointer is a corporation under its common seal or the hand of its attorney.*
6. *The instrument appointing a proxy must be deposited at the Registered Office, Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.*
7. *For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 14 May, 2014 (“General Meeting Record of Depositors”) and only a Depositor whose name appears in the General Meeting Record of Depositors shall be entitled to attend this meeting.*

**EXPLANATORY NOTES ON SPECIAL BUSINESS**

Ordinary Resolutions 9 and 10 - Retention of Independent Non-Executive Director

The proposed Resolutions 9 and 10, if passed, will allow the independent directors to be retained and continue acting as independent directors to fulfill the requirements of Paragraph 3.04 of the Main Market Listing Requirements and in line with the recommendation Nos. 3.2 and 3.3 of the Malaysian Code on Corporate Governance 2012. The justification and recommendations for the retention is set out in page 16 of the Corporate Governance Statement in the Annual Report 2013.

# Form of Proxy



合成工業有限公司  
**HUP SENG INDUSTRIES BERHAD**  
 (Company No: 226098-P)

CDS ACCOUNT NO.	NO. OF SHARES HELD

I/We \_\_\_\_\_  
 of \_\_\_\_\_  
 being a member/members of Hup Seng Industries Berhad, hereby appoint (1) Mr/Ms \_\_\_\_\_

(NRIC No. \_\_\_\_\_ ) of \_\_\_\_\_  
 or failing whom, Mr/Ms \_\_\_\_\_

(NRIC No. \_\_\_\_\_ ) of \_\_\_\_\_

(the next name and address should be completed where it is desired to appoint two proxies) \_\_\_\_\_

\*(2) Mr/Ms \_\_\_\_\_

(NRIC No. \_\_\_\_\_ ) of \_\_\_\_\_

or failing whom, Mr/Ms \_\_\_\_\_

(NRIC No. \_\_\_\_\_ ) of \_\_\_\_\_

as my/our proxy to vote for \*me/us and on \*my/our behalf at the Twenty-Second Annual General Meeting of the Company to be held at Mezzanine Floor, The Katerina Hotel, 8, Jalan Zabadah, 83000 Batu Pahat, Johor Darul Ta'zim on Tuesday, 20 May, 2014 at 11.30 a.m. and, at every adjournment thereof \*for/against the resolutions to be proposed thereat.

The proportion of \*my/our proxies are as follows:  
 (This paragraph should be completed only when two proxies are appointed)

First Proxy (1) \_\_\_\_\_ % Second Proxy (2) \_\_\_\_\_ %

\*My/Our proxy is to vote as indicated below: -

NO.	RESOLUTIONS	FOR	AGAINST
1.	Receive the Audited Financial Statements for the year ended 31 December, 2013 together with the Reports of the Directors and Auditors.		
2.	Approve the payment of Directors' fees for the financial year ended 31 December, 2013.		
3.	Re-election of Directors retiring according to the Article 76 of the Company's Articles of Association:-		
4.	- Mr Kerk Chiew Siong - Ms Kerk Chian Tung		
5.	Re-election of Director retiring according to the Article 83 of the Company's Articles of Association:-		
	- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon		
6.	Re-appointment of Directors pursuant to Section 129(6) of the Companies Act, 1965:-		
7.	- Y. Bhg. Dato' Keh (Kerk) Chu Koh - Mr Kuo Choo Song		
8.	Re-appointment of Messrs Ernst & Young as Auditors		
9.	Retention of Puan Mazrina Binti Arifin as Independent Non-Executive Director		
10.	Retention of Puan Norita Binti Ja'afar as Independent Non-Executive Director		

Please indicate with a cross (X) in the space whether you wish your votes to be cast for or against the resolution. In the absence of such specific directions, your proxy will vote or abstain as he thinks fit.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2014

\_\_\_\_\_  
 Signature of Member(s) or Common Seal



**Note:**

1. *A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the member to speak at the meeting.*
2. *A member shall be entitled to appoint more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) to attend and vote at the same meeting.*
3. *Where a member appoints more than one (1) proxy (subject always to a maximum of two (2) proxies at each meeting) the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
4. *Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus accounts it holds. Where a member is an authorised nominee as defined under SICDA, it may appoint one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.*
5. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if such appointer is a corporation under its common seal or the hand of its attorney.*
6. *The instrument appointing a proxy must be deposited at the Registered Office, Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.*

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Stamp

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