



ANNUAL REPORT

2016





THE EDGE

THE EDGE

THE EDGE

THE EDGE

THE EDGE
BILLION RINGGIT CLUB
2016

THE EDGE
BILLION RINGGIT CLUB
2016

THE EDGE BILLION RINGGIT CLUB
AWARDED 2016
CONSUMER PRODUCTS
M.P. SENG INDUSTRIES SDN BHD
BEST GROWTH IN PROFIT BEFORE
TAX OVER THREE YEARS

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Corporate Information

DIRECTORS

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

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

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)

SECRETARIES

Lee Wai Ngan (LS00184)
Chan Toye Ying (LS00185)

REGISTERED OFFICE

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 REGISTRAR

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
OCBC Al-Amin Bank Berhad
CIMB Islamic Bank Berhad

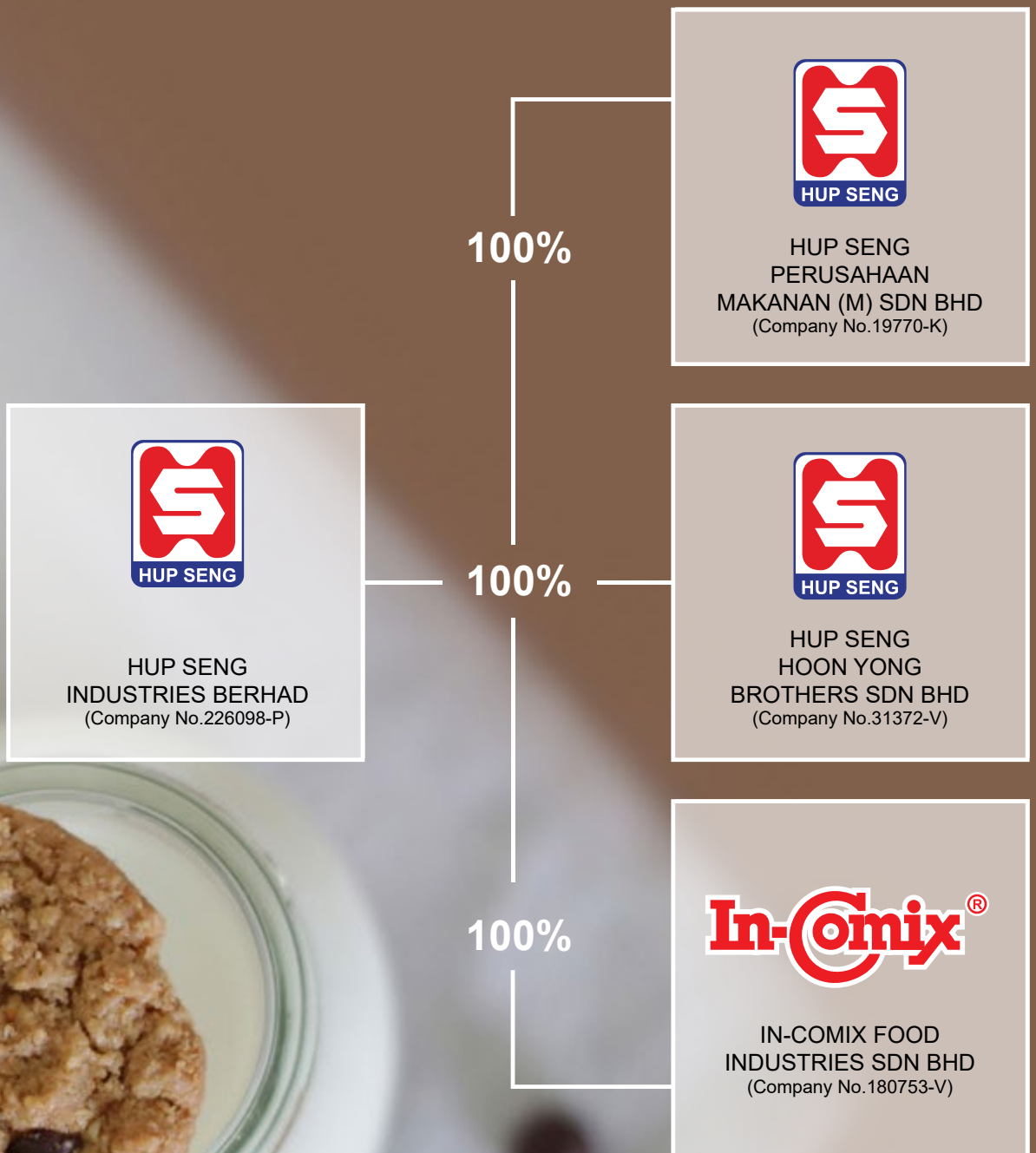
AUDITORS

Ernst & Young (AF: 0039)
Chartered Accountants

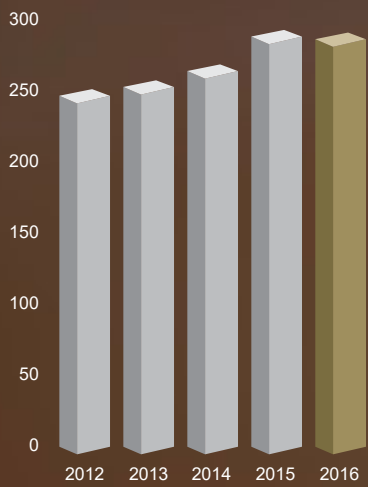
STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad
Stock Code : 5024

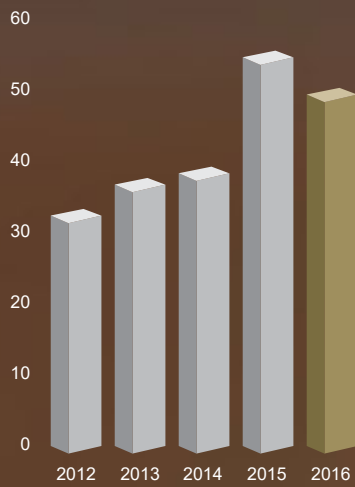
Corporate Structure



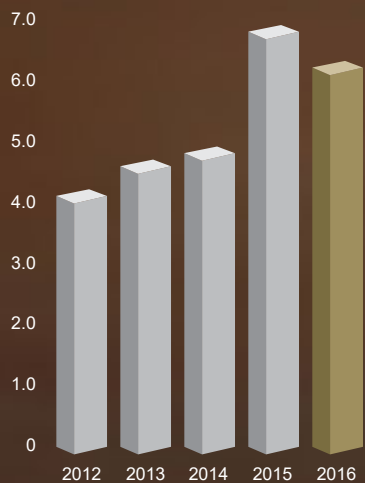
5-Year Group Financial Highlights



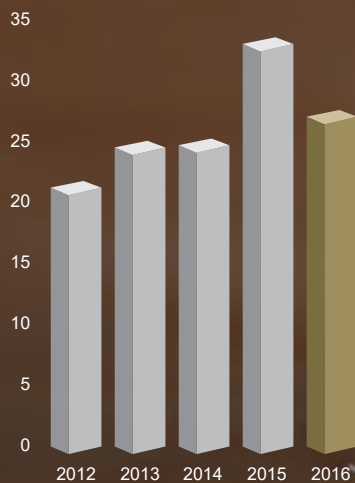
REVENUE (RM MILLION)



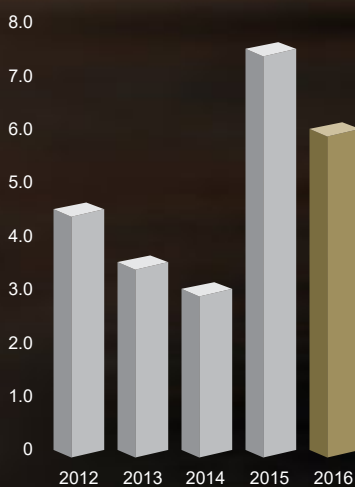
PROFIT AFTER TAX (RM MILLION)



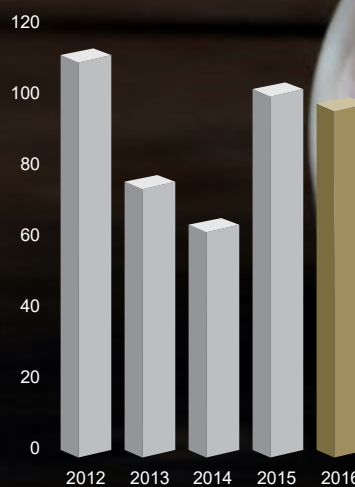
EARNINGS PER SHARE (SEN)



RETURN ON EQUITY (ROE) (%)



NET DIVIDENDS PER SHARE (SEN)



DIVIDENDS PAYOUT RATIO (%)



Financial Year Ended		31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
Key Results (RM)						
Revenue		247,818,145	251,407,055	262,217,996	286,860,291	285,645,179
Profit after Tax		32,540,686	36,744,846	38,147,021	54,731,064	49,405,747
Other Key Data (RM)						
Total Assets		204,947,578	205,202,821	226,006,738	244,988,741	245,346,154
Total Liabilities		51,705,522	54,815,919	71,072,824	79,323,767	62,275,433
Shareholders' Equity		153,242,056	150,386,902	154,933,914	165,664,974	183,070,721
Capital Expenditure		3,988,473	2,680,777	8,417,474	2,886,380	19,185,338
Financial Ratio (%)						
Revenue Growth		3.2	1.4	4.3	9.4	(0.4)
Net Profit Growth		74.9	12.9	3.8	43.5	(9.7)
Net Profit Margin		13.1	14.6	14.5	19.1	17.3
Return on Equity (ROE)		21.2	24.4	24.6	33.0	27.0
Share Information						
Earnings per Share	sen	4.1 #	4.6 #	4.8	6.8	6.2
Net Dividends per Share	sen	4.5 #	3.5 #	3.0	7.5 ^	6.0
Dividends Payout Ratio	%	110.6	75.1	62.9	109.6	97.2
Net Assets per Share	RM	1.28 *	1.25 *	0.19	0.21	0.23
Other Information						
Segment Ratio	%					
- Domestic Market		72.5	73.4	73.1	71.8	71.7
- Export Market		27.5	26.6	26.9	28.2	28.3
Total		100.0	100.0	100.0	100.0	100.0

The comparative figures for earnings per share and net dividend per share have been restated to reflect the effect of the share split and bonus issue which have been completed during the financial year ended 31 December 2014.

* Net assets per share are calculated based on 120,000,000 ordinary shares of RM0.50 each for the financial years ended 31 December 2012 to 31 December 2013.

^ Net dividend per share of 7.5 sen for 31 December 2015 consisted of a final dividend of 1.5 sen per share in relations to financial year ended 31 December 2014.

Directors' Profile

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

Y. Bhg. Dato' Keh (Kerk) Chu Koh, Malaysian aged 74, 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 11 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 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.

Y. BHG. DATO' WEE HOE SOON @ GOOI HOE SOON

Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon, Malaysian aged 56, 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. On 19 May 2016, he was appointed as Independent Non-Executive Co-Chairman of HSIB.

Y. Bhg. Dato' Gooi is a member of Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. He has more than 32 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 AIA Berhad, Perusahaan Sadur Timah Malaysia (Perstima) Berhad and Yinson Holdings Berhad. In 2015, Dato' Gooi was appointed as Independent Non-Executive Chairman of Perstima.

KERK CHIEW SIONG

Kerk Chiew Siong, Malaysian aged 64, 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 was redesignated to Managing Director on 1 July 2016. 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 11 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 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

Kuo Choo Song, Malaysian aged 85, 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 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 11 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 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

Kerk Chian Tung, Malaysian aged 46, 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 11 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

Teo Lee Teck, Malaysian aged 57, 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 became an Executive Director of the same since 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 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 11 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

Kerk Kar Han, Malaysian aged 49, 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 organisational 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 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 11 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.

MAZRINA BINTI ARIFIN

Mazrina Binti Arifin, Malaysian aged 49, 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. up to 2015.



NORITA BINTI JA'AFAR

Norita Binti Ja'afar, Malaysian aged 45, was appointed as an Independent Non-Executive Director of the Company on 11 August 2000. She is the Chairperson of Audit Committee and a member of the Nominating Committee since 1 June 2013. 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 was the Chief Operating Officer at Malaysian Global Innovation & Creativity Centre, an entity under Ministry of Finance Malaysia mandated to enhance global entrepreneurship for the nation up to November 2016.

RAJA KHAIRUL ANUAR BIN RAJA MOKHTAR

Raja Khairul Anuar Bin Raja Mokhtar, Malaysian aged 42, 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.

Note: Please refer to page 16 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	WIFE	SON	DAUGHTER
		Teo Lee Tong Teo Lee Teck (HSIB Director) Teo Lay Gak	
Kuo Choo Song (HSIB Director)		Kuo Liang Yok Kuo Chee Hau Kuo Chee Ching Kuo Chee Kian Kuo Chee Yoong Kuo Chee Koon Kuo Chee Joo	Kuo Lee Ai Kuo Lee Yong Kuo Lee Hun
Ke (Kek) Kim Soon @ Kerk Choo Soon	Sim Guat Keow @ Sim Han Che	Kerk Kar Han (HSIB Director) Kerk Han Meng	
Dato' Seri Ker (Kerk) Kim Tim @ Kerk Choo Ting	Datin Seri Chang Yang @ Chen Yong		Kerk Chian Tung (HSIB Director)
Y. Bhg. Dato' Keh (Kerk) Chu Koh (HSIB Director)	Datin Lem Leh Lee @ Lim Mok Lee	Kerk Gau Yang Kerk Chong Yong	Kerk Shiang Yih Kerk Shiang Shu Kerk Shiang Fang
Kerk Chiew Siong (HSIB Director)	Chong Swee Ching		Kerk Ke Yee



Management Discussion and Analysis

1. INTRODUCTION

Hup Seng Industries Bhd. (“HSIB”) and its subsidiaries (“the Group”) are one of the leading biscuits manufacturers in Malaysia, engage in the manufacture and sale of biscuits and confectionery food items as well as beverages with manufacturing facilities located in Batu Pahat and Senai in Johor.

The products produced and distributed by the Group can be summarized into the following product ranges:

- I. Biscuits : Crackers, cream sandwich biscuits, assorted biscuits, cookies and other series.
- II. Beverages : Instant beverages mix.
- III. Other agents products : Rice crackers and others.

2. OVERVIEW OF THE BUSINESS ENVIRONMENT

After a steady growth in turnover and profit after tax from 2011 to 2015, the Group experienced a slight decline in revenue of about 0.4% from RM286.9 million to RM285.6 million for the same period last year. Profit after tax reduced by 9.7% to RM49.4 million from RM54.7 million achieved in the previous year.

During the year under review, the Group has continued to operate in a challenging environment. As such the Group has to maintain its price competitiveness in the face of elevated manufacturing cost; among them palm oil prices have exceeded those of previous year on average by about 16%, sugar 5% and cartons 6%. The FAO reported that the Vegetable Oil Price Index averaged 183 points in December 2016. Driven primarily by palm and soy oils, the index gain 7.4 points (or 4.2%) from November 2016 and reached its highest level since July 2014. For palm oil, low global inventory levels and protracted supply tightness continued to bolster prices.

Observing the unfavourable market condition of 2016 that affected the Group’s performance, the Group expects market conditions in 2017 to remain competitive. Since the implementation of GST in April 2015, domestic consumers’ sentiment has been slow and fragile. The escalating palm oil prices will likely flow over to 2017. Weak Ringgit is expected to continue into 2017, and likely to put further pressure on other major costs components such as flour, milk powder, butter and cheese.

3. BUSINESS OPERATIONS REVIEW

The Group recorded sales revenue of RM285.6 million, with domestic sales accounting for approximately 72% and exports for approximately 28%.

The main product ranges for the Group are the biscuits, beverages and other agents’ products. Biscuits remain the dominant range which represents about 93% of the total sales, while beverages and other agents’ products make up the balance.



3. BUSINESS OPERATIONS REVIEW (cont'd)

Biscuits Range

The biscuits produced by the Group are marketed under “Cap Ping Pong” and “Hup Seng Cream Crackers” which are targeted towards the middle and lower-end consumers whereas biscuits marketed under “Kerk” and “Naturell” are premium modern products of the Group.

The biscuits range is further classified into 4 main categories, namely:

1. Crackers;
2. Cookies and others;
3. Cream Sandwich biscuits; and
4. Assorted biscuits.

Being the major selling category, crackers category represent more than two-thirds(2/3) of the Group's biscuits revenue with “Hup Seng Cream Crackers” continuing to be the strong performer for the Group. It has been present in the market for over 50 years and are well known and recognized by consumers with its established taste and quality. This product has been consecutively awarded the Gold Medal for years 1994 to 2003 and Grand Gold Medal for years 2004 to 2016 by Monde Selection, Belgium. The Group had continuously improved its quality and expanded the manufacturing capacities to support the market demand for this product.

In July 2015, the Group launched three varieties of Naturell Oat Cookies and was awarded with the GOLD Quality Award for each variety at the 2016 Monde Selection, Belgium. This is recognition of our continuing effort in producing world class quality products.

Beverages Range

The Beverages range, on the other hand, is marketed under “In-Comix” and is categorized under (3) three main categories, namely Instant Coffeemix, Instant Teas and Nutritious Instant Cereal. This range contributes approximately 5% towards the Group's sales. These are complementary products which supports the Groups' competitive advantage in the food industry by expanding its existing product range from biscuits to instant beverage mix. The major selling category under this range is the Instant Coffeemix.

Other Agent Products

In addition to distributing biscuits and beverages, the Group is also the distributor for other agent products, such as, “Wang Wang” rice crackers; “Ong Sam Yong” chinese tea, and other snacks products. The agent products are supplementary in nature to the Group's revenue and leverage on the Group's sales and distribution network.

PRODUCTION OPERATION

Biscuits range

The Group's production operations are located in Batu Pahat, Johor.

For the financial year ended 31 December 2016, the existing ovens at the Batu Pahat plant were operating on average of about 82% capacity utilization.

Among the production lines, cracker series has always operated at full capacity and its existing facilities is congested. The current capacity may not be able to cope with expected increase in demand in year 2017 and beyond. To overcome this, the Group had on 9 March 2016 entered into two conditional sale and purchase agreements to purchase two parcels of land and buildings adjacent to the existing factory. The purchase was completed on 6 September 2016.

PRODUCTION OPERATION (cont'd)

Biscuits range (cont'd)

Over the years, the Group worked on internal efficiencies and avoided wastages since 2008 to ensure the most cost-effective and efficient production process.

The Group has identified automation of certain production process and repackaging of selective products as some of the measures that will help in improving operational efficiencies. To improve packaging efficiency of our major products, “Hup Seng Cream Cracker” in the ensuing year, the Group plans to purchase an auto stacking system replacing current process which is laborious.

In 2017, the Group plans to purchase a new production line to replace the existing old line with an expected commissioning in 2018. The new line with modern technology could also improve the flexibility and efficiency in the Group's manufacturing process.

Beverages range

The beverages production operations are based in Senai, Johor. The company engage in blending coffee mix and other beverage mix and caters to both local and export markets.

SALES AND MARKETING

Domestic market

The Group has nation-wide sales network covering various regions in Peninsular Malaysia namely, the Klang Valley, Kota Bahru, Kuantan, Ipoh, Butterworth and Alor Setar, and 7 other distributors in East Malaysia located in Kota Kinabalu, Tawau, Sandakan, Kuching, Bintulu, Miri and Sibul.

During the year, prevailing competition in the market remains keen. Back up by a strong brand name, high quality products and extensive distribution networks, the Group has endeavored to sustain the existing market share by stepping up promotional activities like sampling, increased block/shelf displays at strategic positions and crowded locations.

On beverages range, more and more players have entered the market probably due to low entry barrier. The market is flooded with varieties of brands and consumers are spoilt for choices. Key players operating in this segment have developed their own brands with different target markets and prevailing competition in the market was stiff.

For the coming year, the Group has drawn up programs for promotional activities starting off with saleable and premium products. More emphasis will be given on sampling activities to create product awareness and to increase block/shelf displays. These will enable the Group's sales team to market aggressively and to tap into both new and existing markets to drive growth to improve earnings.

The main focus for the Group is on the coverage of all various retails sales point across the wholesale, retail and modern distribution channels. These sales points can range from mom and pop outlets, to convenience stores, 24-hours stores and various super-and hypermarket.

Distribution channels

The Group distributes its products via retail, wholesale and modern channels with a total of about 9,500 accounts.

Retailers are the traders who buy goods directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods on small quantities. The Group has a strong base of retail outlets. The Group's sales team reach out to retailers and door step delivery is done mostly by own transportation fleets, which is itself serves as a mobile advertising to the Group. When visiting retailers, they stay up-to-date on the changing needs of customers via interactive discussion with the retailers. They help retailers arrange promotion programs,

SALES AND MARKETING (cont'd)

Distribution channels (cont'd)

get closer to consumers and testing out new products and markets.

The wholesale channel is the classic distribution method whereby products are sold in bulk to a major wholesaler who in turn sells to various resellers further down the retail chain such as van sales, school canteen vendors, mom and pop shops, night markets, rural villages, etc. which are not covered by the Group due to remoteness and geographical reasons.

The modern channel is the distribution model consisting of products being directly retailed at major supermarket or hypermarket chain stores and other convenience stores. A strong feature of the modern channel is that products are typically ordered via a centralized purchasing system and delivered to either a distribution centre or to the individual outlets. This channel is often seen in urban population centres with high density.

The revenue distribution among the three channels of the Group is quite even, each constitutes approximately a third to the domestic revenue. It is a balanced practice the Group has long been following with distribution points and credit risks in mind.

Export market

The Group currently exports to more than 40 countries. The top five exported countries are Indonesia, Singapore, Myanmar, Thailand and Saudi Arabia which collectively constitutes about two-thirds (2/3) of total export revenue.

The Group has appointed about more than 60 agents and distributors to market its products overseas. The agents and distributors play an important role in promoting the Group's products overseas and it is envisaged that they would pave the way for greater brand awareness and customer loyalty.

During the year under review, slowdown in the global economy has brought about a reduction in international demand. The Group has managed to sustain its export revenue helped out by the up and coming markets, like China and Japan where contribution to the revenue has picked up from 3rd quarter 2016 onwards due to the acceptability of new packaging specifications and taste by the markets.

Exports currently make up about 28% of the Group's revenue, but the Group targets to grow export contribution by more than 10 million in 4 years' time. To do that, the Group plans to increase additional distributors and agents and to give sales incentive and sponsor promotional activities to draw more orders for the existing export distributors.

OBJECTIVES

The Group's objectives are to produce wholesome, quality, popular and preferred food products where you can share anytime, anywhere. Through our company's effective sale strategy and our slogan "Quality is Our Promise", the Group is pleased that "Hup Seng Cream Cracker" has achieved this objective. Meantime, the Group strives to develop and expand other series of products that will be as successful as the cracker series.

4. OUTLOOKS OF FUTURE PROSPECTS

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

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 2016, discussing and reviewing quarterly and annual financial results, internal audit reports, dividend proposals, risk management matters, tax matters, investment proposals and considerations, corporate strategy and corporate exercises. The composition of the Board and the attendance of the individual directors during the financial year ended 31 December 2016 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
Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	Independent Non-Executive Co-Chairman	4/5
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
Mazrina Binti Arifin (f)	Senior Independent Non-Executive Director	5/5
Norita Binti Ja'afar (f)	Independent Non-Executive Director	5/5
Raja Khairul Anuar Bin Raja Mokhtar	Independent Non-Executive Director	4/5

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 (1/3) 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.

BOARD OF DIRECTORS (cont'd)***Composition and Attendance (cont'd)***

The Board concurs with MCCG Recommendation 3.5 which encourages the Chairman to be an Independent Non-Executive Director or failing which the majority of the Board should comprise of Independent Directors. Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon is appointed as Independent Co-Chairman of the Company since 2016 and he is responsible for the technical, professional, finance and investor relations aspects of matters in Annual General Meetings and Board meetings. The Board observes MCCG Recommendations closely and continues to find and evaluate the most optimum alternative to keep the effectiveness of the Board.

The Company has embedded gender diversity in its corporate culture and maintained one-third (1/3) of its board composition in opposite gender and diverse ethnicity since the day it was listed. The Board considered its members composition as having a healthy mix of genders, ethnic group and even age group and would continue to upkeep such diversity.

Since 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 is 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.

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 and external audit report(s), Enterprise Risk Management report(s), supporting management reports, consultant reports and directors' interests. 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. For example, external consultants were engaged to carry out Internal Audit and/or develop Risk

BOARD OF DIRECTORS (cont'd)

Supply and Access to Information (cont'd)

Management system to examine and evaluate the internal control system and risk management of the Group. These consultants will, upon recommendation and endorsement of the relevant Committee, report the results and reviews to the Board. 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 conclusions from the Board meetings are minuted and signed by Chairman.

Board Charter

Board Charter which sets out the structure, strategic intents and responsibilities of the Board as well as the whistleblowing policy is published at www.hsib.com.my. The code of conduct and business ethics of the Group will be incorporated after approval from the Board. The Company has applied the suggestions in Recommendation 1.7 of MCCG. The Board Charter will be reviewed regularly by the Board and as needs arise.

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.

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 2016. 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 2016, training programmes attended by directors of the Company are as follows:-

1.	Y. Bhg. Dato' Keh (Kerk) Chu Koh	▶ ISO 9001:2015 Awareness - In house training	23 & 24/04/2016
2.	Kuo Choo Song	▶ ISO 9001:2015 Awareness - In house training	23 & 24/04/2016
3.	Kerk Chiew Siong	▶ ISO 9001:2015 Awareness - In house training	23 & 24/04/2016
4.	Kerk Chian Tung	▶ Transfer Pricing: Application, Enforcement & Documentation	12/01/2016
5.	Teo Lee Teck	▶ ISO 9001:2015 Awareness - In house training	23 & 24/04/2016
		▶ MS 1480:2007 HACCP Awareness - In house training	02/06/2016
		▶ MS 1514:2009 GMP For Food Awareness - In house training	11/07/2016
		▶ Risk Assessment, Risk Analysis & Risk Control - In house training	23/07/2016
		▶ ISO 9001:2015 Internal Auditor - In house training	05 & 06/08/2016
6.	Kerk Kar Han	▶ ISO 9001:2015 Awareness - In house training	23 & 24/04/2016
		▶ MS 1480:2007 HACCP Awareness - In house training	22/07/2016
7.	Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	▶ FIDE Forum Special Invite: A Dialogue on The New and Revised Auditor Reporting Standards: Implications to Financial Institutions	20/01/2016
		▶ Special Invitation to Industry Briefing on Directors Register Implementation	17/02/2016
		▶ FIDE Forum : 2nd Distinguished Board Leadership Series - "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler	19/04/2016
		▶ BNM - FIDE FORUM Dialogue with Deputy Governor on the Corporate Governance Concept Paper	26/04/2016
		▶ Session B - An Exclusive Session for Directors: Implementation of FIDE FORUM's Directors	02/06/2016
		▶ FIDE: FinTech: Business Opportunity or Disruptor by Markus Gnirck and Veiverne Yuen	04/08/2016

BOARD OF DIRECTORS (cont'd)

Directors' Training (cont'd)

In 2016, training programmes attended by directors of the Company are as follows:- (cont'd)

8.	Raja Khairul Anuar bin Raja Mokhtar	▶ Corporate Governance – thought leadership session “How to Leverage on AGMs for better Engagement with Shareholders”	21/11/2016
9.	Mazrina binti Arifin	▶ Nominating Committee Programme Part 2: “Effective Board Evaluations”	10/08/2016
10.	Norita binti Ja’afar	▶ Emerging Leaders Programme, Bali Indonesia Organiser: The Iclif Leadership and Governance Centre	25 to 28/07/2016
		▶ Introduction to Blockchain	05/12/2016

In addition to the above, Directors are updated on the recent developments in the areas of statutory and regulatory requirements from presentations by the External Auditors, Company Secretary and the Internal Auditors during the Committee and Board Meetings.

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 2016, categorised into appropriate components.

	Salary & other emoluments (RM)	Fees (RM)	Benefits-in-kind (RM)	Total (RM)
Executive	1,622,745	228,000	28,280	1,879,025
Non-Executive	3,538,533	736,000	110,112	4,384,645

The number of Directors whose remuneration falls into each successive band of RM50,000 for the financial year ended 31 December 2016 is disclosed as follows:-

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,001 to RM100,000	-	4
RM700,001 to RM750,000	-	1
RM750,001 to RM800,000	1	-
RM850,001 to RM900,000	-	1
RM1,100,001 to RM1,150,000	1	-
RM1,200,001 to RM1,250,000	-	1
RM1,250,001 to RM1,300,000	-	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 23 herein. In addition, the Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is included in this Annual Report.

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 recognises that it is accountable to the Board to implement and monitor the system of risk management and internal control, and provides assurance to the Board in due course of its efforts. The Board continues to see that the Group monitor its respective risk management processes in order to detect and minimize risks against corporate objectives on a timely basis.

Audit Committee and The Board reviews and examines annually the effectiveness and efficiency of internal control system on finance, production, sales and compliance, address any shortcomings in internal control to ensure timely notification of material findings, review existing internal policies, procedures and practices with the objective of putting in place robust surveillance mechanisms to prevent operational abuse behaviour.

The engagement of internal auditors is one of the many ways of reviewing and assessing the effectiveness of the 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 32 to 33 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 noted that Section 195(1) the Companies Act 2016 requires the Chairperson of a meeting to allow a reasonable opportunity for shareholders at the AGM to question, discuss, comment or make recommendation on the management of the Company and 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 all 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 MCCG, the Company has a corporate website which provides information on corporate and group information, board charter, 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 the efficiency of the manufacturing process that leads to energy savings as well as reduction in production and packaging wastages and streamline administrative processes by advancing in Information Technology to cut down on paper waste.

The Group maintains a diverse mix of gender, ethnicity and age in the work place and management of the Group upholds an environment that is harmonious and efficient to both the employees and the organisations. To date, the Boards of the Company and the Group have diverse ethnicity and gender, ages from 40 to 85 years old and rich experience from various relevant and applicable industries.

In 2016, the Group continued to donate monies to local schools and associations and 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 91 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 2016, the Company and the Group have 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 and the Group keep 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 the 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) Utilisation of Proceeds

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

b) Contracts Relating to Loan

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

c) Material Contracts

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

d) 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 2016.

e) Non-Audit Fee

The amount of non-audit fees paid or payable to the External Auditors or a firm or corporation affiliated to the auditors' firm for the financial year ended 31 December 2016 are as follows:-

Particular	Group RM	Company RM
Non-Audit Fees paid or payable to External Auditor	5,000	5,000
• <i>Review of the Statement on Risk Management and Internal Control</i>		
Non-Audit Fees paid or payable to a firm or corporation affiliated to the auditors' firm	50,500	5,500
• <i>Taxation services</i>		

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
(Chairperson of Audit Committee, Independent Non-Executive Director)
- ▶ Mazrina Binti Arifin
(Senior Independent Non-Executive Director)
- ▶ Y. Bhg. Dato’ Wee Hoe Soon @ Gooi Hoe Soon
(Independent Non-Executive Co-Chairman of the Board)
Member of MIA
- ▶ Raja Khairul Anuar Bin Raja Mokhtar
(Independent Non-Executive Director)

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.
 - 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.

TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)

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 cooperate with any request made by the Committee.

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.

TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)**Functions (cont'd)*****Duties and Responsibilities (cont'd)***

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.

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 the presence of executive Board members.

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.

TERMS OF REFERENCE FOR AUDIT COMMITTEE (cont'd)

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 six (6) meetings held during the financial year ended 31 December 2016. 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 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 2016.

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

Attended by	Dates of Meeting						Total meetings attended
	18 Feb 2016	7 Mar 2016	19 May 2016	18 Aug 2016	14 Nov 2016	5 Dec 2016	
Norita Binti Ja'afar	√	√	√	√	√	√	6/6
Mazrina Binti Arifin	√	√	√	√	√	√	6/6
Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon	–	√	√	√	√	√	5/6
Raja Khairul Anuar Bin Raja Mokhtar	–	√	√	√	√	√	5/6

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

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

- o Reviewed the quarterly unaudited financial reports before recommending them to the Board of Directors for subsequent consideration and approval.
- o 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.
- o Evaluated the performance of the External Auditors and made recommendations on their appointment to the Board.
- o Discussed and attended to the key aspects of business operations that would affect the profitability and growth of the Company and its subsidiaries.
- o Reviewed the risk management and internal control systems of the Group for the year.
- o Reviewed Internal Audit reports by external Internal Auditors to ensure the effectiveness of internal controls.
- o Met and discussed with External Auditors and the Financial Controller, without the presence of management to discuss financial issues and other related matters thereof.
- o 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.
- o 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 recognised and rectified on a timely basis and an effective and efficient risk management and internal control systems are maintained.

One (1) internal audit report was 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. 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 of Nominating Committee, Senior Independent Non-Executive Director)
- Norita Binti Ja'afar
(Member, Independent Non-Executive Director)
- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon
(Member, Independent Non-Executive Co-Chairman of the Board)

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 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 MCG 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 diversity of gender, ethnicity and age since listed and has three female directors in the Board.

During the financial year, the Committee convened one (1) meeting on 5 December 2016 with full attendance.

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 of Remuneration Committee, Independent Non-Executive Director)
- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon
(Member, Independent Non-Executive Co-Chairman of the Board)
- Kerk Kar Han
(Member, Non-Independent Non-Executive Director)

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 5 December 2016 with full attendance.

Statement on Risk Management & 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 2016. 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 the 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 Guidelines”). This statement outlines the nature and state of the risk management and internal controls 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 assurance against any material misstatement or loss.

Risk Management

In 2016, management of the Group continued with carrying out a subsequent stage of Enterprise Risk Management (“ERM”) exercise, which is to monitor and report the implementation of the ERM policies, procedures and reporting structures.

The Executive Directors, Key Management Personnel and Heads of Department of the Group are responsible for managing the risks of their respective sections and departments, and attend monthly management meetings. During 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 then be brought to the Board members’ attention at their scheduled meetings.

The abovementioned processes served as the on-going processes 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 Audit Committee and the Board continue to monitor the Group’s risk management processes to ensure that they remain 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 and they report directly to the Audit Committee. During the financial year under review, the outsourced internal audit firm carried out a specific review to assess the adequacy and effectiveness of the pricing strategies and policies of sales and procurement departments of Hup Seng Perusahaan Makanan (M) Sdn. Bhd. (“HSPM”), Hup Seng Hoon Yong Brothers Sdn. Bhd. (“HSHY”) and In-Comix Food Industries Sdn. Bhd. (“In-Comix”), in accordance with the instructions of the Audit Committee. The results of the internal audit review and recommendations for improvement co-developed and agreed with Management were presented at the Audit Committee meeting held on 18 August 2016.

The cost incurred for the internal audit function in the financial year ended 31 December 2016 amounted to RM30,000.

Key Elements of Internal Control System

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

- ▶ An organisation structure which formally defines lines of responsibility and delegation of authority.
- ▶ Policies and procedures of all 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.
- ▶ Roles and responsibilities are properly segregated.
- ▶ 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.
- ▶ 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 system 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 the Group Financial Controller as CFO of the Company since 2013. The Managing Director and CFO have given the assurance to the Board that the present risk management and internal control system is operating adequately and effectively, in all material aspects.

This Statement on Risk Management & Internal Control has been reviewed by the External Auditors pursuant 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.

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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 2016.

Principal activities

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	49,405,747	23,723,570
Profit attributable to owners of the parent	49,405,747	23,723,570

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 2015 were as follows:

	RM
In respect of the financial year ended 31 December 2015 as reported in the Directors' report of that year:	
Interim single-tier dividend of 2 sen on 800,000,000 ordinary shares, declared on 7 March 2016 and paid on 13 April 2016	16,000,000
In respect of the financial year ended 31 December 2016:	
Interim single-tier dividend of 2 sen on 800,000,000 ordinary shares, declared on 30 August 2016 and paid on 10 October 2016	16,000,000
	32,000,000

On 14 February 2017, the Directors recommend an interim single-tier dividend of 2 sen and special single-tier dividend of 2 sen in respect of the financial year ended 31 December 2016 on 800,000,000 ordinary shares, amounting to a dividend payable of RM32,000,000. Such dividend will be payable on 10 April 2017.

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)
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 @ Gooi Hoe Soon	(Co-chairman appointed on 19 May 2016, Independent Non-Executive Director)

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:

The Company	← Number of Ordinary Shares of RM0.10 Each →			
	1 January 2016	Acquired	Sold	31 December 2016
Direct interest				
Kuo Choo Song	1,000,000	-	-	1,000,000
Y. Bhg. Dato' Keh (Kerk) Chu Koh	7,306,666	-	-	7,306,666
Teo Lee Teck	5,160,000	-	-	5,160,000
Kerk Chian Tung	13,733,333	-	-	13,733,333
Kerk Kar Han	6,446,666	-	-	6,446,666
Kerk Chiew Siong	1,333,333	-	-	1,333,333
Deemed interest				
Kuo Choo Song	444,750,083	-	-	444,750,083 *
Y. Bhg. Dato' Keh (Kerk) Chu Koh	412,747,418	-	-	412,747,418 *
Teo Lee Teck	408,534,086	-	-	408,534,086 *
Kerk Kar Han	408,000,753	500,000	-	408,500,753 *
Kerk Chiew Siong	11,373,333	-	-	11,373,333 **
Holding company HSB Group Sdn Bhd				
	← Number of Ordinary Shares of RM1 Each →			
	1 January 2016	Acquired	Sold	31 December 2016
Direct interest				
Kuo Choo Song	1,099,506	-	-	1,099,506
Y. Bhg. Dato' Keh (Kerk) Chu Koh	2,043,598	-	-	2,043,598
Kerk Chiew Siong	2,856,871	-	-	2,856,871
Teo Lee Teck	2,150,103	-	-	2,150,103
Kerk Kar Han	1,534,192	-	-	1,534,192
Deemed interest				
Kuo Choo Song	5,818,459	-	-	5,818,459 **
Y. Bhg. Dato' Keh (Kerk) Chu Koh	3,473,484	-	-	3,473,484 **
Kerk Chiew Siong	900,000	-	-	900,000

* 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.

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

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.

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 6 March 2017.

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 45 to 99 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 2016 and of their financial performance and cash flows for the year then ended.

The supplementary information set out in Note 29 on page 100 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 6 March 2017.

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 45 to 100 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 6 March 2017.)

Quek Ah Kow

Before me,

**Chiang Ee Chin (J247)
Commissioner of Oaths**

Independent Auditors' Report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hup Seng Industries Berhad, which comprise the statements of financial position as at 31 December 2016 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 45 to 99.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their 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.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

(i) Revenue recognition

The Group recognised revenue from sale of goods amounting to approximately RM285.65 million during the year. Given the nature of the manufacturing operations of the Group, we identified revenue recognition in respect of sale of goods to be an area of audit focus as we consider the high volume of transactions for numerous types of finished goods produced by the Group to be a possible cause of higher risk of material misstatements in respect of the timing and amount of revenue recognised. Furthermore, the key performance indicators for the key management personnel are measured based on the financial performance of the Group (revenue is the key determinant of the overall financial performance). Specifically, we focused our audit efforts to determine the possibility of overstatement of revenue.

Report on the audit of the financial statements (cont'd)*Key audit matters (cont'd)***(i) Revenue recognition (cont'd)**

In addressing this risk, we tested the Group's internal controls over the timing and amount of revenue recognised. We also inspected the terms of significant sales transactions to determine the point of transfer of significant risk and rewards and assessed whether revenue was recognised in accordance with the terms stated in the respective sales invoices. In addition, we inspected documents which evidenced the delivery of goods to customers. We also focused on testing the recording of sales transactions close to the year end, including credit notes issued after year end, to establish whether the transactions were recorded in the correct accounting period.

The notes relating to revenue are disclosed in Note 2.20 and Note 4 to the financial statements.

(ii) Impairment assessment on investment in subsidiary

MFRS 136 requires an entity to assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If such indication exists, the entity shall estimate the recoverable amount of that asset.

As disclosed in Note 13 to the financial statements, the financial performance of the subsidiary for the current year has improved compared to the previous year. Accordingly, the management estimated the recoverable amount of investment in the subsidiary as at reporting date by updating the value-in-use discounted cash flow prepared in previous years to reflect current assumptions of future economic conditions. Based on the updated discounted cash flow, the directors concluded that no reversal of impairment loss should be recorded in the current year. The review of the recoverable amount was significant to our audit due to the complexity of the assessment process and significant judgments and assumptions involved which are affected by expected future market or economic conditions, in particular the assumptions on revenue growth, operating costs and discount rate.

Our audit procedures included, amongst others, obtaining an understanding of the methodology adopted by the management in preparing the value-in-use discounted cash flow and assessing whether such methodology is consistent with those used in the industry. In addition, we challenged management's assumptions on revenue growth and operating costs by comparing to past actual outcomes. In respect of the discount rate, we assessed whether the discount rate used to determine the present value of the cash flows reflects the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive.

The disclosures on the investment in subsidiary are included in Note 3.1(b) and Note 13 to the financial statements.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Report on the audit of the financial statements (cont'd)

Information other than the financial statements and auditors' report thereon (cont'd)

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that 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 of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance approved standards on auditing in Malaysia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Report on the audit of the financial statements (cont'd)*Auditor's responsibilities for the audit of the financial statements (cont'd)*

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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' report on the financial statements of the subsidiaries were not subject to any qualification 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 29 on page 100 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

Wun Mow Sang
01821/12/2018 J
Chartered Accountant

Johor Bahru, Malaysia
Date: 6 March 2017

Statements of Comprehensive Income

For the financial year ended 31 December 2016

		Group	
	Note	2016 RM	2015 RM
Revenue	4	285,645,179	286,860,291
Cost of sales	5	(169,945,314)	(164,570,260)
Gross profit		115,699,865	122,290,031
Other items of income			
Interest income		3,423,437	3,625,778
Other income		876,797	687,750
Other items of expense			
Administrative expenses		(19,938,142)	(19,825,720)
Selling and marketing expenses		(33,765,676)	(33,822,747)
Profit before tax	6	66,296,281	72,955,092
Income tax expense	9	(16,890,534)	(18,224,028)
Profit net of tax, representing total comprehensive income for the year		49,405,747	54,731,064
Profit attributable to:			
Owners of the parent		49,405,747	54,731,064
Total comprehensive income attributable to:			
Owners of the parent		49,405,747	54,731,064
Earnings per share attributable to owners of the parent (sen per share):			
Basic	10	6.18	6.84
Diluted	10	6.18	6.84

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

Statements of Comprehensive Income (cont'd)
For the financial year ended 31 December 2016

	Note	Company	
		2016 RM	2015 RM
Gross dividends from subsidiaries		26,280,000	46,323,000
Interest income		843,164	985,122
Other income		55	-
Revenue	4	27,123,219	47,308,122
Reversal of impairment loss on investment in subsidiary		-	7,600,000
Administrative expenses		(3,224,492)	(3,224,950)
Profit before tax	6	23,898,727	51,683,172
Income tax expense	9	(175,157)	(229,046)
Profit net of tax, representing total comprehensive income for the year		23,723,570	51,454,126
Profit attributable to:			
Owners of the parent		23,723,570	51,454,126
Total comprehensive income attributable to:			
Owners of the parent		23,723,570	51,454,126

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

Statements of Financial Position

As at 31 December 2016

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Assets					
Non-current assets					
Property, plant and equipment	11	77,086,437	64,652,623	5,303	212,721
Investment properties	12	212,791	214,157	-	-
Investment in subsidiaries	13	-	-	62,286,703	62,286,703
Deferred tax assets	18	54,529	36,947	9,529	3,947
		77,353,757	64,903,727	62,301,535	62,503,371
Current assets					
Inventories	14	22,780,115	22,073,842	-	-
Trade and other receivables	15	38,719,791	37,261,432	115,722	163,369
Prepayments		798,420	785,616	16,157	36,666
Cash and bank balances	16	105,694,071	119,964,124	19,276,608	43,450,346
		167,992,397	180,085,014	19,408,487	43,650,381
Total assets		245,346,154	244,988,741	81,710,022	106,153,752
Equity and liabilities					
Current liabilities					
Trade and other payables	17	49,700,180	49,072,333	1,322,239	1,457,670
Income tax payable		5,616,223	6,945,820	51,549	83,418
Dividend payable		-	16,000,000	-	16,000,000
		55,316,403	72,018,153	1,373,788	17,541,088
Net current assets		112,675,994	108,066,861	18,034,699	26,109,293
Non-current liability					
Deferred tax liabilities	18	6,959,030	7,305,614	-	-
Total liabilities		62,275,433	79,323,767	1,373,788	17,541,088
Equity attributable to owners of the parent					
Share capital	19	80,000,000	80,000,000	80,000,000	80,000,000
Retained earnings	20	103,070,721	85,664,974	336,234	8,612,664
Total equity		183,070,721	165,664,974	80,336,234	88,612,664
Total equity and liabilities		245,346,154	244,988,741	81,710,022	106,153,752

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 2016

←— Attributable to owners of the parent —→				
Group	Note	Non-distributable Share capital RM	Distributable Retained earnings RM	Total RM
At 1 January 2015		80,000,000	74,933,914	154,933,914
Total comprehensive income		-	54,731,064	54,731,064
Transactions with the owners				
Dividends on ordinary shares	27	-	(44,000,004)	(44,000,004)
Total transactions with the owners		-	(44,000,004)	(44,000,004)
At 31 December 2015		80,000,000	85,664,974	165,664,974
At 1 January 2016		80,000,000	85,664,974	165,664,974
Total comprehensive income		-	49,405,747	49,405,747
Transaction with the owners				
Dividends on ordinary shares	27	-	(32,000,000)	(32,000,000)
Total transaction with the owners		-	(32,000,000)	(32,000,000)
At 31 December 2016		80,000,000	103,070,721	183,070,721

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

Statements of Changes in Equity (cont'd)
For the financial year ended 31 December 2016

	Note	Non-distributable Share capital RM	Distributable Retained earnings RM	Total RM
Company				
At 1 January 2015		80,000,000	1,158,542	81,158,542
Total comprehensive income		-	51,454,126	51,454,126
Transactions with the owners				
Dividends on ordinary shares	27	-	(44,000,004)	(44,000,004)
Total transactions with the owners		-	(44,000,004)	(44,000,004)
At 31 December 2015		80,000,000	8,612,664	88,612,664
<hr/>				
At 1 January 2016		80,000,000	8,612,664	88,612,664
Total comprehensive income		-	23,723,570	23,723,570
Transaction with the owners				
Dividends on ordinary shares	27	-	(32,000,000)	(32,000,000)
Total transaction with the owners		-	(32,000,000)	(32,000,000)
At 31 December 2016		80,000,000	336,234	80,336,234

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

Statements of Cash Flows

For the financial year ended 31 December 2016

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Operating activities				
Profit before tax	66,296,281	72,955,092	23,898,727	51,683,172
Adjustments for:				
Allowance for doubtful debts	53,222	55,694	-	-
Bad debts written off	8,326	98,910	-	-
Depreciation of property, plant and equipment	5,994,251	5,307,793	6,888	94,987
Depreciation of investment property	1,366	1,366	-	-
Loss on disposal of property, plant and equipment	74,315	141,312	15,788	3,342
Interest income	(3,423,437)	(3,625,778)	(843,164)	(985,122)
Reversal of impairment loss on property, plant and equipment	-	(15,030)	-	-
Inventories written off	62,044	93,642	-	-
Property, plant and equipment written off	37,529	134,714	1	602
Reversal of impairment loss on investment in subsidiary	-	-	-	(7,600,000)
Unrealised exchange gain	(33,322)	(39,889)	-	-
Operating cash flows before changes in working capital	69,070,575	75,107,826	23,078,240	43,196,981
Increase in inventories	(768,317)	(1,388,607)	-	-
(Increase)/decrease in trade and others receivables	(1,486,585)	(1,858,667)	47,647	(45,905)
(Increase)/decrease in prepayments	(12,804)	(93,718)	20,509	(23,071)
Increase/(decrease) in trade and other payables	627,847	2,497,374	(135,431)	226,338
Cash flows from operations	67,430,716	74,264,208	23,010,965	43,354,343
Income taxes paid	(18,584,297)	(16,449,402)	(212,608)	(228,594)
Net cash flows from operating activities	48,846,419	57,814,806	22,798,357	43,125,749

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 2016

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Investing activities				
Withdrawal/(placement) of deposits for more than 3-months maturity with licensed banks	3,014,497	(10,341,560)	2,014,497	(7,141,560)
Interest received	3,423,437	3,625,778	843,164	985,122
Proceeds from disposal of property, plant and equipment	645,429	601,690	185,000	77,145
Purchase of property, plant and equipment	(19,185,338)	(2,886,380)	(259)	(2,196)
Net cash flows (used in)/from investing activities	(12,101,975)	(9,000,472)	3,042,402	(6,081,489)
Financing activities				
Dividends paid on ordinary shares	(48,000,000)	(40,000,008)	(48,000,000)	(40,000,008)
Net cash flows used in financing activities	(48,000,000)	(40,000,008)	(48,000,000)	(40,000,008)
Net (decrease)/increase in cash and cash equivalents	(11,255,556)	8,814,326	(22,159,241)	(2,955,748)
Cash and cash equivalents at 1 January	109,322,564	100,508,238	36,308,786	39,264,534
Cash and cash equivalents at 31 December (Note 16)	98,067,008	109,322,564	14,149,545	36,308,786

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

Notes to the Financial Statements

31 December 2016

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 2016 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, except as disclosed in the accounting policies below.

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 year except as follows:

On 1 January 2016, the Group and the Company adopted the following Amendments and Annual Improvements mandatory for annual financial periods beginning on or after 1 January 2016:

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2012–2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14: Regulatory Deferral Accounts	1 January 2016

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

2.2 Changes in accounting policies (cont'd)

The nature and impact of the new and amended MFRSs and IC Interpretation are described below:

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset forms part of the business) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments do not have any impact to the Group as the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of MFRS 141. Instead, MFRS 116 will apply. After initial recognition, bearer plants will be measured under MFRS 116 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of MFRS 141 and are measured at fair value less costs to sell.

The amendments do not have any impact on the Group's and the Company's financial statements as the Group and the Company do not have bearer plants.

Amendments to MFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to MFRS 11 require that a joint operator which acquires an interest in a joint operations which constitute a business to apply the relevant MFRS 3 Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to MFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

These amendments do not have any impact on the Group's consolidated financial statements as there has been no interest acquired in a joint operation during the year.

Amendments to MFRS 127: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. These amendments do not have any impact on the Group's and the Company's financial statements.

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

2.2 Changes in accounting policies (cont'd)

Amendments to MFRS 101: Disclosure Initiatives

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The amendments do not have any impact on the Group's and the Company's financial statements.

Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments further clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. In addition, the amendments also provides that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

The amendments do not have any impact on the Group's financial statements as the Group does not apply the consolidation exception.

MFRS 14 Regulatory Deferral Accounts

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulations, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in the account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing MFRS preparer, this standard does not apply.

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's financial statements.

(a) MFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to MFRS 5 clarifies that changing from one disposal method to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in MFRS 5.

The amendment also clarifies that changing the disposal method does not change the date of classification. This amendment is applied prospectively.

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

2.2 Changes in accounting policies (cont'd)

Annual Improvements to MFRSs 2012–2014 Cycle (cont'd)

(b) MFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.

In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report. This amendment is applied retrospectively.

(c) MFRS 119 Employee Benefits

The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

(d) MFRS 134 Interim Financial Reporting

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

2.3 Standards and interpretations issued but not yet effective

The Standards, Amendments, Annual Improvements and IC interpretation that are issued but not yet effective up to the date of issuance of the Group's and Company's financial statements are disclosed below. The Group and Company intend to adopt these Standards, Amendments, Annual Improvements and IC Interpretations, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 107: Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112: Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Amendments to MFRS 12: Disclosure of Interests in Other Entities	1 January 2017
Annual Improvements to MFRSs 2014-2016 Cycle	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4: Insurance Contracts	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
MFRS 2: Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 9: Financial Instruments	1 January 2018

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
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16: Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the Group and the Company.

MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies this amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group and the Company.

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The amendments to MFRS 2 address three main areas:

- (a) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- (b) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- (c) Accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

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

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

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2) (cont'd)

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

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

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

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117.

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

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

MFRS 16 Leases (cont'd)

Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group plans to assess the potential effect of MFRS 16 on its financial statements in year 2017.

Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify that:

- gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and
- gains and losses resulting from transactions involving the sale or contribution to an associate of a joint venture of assets that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

2.4 Basic of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- (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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) The contractual arrangement with the other vote holders of the investee
- (ii) Rights arising from other contractual arrangements
- (iii) The Group's voting rights and potential voting rights

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

2.4 Basic of consolidation (cont'd)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.5 Business combinations and goodwill

Business combinations involving entities under common control are accounted for by applying the merger 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.

All other business combinations are 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

2.5 Business combinations and goodwill (cont'd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.6 Current versus non-current classification

Assets and liabilities in the 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 be 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

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

2.6 Current versus non-current classification (cont'd)

- 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.

2.7 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 Group.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available, 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 Group 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.

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

2.7 Fair value measurement (cont'd)

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

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.

2.8 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 initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.9 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

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

2.9 Property, plant and equipment and depreciation (cont'd)

equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. 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 lives 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 income statement in the year the asset is derecognised.

2.10 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 either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. When investment properties are stated at cost less accumulated depreciation and impairment losses, transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purpose.

2.11 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 indication exists, or when annual impairment assessment for an asset is required, the Group estimates the asset's recoverable amount.

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

2.11 Impairment of non-financial assets (cont'd)

An asset's recoverable amount is the higher of an asset's fair value less costs of disposal 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")).

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows 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. 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 the statement of profit or loss expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in this statement of profit or loss unless the asset is carried 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.

2.12 Subsidiaries

A subsidiary is an entity over which the Group has control over. Control is defined in Note 2.4.

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.

2.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity investment of another entity.

(a) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

2.13 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by MFRS 139. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. The Group did not have any financial assets at fair value through profit or loss as 31 December 2016 and 2015.

- **Loans and receivables**

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 15.

- **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of

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

2.13 Financial instruments (cont'd)

(a) Financial assets (cont'd)

- Held-to-maturity investments (cont'd)

the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2016 and 2015.

- AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

The Group did not have any AFS financial assets during the financial years ended 31 December 2016 and 2015.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

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

2.13 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Derecognition (cont'd)

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

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

2.13 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- 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 are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 139 are satisfied. The Group does not have any financial liability at fair value through profit or loss.

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

2.13 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Subsequent measurement (cont'd)

- Loans and borrowings

This category generally applies to interest-bearing loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Group did not have any interest bearing loans and borrowings as at 31 December 2016 and 2015.

- Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, 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 recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously.

2.14 Cash and bank balances

Cash and bank balances in the statements of financial position comprise cash at banks and on hand, demand deposits, short-term deposits with a maturity of three months or less and highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

For the purpose of statements of cash flows, cash and cash equivalents consist of cash and bank balances as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

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

2.15 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 but excluding borrowing costs. 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.

2.16 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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

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, when 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.

2.17 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.

2.18 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.

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

2.18 Employee benefits (cont'd)

(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.

2.19 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 2.20(d).

2.20 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 goods and service tax.

(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.

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

2.20 Revenue recognition (cont'd)

(d) Rental income

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

2.21 Taxes

(a) Current income 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 at 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 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.

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

2.21 Taxes (cont'd)

(b) Deferred tax (cont'd)

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.

(c) Goods and Service Tax ("GST")

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

- Where the amount of GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST 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 GST included.

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

2.22 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 26, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.23 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.

2.24 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 statement 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.

In the process of applying the Group's accounting policies, management has not made accounting judgements which have significant effect on the amounts recognised in the financial statements.

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.

(a) Impairment of financial assets

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.

(b) Impairment of investment in subsidiaries

MFRS 136 requires an entity to assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. As disclosed in Note 13, the financial performance of a subsidiary has improved compared to the previous financial year, indicating that the previously recognised impairment loss may no longer be required. Management estimated the recoverable amount of its investment in the subsidiary as at reporting date by updating the value-in-use discounted cash flow prepared in previous years to reflect current assumptions of future economic conditions. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the CGU is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The assumptions which are significant to the discounted cash flows are revenue growth, operating costs and the discount rate. The pre-tax discount rate applied to the discounted cash flows is 6.72% (2015: 7.78%).

(c) Useful lives of plant and equipment

The cost of plant and equipment are depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and equipment to be within 3 to 15 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 these asset, therefore, future depreciation charges could be revised. The carrying amount of the Group's 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	
	2016 RM	2015 RM	2016 RM	2015 RM
Auditors' remuneration				
Statutory audits	128,000	124,000	38,000	34,000
Other services	48,000	195,500	10,500	38,500
Underprovision in prior year	7,500	4,000	-	500
Allowance for doubtful debts (Note 15)	53,222	55,694	-	-
Bad debts written off	8,326	98,910	-	-
Employee benefits expenses excluding				
Directors' remuneration (Note 7)	44,684,431	42,245,242	395,908	385,429
Directors' fees (Note 8)	1,316,000	1,316,000	700,000	700,000
Directors' other emoluments (Note 8)	10,012,147	10,139,219	1,647,445	1,552,691
Depreciation of property, plant and equipment (Note 11)	5,994,251	5,307,793	6,888	94,987
Depreciation of investment properties (Note 12)	1,366	1,366	-	-
Inventories written off	62,044	93,642	-	-
Loss on disposal of property, plant and equipment	74,315	141,312	15,788	3,342
Property, plant and equipment written off	37,529	134,714	1	602
Realised exchange losses	420,104	35,205	-	-
Rental expenses	226,897	239,910	33,708	32,904
<hr/>				
and crediting:				
Gross dividend income	-	-	26,280,000	46,323,000
Interest income	3,423,437	3,625,778	843,164	985,122
Unrealised exchange gain	33,322	39,889	-	-
Reversal of impairment loss on trade receivables (Note 15)	22,035	10,065	-	-
Reversal of impairment loss on property, plant and equipment (Note 11)	-	15,030	-	-
Reversal of impairment loss on investment in subsidiary	-	-	-	7,600,000
Rental income	20,550	20,010	-	-

7. Employee benefits expense

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Wages, salaries and allowances	39,843,212	37,794,057	350,353	340,689
Defined contribution plan	4,217,728	3,957,710	43,330	42,881
Social security costs	418,430	368,570	2,225	1,859
Other staff related expenses	134,435	124,905	-	-
Other allowance	70,626	-	-	-
	44,684,431	42,245,242	395,908	385,429

8. Key management personnel compensation

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Directors of the Company				
Executive:				
Salaries and other emoluments	1,554,308	1,469,126	1,553,108	1,467,426
Defined contribution plan	68,437	60,065	68,437	60,065
Fees	228,000	228,000	140,000	140,000
Benefits-in-kind	28,280	44,143	18,578	36,328
	1,879,025	1,801,334	1,780,123	1,703,819
Non-Executive (but holding executive position in subsidiaries):				
Salaries and other emoluments	3,150,772	2,953,312	13,300	13,300
Defined contribution plan	375,161	351,440	-	-
Fees	456,000	456,000	280,000	280,000
Benefits-in-kind	110,112	129,453	-	2,653
	4,092,045	3,890,205	293,300	295,953
Non-Executive:				
Other emoluments	12,600	11,900	12,600	11,900
Fees	280,000	280,000	280,000	280,000
	292,600	291,900	292,600	291,900

8. Key management personnel compensation (cont'd)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Directors of Subsidiaries				
Executive:				
Salaries and other emoluments	4,331,409	4,730,648	-	-
Defined contribution plan	519,460	562,728	-	-
Fees	330,000	352,000	-	-
Benefits-in-kind	124,636	228,015	-	-
	5,305,505	5,873,391	-	-
Non-Executive:				
Fees	22,000	-	-	-
Total	11,591,175	11,856,830	2,366,023	2,291,672
Directors' remuneration analysed by:				
Salaries and other emoluments	9,049,089	9,164,986	1,579,008	1,492,626
Defined contribution plan	963,058	974,233	68,437	60,065
Total Directors' remuneration (excluding benefits-in-kind) (Note 6)				
	10,012,147	10,139,219	1,647,445	1,552,691
Fees (Note 6)	1,316,000	1,316,000	700,000	700,000
Benefits-in-kind	263,028	401,611	18,578	38,981
Total Directors' remuneration	11,591,175	11,856,830	2,366,023	2,291,672

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

	Number of Directors	
	2016	2015
Executive Directors:		
RM650,001 - RM700,000	-	1
RM750,001 - RM800,000	1	-
RM1,100,001 - RM1,150,000	1	1
Non-Executive Directors:		
RM50,001 - RM100,000	4	4
RM600,001 - RM650,000	-	1
RM700,001 - RM750,000	1	-
RM800,001 - RM850,000	-	1
RM850,001 - RM900,000	1	-
RM1,100,001 - RM1,150,000	-	-
RM1,200,001 - RM1,250,000	1	2
RM1,250,001 - RM1,300,000	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 2016 and 2015 are:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Statements of comprehensive income:				
Current income tax:				
- Malaysian income tax	17,169,000	18,853,000	184,000	235,000
- Under/(over)provision in prior years	85,700	(61,046)	(3,261)	2,912
	17,254,700	18,791,954	180,739	237,912
Deferred tax (Note 18):				
- Origination and reversal of temporary differences	(399,582)	(250,262)	(5,582)	(8,669)
- Under/(over)provision in prior years	35,416	(317,664)	-	(197)
	(364,166)	(567,926)	(5,582)	(8,866)
Income tax expense recognised in profit or loss	16,890,534	18,224,028	175,157	229,046

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 2016 and 2015 are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax	66,296,281	72,955,092	23,898,727	51,683,172
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	15,911,107	18,238,773	5,735,694	12,920,793
Adjustments:				
Income not subject to tax	-	-	(6,307,200)	(13,480,750)
Non-deductible expenses	1,109,901	1,002,297	749,924	786,288
Expenses with double deduction	(251,590)	(314,332)	-	-
Benefits from utilisation of tax incentive	-	(324,000)	-	-
Under/(over)provision of income tax expense in prior years	85,700	(61,046)	(3,261)	2,912
Under/(over)provision of deferred tax in prior years	35,416	(317,664)	-	(197)
Income tax expense recognised in profit or loss	16,890,534	18,224,028	175,157	229,046

9. Income tax expense (cont'd)

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 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.

	2016	Group 2015
Profit net of tax attributable to owners of the parent (RM)	49,405,747	54,731,064
Weighted average number of ordinary shares in issue	800,000,000	800,000,000
Basic earnings per share (sen)	6.18	6.84
Diluted earnings per share (sen)	6.18	6.84

As at reporting date, the Company does not have any share options, warrants and other potential dilutive ordinary shares.

11. Property, plant and equipment

Group	(a) Freehold land and buildings RM	(b) Long term leasehold land and buildings RM	(c) Short term leasehold land and buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
Cost							
At 1 January 2015	19,696,459	1,929,536	30,219,664	54,981,199	15,312,463	8,540,014	130,679,335
Additions	-	-	425,500	1,127,423	976,846	356,611	2,886,380
Disposals/written off	-	-	-	(475,273)	(2,607,856)	(78,797)	(3,161,926)
At 31 December 2015 and 1 January 2016	19,696,459	1,929,536	30,645,164	55,633,349	13,681,453	8,817,828	130,403,789
Additions	12,765,275	-	4,309,745	833,933	1,135,356	141,029	19,185,338
Disposals/written off	-	-	-	(162,072)	(3,030,240)	(133,212)	(3,325,524)
At 31 December 2016	32,461,734	1,929,536	34,954,909	56,305,210	11,786,569	8,825,645	146,263,603

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

Group	(a) Freehold land and buildings RM	(b) Long term leasehold land and buildings RM	(c) Short term leasehold land and buildings RM	Plant and equipment RM	Motor vehicles RM	Other assets RM	Total RM
Accumulated depreciation and impairment loss:							
At 1 January 2015	4,053,185	362,845	6,365,172	36,237,754	9,744,680	5,978,977	62,742,613
Depreciation charge for the year (Note 6)	297,066	24,761	834,807	2,234,693	1,220,636	695,830	5,307,793
Reversal of impairment of property, plant and equipment	-	-	-	(15,030)	-	-	(15,030)
Disposals/written off	-	-	-	(350,314)	(1,874,818)	(59,078)	(2,284,210)
At 31 December 2015 and 1 January 2016	4,350,251	387,606	7,199,979	38,107,103	9,090,498	6,615,729	65,751,166
Depreciation charge for the year (Note 6)	297,066	24,761	1,448,757	2,338,325	1,331,045	554,297	5,994,251
Disposals/written off	-	-	-	(140,582)	(2,314,948)	(112,721)	(2,568,251)
At 31 December 2016	4,647,317	412,367	8,648,736	40,304,846	8,106,595	7,057,305	69,177,166
Net carrying amount:							
At 31 December 2015	15,346,208	1,541,930	23,445,185	17,526,246	4,590,955	2,202,099	64,652,623
At 31 December 2016	27,814,417	1,517,169	26,306,173	16,000,364	3,679,974	1,768,340	77,086,437

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

Group

Other assets include computer, office equipment, electrical installation, renovation, furniture and fittings and capital work-in-progress which comprises machinery under installation amounting to RM5,353 (2015: Nil).

(a) Freehold land and buildings

The net carrying amounts of freehold land and buildings are as follows:

	2016 RM	2015 RM
Freehold land	10,726,740	4,718,275
Buildings	17,087,677	10,627,933
	<hr/> 27,814,417	<hr/> 15,346,208

(b) Long term leasehold land and buildings

The net carrying amounts of long term leasehold land and buildings are as follows:

	2016 RM	2015 RM
Long term leasehold land	725,084	737,163
Buildings	792,085	804,767
	<hr/> 1,517,169	<hr/> 1,541,930

(c) Short term leasehold land and buildings

The net carrying amounts of short term leasehold land and buildings are as follows:

	2016 RM	2015 RM
Short term leasehold land	5,783,102	4,811,538
Buildings	20,523,071	18,633,647
	<hr/> 26,306,173	<hr/> 23,445,185

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

Company	Office equipment RM	Furniture and fittings RM	Motor vehicles RM	Total RM
Cost				
At 1 January 2015	69,993	12,871	884,039	966,903
Additions	2,196	-	-	2,196
Disposals/written off	(3,224)	-	(240,487)	(243,711)
At 31 December 2015 and 1 January 2016	68,965	12,871	643,552	725,388
Additions	259	-	-	259
Disposals/written off	(246)	-	(643,552)	(643,798)
At 31 December 2016	68,978	12,871	-	81,849
Accumulated depreciation				
At 1 January 2015	47,616	10,820	521,866	580,302
Charge for the year (Note 6)	12,893	251	81,843	94,987
Disposals/written off	(1,677)	-	(160,945)	(162,622)
At 31 December 2015 and 1 January 2016	58,832	11,071	442,764	512,667
Charge for the year (Note 6)	6,637	251	-	6,888
Disposals/written off	(245)	-	(442,764)	(443,009)
At 31 December 2016	65,224	11,322	-	76,546
Net carrying amount:				
At 31 December 2015	10,133	1,800	200,788	212,721
At 31 December 2016	3,754	1,549	-	5,303

12. Investment properties

Cost Model	Group	
	2016 RM	2015 RM
At 1 January	214,157	215,523
Depreciation charge for the year (Note 6)	(1,366)	(1,366)
At 31 December	212,791	214,157
Fair value of investment properties (Note 23)	650,000	650,000

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

13. Investment in subsidiaries

	Company	
	2016 RM	2015 RM
Unquoted shares, at cost	67,914,211	67,914,211
Less: Impairment loss	(5,627,508)	(5,627,508)
	62,286,703	62,286,703

The subsidiary companies are:

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2016	2015
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%

13. Investment in subsidiaries (cont'd)

The investment in In-Comix Food Industries Sdn. Bhd. ("ICM") is carried at a cost of RM23.97 million (2015: RM23.97 million) less accumulated impairment losses of RM5.63 million (2015: RM5.63 million). The management of Hup Seng Industries Berhad carried out a review of the recoverable amount of its investment in ICM during the current financial year as the financial performance of the subsidiary has improved compared to the previous financial year, indicating that the previously recognised impairment loss may no longer be required.

Management estimated the recoverable amount of investment in the subsidiary as at reporting date by updating the value-in-use discounted cash flow prepared in previous years to reflect current assumptions of future economic conditions. Based on the updated discounted cash flow, the directors concluded that no reversal of impairment loss should be recorded in the current year. The significant assumptions used in the discounted cash flow are disclosed in Note 3.1(b).

14. Inventories

	2016 RM	Group 2015 RM
At cost:		
Raw materials	9,692,887	9,211,356
Finished goods	3,933,415	4,559,745
Spares and fuel	5,741,484	5,159,623
Trading inventories	1,923,631	1,701,704
Work-in-progress	325,516	292,145
	21,616,933	20,924,573
At net realisable value:		
Containers	1,163,182	1,149,269
	22,780,115	22,073,842

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		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current				
Trade receivables				
Third parties	38,195,986	36,827,654	-	-
Less: Allowance for doubtful debts	(223,671)	(231,928)	-	-
Trade receivables, net	37,972,315	36,595,726	-	-
Other receivables				
Deposits	151,456	145,086	11,100	11,500
Interest receivable from fixed and short term deposits	358,950	366,531	104,622	151,869
Sundry receivables	237,070	154,089	-	-
	747,476	665,706	115,722	163,369
Total trade and other receivables	38,719,791	37,261,432	115,722	163,369
Add: Cash and bank balances (Note 16)	105,694,071	119,964,124	19,276,608	43,450,346
Total loans and receivables	144,413,862	157,225,556	19,392,330	43,613,715

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 60 days (2015: 30 to 60 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

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

	Group	
	2016 RM	2015 RM
Neither past due nor impaired	28,977,139	27,455,064
1 to 30 days past due not impaired	7,778,974	7,568,350
31 to 60 days past due not impaired	976,851	1,167,702
61 to 90 days past due not impaired	154,309	253,876
91 to 120 days past due not impaired	53,416	71,956
More than 121 days past due not impaired	31,626	78,778
Impaired	8,995,176	9,140,662
	223,671	231,928
	38,195,986	36,827,654

15. Trade and other receivables (cont'd)

Trade receivables (cont'd)

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 RM8,995,176 (2015: RM9,140,662) that are past due at the reporting date but not impaired.

At the reporting date, trade receivables arising from export sales amounting to RM1,933,847 (2015: RM1,475,810) 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 are unsecured in nature. Although those 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:

Movement in allowance accounts (individually impaired):

	2016	Group
	RM	2015
		RM
At 1 January	231,928	273,915
Charge for the year (Note 6)	53,222	55,694
Written off	(39,444)	(87,616)
Reversal of impairment losses (Note 6)	(22,035)	(10,065)
At 31 December	223,671	231,928

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Cash and bank balances	6,737,008	5,764,154	149,545	250,376
Short-term deposits with licensed banks	91,330,000	103,558,410	14,000,000	36,058,410
Cash and cash equivalents	98,067,008	109,322,564	14,149,545	36,308,786
Short-term deposits of more than 3 months maturity period with licensed banks	7,627,063	10,641,560	5,127,063	7,141,560
Total cash and bank balances	105,694,071	119,964,124	19,276,608	43,450,346

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 a 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:

	Interest rate	
	2016 %	2015 %
Group	3.56	3.53
Company	3.67	3.42

17. Trade and other payables

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current				
Trade payables				
Third parties	25,687,103	23,994,067	-	-
Other payables				
Payroll liabilities	10,068,085	10,576,793	85,717	164,784
Duties and other taxes payable	621,920	537,267	-	-
Sundry suppliers	2,382,445	2,204,273	-	2,183
Accrued expenses	7,845,997	8,698,184	1,236,522	1,290,703
Containers refundable deposits	3,094,630	3,061,749	-	-
	24,013,077	25,078,266	1,322,239	1,457,670
Total trade and other payables, representing total financial liabilities carried at amortised cost	49,700,180	49,072,333	1,322,239	1,457,670

Trade payables

Trade payables are non-interest bearing. Trade payables are normally settled on 30 to 90 days (2015: 30 to 90 days) terms.

18. Deferred tax liabilities/(assets)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
At 1 January	7,268,667	7,836,593	(3,947)	4,919
Recognised in profit or loss (Note 9)	(364,166)	(567,926)	(5,582)	(8,866)
At 31 December	6,904,501	7,268,667	(9,529)	(3,947)
Presented after appropriate offsetting as follows:				
Deferred tax assets	(54,529)	(36,947)	(11,455)	(11,208)
Deferred tax liabilities	6,959,030	7,305,614	1,926	7,261
	6,904,501	7,268,667	(9,529)	(3,947)

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:

	Property, plant and equipment	
	2016 RM	2015 RM
At 1 January	7,305,614	8,154,174
Recognised in profit or loss	(346,584)	(848,560)
At 31 December	6,959,030	7,305,614

Deferred tax assets of the Group:

	Others	
	2016 RM	2015 RM
At 1 January	(36,947)	(317,581)
Recognised in profit or loss	(17,582)	280,634
At 31 December	(54,529)	(36,947)

Deferred tax liability of the Company:

	Property, plant and equipment	
	2016 RM	2015 RM
At 1 January	7,261	16,217
Recognised in profit or loss	(5,335)	(8,956)
At 31 December	1,926	7,261

Deferred tax asset of the Company:

	Others	
	2016 RM	2015 RM
At 1 January	(11,208)	(11,298)
Recognised in profit or loss	(247)	90
At 31 December	(11,455)	(11,208)

19. Share capital

	Number of Ordinary Shares of RM 0.10 each		Amount	
	2016	2015	2016 RM	2015 RM
Authorised:				
At 1 January/ 31 December	1,000,000,000	1,000,000,000	100,000,000	100,000,000
Issued and fully paid:				
At 1 January/ 31 December	800,000,000	800,000,000	80,000,000	80,000,000

20. Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 December 2016 and 31 December 2015 under the single tier system.

21. Related party transactions

- (a) For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.
- (b) 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:

	Note	2016 RM	2015 RM
Group			
Rental of premises payable to:			
- Hup Seng Brothers Holdings Sdn. Bhd.	(i)	120,000	120,000
Company			
From subsidiary companies:			
Dividend received		26,280,000	46,323,000

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.

21. Related party transactions (cont'd)

(c) Compensation of key management during the year was as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Short-term employee benefits	10,628,117	10,882,597	2,297,586	2,231,607
Defined contribution plan	963,058	974,233	68,437	60,065
	11,591,175	11,856,830	2,366,023	2,291,672

22. Capital commitments

	Group	
	2016 RM	2015 RM
Capital expenditure:		
Contracted but not provided for property, plant and equipment	972,807	123,647

23. Fair value

Determination of fair value

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

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) 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

23. Fair value (cont'd)

As at 31 December 2016, the Group held the following assets of which fair value are disclosed:

	Total RM	Level 1 RM	Level 2 RM	Level 3 RM
At 31 December 2016				
Investment properties (Note 12)	650,000	-	-	650,000
<hr/>				
At 31 December 2015				
Investment properties (Note 12)	650,000	-	-	650,000
<hr/>				

For investment properties, the Group used the fair value which has been determined based on valuation performed on 17 December 2014. The valuation method is based on comparable market transaction that considers sales of similar properties that have been transacted in the open market.

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

24. 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.

(a) Credit risk

Credit risk is the risk of loss that 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.

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

(a) Credit risk (cont'd)

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.
- an amount of RM1,208,390 (2015: RM623,000) relating to corporate guarantee provided by the Company to several banks for its subsidiaries.

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:

	2016		2015	
	RM	% of total	RM	% of total
By country:				
Malaysia	33,006,705	87%	32,081,468	88%
Asia	3,115,259	8%	2,805,692	8%
Other countries	1,850,351	5%	1,708,566	4%
	37,972,315	100%	36,595,726	100%
By industry sectors:				
Biscuits manufacturing	4,519,182	12%	4,112,891	11%
Beverages manufacturing	446,628	1%	410,990	1%
Trading division	33,006,505	87%	32,071,845	88%
	37,972,315	100%	36,595,726	100%

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are 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.

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

(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.

	2016	Group	2015
	RM		RM
Trade and other payables			
- On demand or within 1 year	49,700,180		49,072,333

(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 entities are kept to an acceptable level. The Group does not engage in any formal hedging activities.

Sensitivity analysis of foreign exchange rate changes

		As at		As at
		2016		2015
RM/United States Dollars (USD) exchange rate	+/- 2.00%		+/- 2.00%	
USD denominated accounts receivable (RM)		2,663,182		2,316,055
Net income (RM)		-/+ 53,264		-/+ 46,321
RM/Singapore Dollars (SGD) exchange rate	+/- 2.50%		+/- 2.50%	
SGD denominated accounts receivable (RM)		2,454,364		2,333,868
Net income (RM)		-/+ 61,359		-/+ 58,347

25. 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 2016 and 2015, which are within the Group's objectives for capital management, are as follows:

	2016 RM	2015 RM
Total liabilities	62,275,433	79,323,767
Total equity	183,070,721	165,664,974
Gearing ratio	34%	48%

26. 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.

26. Segment information (cont'd)

	Biscuit manufacturing division		Beverage manufacturing division		Trading division		Consolidated	
	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM
Revenue								
Revenue	208,835,449	207,437,113	11,263,698	10,473,949	203,116,976	204,652,040	423,216,123	422,563,102 (A)
Results								
Segment profit	42,932,417	49,019,044	1,208,897	1,378,682	24,592,035	24,696,285	68,733,349	75,094,011 (B)
Profit from inter-segment sales							(55,795)	100,909
Other income							843,219	985,122
Unallocated expenses							(3,224,492)	(3,224,950)
Profit before tax							66,296,281	72,955,092
Income tax expense							(16,890,534)	(18,224,028)
Profit net of tax							49,405,747	54,731,064

(A) Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current year is RM137,570,944 (2015: RM135,702,811).

(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.

26. Segment information (cont'd)

	Biscuit manufacturing division		Beverage manufacturing division		Trading division		Consolidated	
	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM	2016 RM	2015 RM
Assets								
Segment assets	133,829,158	121,988,755	11,021,723	12,303,926	81,071,954	66,829,011	225,922,835	201,121,692
Unallocated assets							19,423,319	43,867,049
Total assets							<u>245,346,154</u>	<u>244,988,741</u>
Liabilities								
Segment liabilities	45,017,100	44,158,673	1,897,824	2,070,323	13,976,428	15,543,390	60,891,352	61,772,386
Unallocated liabilities							1,384,081	17,551,381
Total liabilities							<u>62,275,433</u>	<u>79,323,767</u>
Other segment information								
Depreciation	4,236,191	3,548,918	286,411	313,732	1,466,127	1,351,522	5,988,729	5,214,172
Unallocated expense							6,888	94,987
							<u>5,995,617</u>	<u>5,309,159</u>
Reversal of impairment losses recognised profit or loss	-	(15,030)	-	-	-	-	-	(15,030)
Additions of non-current assets Unallocated expense	17,980,723	1,777,708	18,212	49,935	1,186,144	1,056,541	19,185,079	2,884,184
							259	2,196
							<u>19,185,338</u>	<u>2,886,380</u>
Non cash expense other than depreciation Unallocated expense	22,302	131,704	384	45	14,842	2,363	37,528	134,112
							1	602
							<u>37,529</u>	<u>134,714</u>

27. Dividends

	Group and Company	
	2016	2015
	RM	RM
Recognised and paid during the financial year:		
Dividends paid on ordinary shares:		
- Final single-tier dividend for 2014: 1.5 sen per share	-	12,000,004
- Interim single-tier dividend for 2015: 2 sen per share	-	16,000,000
- Interim single-tier dividend for 2015: 2 sen per share	16,000,000	-
- Interim single-tier dividend for 2016: 2 sen per share	16,000,000	-
	32,000,000	28,000,004
Recognised and payable during the financial year:		
- Special single-tier dividend for 2015: 2 sen per share	-	16,000,000
	32,000,000	44,000,004
Proposed but not recognised as a liability as at 31 December:		
- Interim single-tier dividend for 2015: 2 sen per share	-	16,000,000
- Interim single-tier dividend for 2016: 2 sen per share	16,000,000	-
- Special single-tier dividend for 2016: 2 sen per share	16,000,000	-
	32,000,000	16,000,000

On 14 February 2017, the Directors recommend an interim single-tier dividend of 2 sen and special single-tier dividend of 2 sen in respect of the financial year ended 31 December 2016 on 800,000,000 ordinary shares, amounting to a dividend payable of RM32,000,000. Such dividend will be payable on 10 April 2017.

28. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 6 March 2017.

29. 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 2016 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	
	2016 RM	2015 RM	2016 RM	2015 RM
Total retained profits				
- Realised	151,751,813	134,620,965	326,705	8,608,717
- Unrealised	1,867,801	1,549,107	9,529	3,947
	153,619,614	136,170,072	336,234	8,612,664
Less: Consolidation adjustments	(50,548,893)	(50,505,098)	-	-
Retained profits as per financial statements	103,070,721	85,664,974	336,234	8,612,664

Top 10 Properties of the Group

As at 31 December 2016

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.16 RM
Hup Seng Perusahaan Makanan (M) Sdn. Bhd.						
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	17 years	11,286,068
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	34 years	13,986,705
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	-	1,043,739
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	28 years	1,405,814
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	24 years	914,945

Top 10 Properties of the Group (cont'd)
As at 31 December 2016

Location of Property	Description	Tenure of Land	Existing Use	Land Area/ Build-up Area	Approximate Age of Building	Net Book Value as at 31.12.16 RM
PTD 1860 HS(D) 12111 3, Jalan Kapal Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	3 storey office building cum single storey factory building	60 years leasehold (Expiring on 21.10.2041)	Vacant	4,805.04 sq. m/ 4,264.29 sq. m	26 years	4,232,917
Lot 766 HS(M) 672 6, 18, 18.1, 18.2 & 18.3, Jalan Kilang Kawasan Perindustrian Tongkang Pecah 83010 Batu Pahat Johor Darul Ta'zim	4 storey factory building cum office and 4 single storey factory building	Freehold	Vacant	15,428.61 sq. m/ 11,492.22 sq.m	19 - 25 years	12,765,275
Hup Seng Hoon Yong Brothers Sdn. Bhd.						
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.	18 years	883,946
Lot 6574 Mukim of Linau District of Batu Pahat Johor Darul Ta'zim	Industrial land	Freehold	Car park	9,704.38 sq. m	-	2,069,821
In-Comix Food Industries Sdn. Bhd.						
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	19 years	4,577,357

Statement of Shareholdings

As at 21 March 2017

Issued Share Capital	:	800,000,000
Paid-Up Share Capital	:	RM80,000,000.00
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per Ordinary Share on a poll

ANALYSIS OF SHAREHOLDINGS

DISTRIBUTION OF SHAREHOLDING AS AT 21 MARCH 2017

Holdings	No. of Holders	%	Total Holdings	%
Less than 100 shares	124	2.19	5,669	0.00
100 to 1,000	724	12.76	546,790	0.07
1,001 to 10,000	2,686	47.36	13,904,760	1.74
10,001 to 100,000	1,835	32.35	53,387,379	6.67
100,001 to less than 5% of issued shares	302	5.32	324,154,649	40.52
5% and above of issued shares	1	0.02	408,000,753	51.00
TOTAL	5,672	100.00	800,000,000	100.00

LIST OF TOP 30 SHAREHOLDERS AS AT 21 MARCH 2017

Name Of Shareholders	No. of Shares	Percentage %
1. HSB Group Sdn Bhd	408,000,753	51.00
2. Cekap Kapital Sdn Bhd	20,031,133	2.50
3. Kerk Chian Hui	17,333,333	2.17
4. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 14)	15,888,900	1.99
5. Kerk Chian Tung	13,733,333	1.72
6. Chang Yang @ Chen Yong	9,786,033	1.22
7. Ker (Kerk) Kim Tim @ Kerk Choo Ting	8,600,000	1.08
8. Chong Swee Ching	8,040,000	1.00
9. Citigroup Nominees (Asing) Sdn Bhd - Exempt AN for Citibank New York (Norges Bank 12)	8,018,000	1.00
10. Keh (Kerk) Chu Koh	7,306,666	0.91
11. Kuo Chee Ching	7,122,666	0.89
12. DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad - Eastspring Investmentssmall-Cap Fund	7,119,600	0.89
13. Kerk Kar Han	6,446,666	0.81
14. Tokio Marine Life Insurance Malaysia Bhd - AS Beneficial Owner (PF)	5,994,300	0.75
15. Kerk Han Meng	5,226,666	0.65
16. Teo Lee Tong	5,173,333	0.65
17. Teo Lee Teck	5,160,000	0.65
18. Mary Kerk Beng Ley	4,666,666	0.58
19. Kuo Liong Yok	4,133,333	0.52
20. Amanahraya Trustees Berhad – PB Smallcap Growth Fund	4,017,300	0.50

Statement of Shareholdings (cont'd)
As at 21 March 2017

LIST OF TOP 30 SHAREHOLDERS AS AT 21 MARCH 2017 (cont'd)

Name Of Shareholders	No. of Shares	Percentage %
21. Kuo Chee Hau	3,960,000	0.50
22. Kuo Chee Kian	3,693,333	0.46
23. Sim Guat Keow @ Sim Han Che	3,626,666	0.45
24. Amanahraya Trustees Berhad – Public Islamic Opportunities Fund	3,528,200	0.44
25. Ng Ee Kim	3,453,333	0.43
26. Kuo Lee Yong	3,440,000	0.43
27. Kuo Chee Joo	3,400,000	0.43
28. Kerk Ke Yee	3,333,333	0.42
29. Kuo Lee Ai	3,306,666	0.41
30. Wan Lay Hoon	3,066,666	0.38

SUBSTANTIAL SHAREHOLDERS

According to the Register that is required to be kept under Section 144 of the Companies Act, 2016, the following are the substantial shareholders of the Company as at 21 March 2017:-

Name Of Shareholders	Direct Interest		Deemed Interest	
	No. of Shares	Percentage %	No. of Shares	Percentage %
1. HSB Group Sdn Bhd	408,000,753	51.00	-	-
2. Kuo Choo Song	1,000,000	0.13	444,750,083*	55.59
3. Kuo Chee Ching	7,122,666	0.89	408,000,753#	51.00
4. Kuo Chee Hau	3,960,000	0.50	408,000,753#	51.00
5. Kuo Chee Joo	3,400,000	0.43	408,000,753#	51.00
6. Kuo Chee Kian	3,693,333	0.46	408,000,753#	51.00
7. Kuo Chee Koon	2,013,333	0.25	408,000,753#	51.00
8. Kuo Chee Yoong	2,666,666	0.33	408,000,753#	51.00
9. Kuo Liong Yok	4,133,333	0.52	408,000,753#	51.00
10. Kuo Lee Ai	3,306,666	0.41	408,000,753#	51.00
11. Kuo Lee Yong	3,440,000	0.43	408,000,753#	51.00
12. Kuo Lee Hun	3,013,333	0.38	408,000,753#	51.00

Note:

Deemed interested by virtue of his/her and/or his/her associates' interests in HSB Group Sdn Bhd pursuant to Section 8(4)(c) of the Companies Act, 2016.

* Deemed interested by virtue of his interests in HSB Group Sdn Bhd pursuant to Section 8(4)(c) and Section 59(11)(c) of the Companies Act, 2016.

DIRECTORS' INTERESTS AS AT 21 MARCH 2017

Name Of Directors	Direct Interest		Deemed Interest	
	No. of Shares	Percentage %	No. of Shares	Percentage %
1. Dato' Keh (Kerk) Chu Koh	7,306,666	0.91	4,746,665#	0.59
2. Kerk Chiew Siong	1,333,333	0.17	11,373,333#	1.42
3. Kuo Choo Song	1,000,000	0.13	444,750,083*	55.59
4. Kerk Chian Tung	13,733,333	1.72	-	-
5. Teo Lee Teck	5,160,000	0.65	533,333#	0.07
6. Kerk Kar Han	6,446,666	0.81	500,000#	0.06
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 8(4)(c) and Section 59(11)(c) of the Companies Act, 2016.

Deemed interested by virtue of his interest pursuant to Section 59(11)(c) of the Companies Act, 2016.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Fifth 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 Monday, 15 May 2017 at 11.00 a.m. for the following purposes:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Directors' and Auditors' Report thereon. *Resolution 1*
2. To approve the payment of Directors' fees and benefits of up to RM1,102,392.00 for the financial year ended 31 December 2016. *Resolution 2*
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:-
 - Ms. Kerk Chian Tung *Resolution 3*
 - Mr. Teo Lee Teck *Resolution 4*
 - Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon *Resolution 5*
4. To re-appoint the following Directors of the Company:-
 - Dato' Keh (Kerk) Chu Koh *Resolution 6*
 - Mr Kuo Choo Song *Resolution 7*
5. 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. *Resolution 8*

AS SPECIAL BUSINESS

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

6. 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*

7. 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*

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

FURTHER NOTICE IS HEREBY GIVEN that for the purpose of determining a member who shall be entitled to attend this Twenty-Fifth Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to issue a Record of Depositors as at 9 May 2017 (“General Meeting Record of Depositors”) and only a Depositor whose name appears on the General Meeting Record of Depositors as at 9 May 2017 shall be entitled to attend the said meeting or appoint proxies to attend and/or vote on his/her behalf.

BY ORDER OF THE BOARD

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

Kuala Lumpur
21 April 2017

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 by signature in accordance with section 66(2) of the Companies Act 2016.
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.

EXPLANATORY NOTES ON ORDINARY AND SPECIAL BUSINESSES

(i) Ordinary Resolutions 6 and 7 – Re-appointment of Directors

With the coming into force of the Companies Act, 2016 on 31 January 2017, there is no age limit for directors.

At the Twenty-Fourth Annual General Meeting of the Company held on 19 May 2016, Dato' Keh (Kerk) Chu Koh and Mr Kuo Choo Song, who are both above the age of 70, were re-appointed pursuant to Section 129 of the Companies Act, 1965 to hold office until the conclusion of the Twenty-Fifth Annual General Meeting. Their term of office will end at the conclusion of the Twenty-Fifth Annual General Meeting and they have offered themselves for re-appointment.

The proposed Ordinary Resolutions 6 and 7, if passed, will enable Dato' Keh (Kerk) Chu Koh and Mr Kuo Choo Song to continue to act as Directors of the Company and they shall be subject to retirement by rotation at a later date.

(ii) Ordinary Resolutions 9 and 10 - Retention of Independent Non-Executive Directors

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 18 of the Corporate Governance Statement in the Annual Report 2016.



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

Form of Proxy

CDS ACCONTS 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-Fifth Annual General Meeting of the Company to be held at Mezzanine Floor, The Katerina Hotel, 8, Jalan Zabedah, 83000 Batu Pahat, Johor Darul Ta'zim on Monday, 15 May 2017 at 11.00 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 2016 together with the Reports of the Directors and Auditors.		
2.	Approve the payment of Directors' fees and benefits for the financial year ended 31 December 2016.		
3.	Re-election of Directors retiring according to the Article 76 of the Company's Articles of Association:-		
4.	- Ms. Kerk Chian Tung		
5.	- Mr. Teo Lee Teck		
	- Y. Bhg. Dato' Wee Hoe Soon @ Gooi Hoe Soon		
6.	Re-appointment of Directors:-		
7.	- 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 _____ 2017

 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 by signature in accordance with section 66(2) of the Companies Act 2016.*
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

HUP SENG INDUSTRIES BHD (226098-P)

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

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HUP SENG INDUSTRIES BERHAD
(Company No: 226098-P)



Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur.
Tel: (03) 2161 5466 | Fax: (03) 2163 6968
www.hsib.com.my