

HUP SENG 28TH ANNUAL GENERAL MEETING
QUESTIONS AND ANSWERS

Chairman :

Now we shall go to the questions received before the AGM. Please note that there were quite a few questions that were repetitive. As such instead of answering each questions raised by the shareholders accordingly, we shall answer the question according to the category and that is

First **QUESTIONS AND CONCERNS ON THE COVIC 19
PANDEMIC AND THE IMPACT CAUSED BY IT**

Second **QUESTIONS ON HUP SENG'S FUTURE PROSPECTS AND
GROWTH**

Third **QUESTION ON GROUP'S MANUFACTURING AND
OPERATIONS, PRODUCTION LINE, CAPITAL
EXPENDITURE AND INNOVATION**

Forth **QUESTIONS ON DIVIDENDS AND SHARE PRICE**

Fifth **SHAREHOLDERS' REQUEST FOR E-VOUCHERS**

Now let us answer question accordingly....

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1. QUESTIONS AND CONCERNS ON THE COVID 19 PANDEMIC AND THE IMPACT CAUSED BY IT

The Management would like to express our utmost appreciation to all shareholders who have express concern about the company's future in light of the current economic situation caused by the COVID 19 Pandemic.

The Management acknowledges the fact that the COVID 19 Pandemic has caused uncertainties not only in Malaysia but also to the world and now the Management have to find ways to adapt to this "New Norm" environment.

More importantly, to ease all shareholders' concern,

The Management would like to highlight that Hup Seng was categorised under the "essential services" category. During the Movement Control Order or "MCO" as imposed by the Government of Malaysia, Hup Seng was allowed to carry on with its operations but under very strict rules and has to operate in a controlled environment.

Hence, Hup Seng was still able to carry out its business operations and find ways to cope with the high demand for essential products during the MCO.

Looking ahead, there is also the fear and the speculation of a second Wave of Covid 19.

For the remaining year ahead, it will be challenging and the company will have to be cautious and stay vigilant.

QUESTIONS BY SHAREHOLDERS ON LOGISTIC AND RETAIL SHORTAGES

During this period, Hup Seng was faced with production capacity limitations and transportation restrictions. There were insufficient supplies to meet with the demand and there were areas that the supplies could not reach due to logistic restriction.

Not only did this happen in Penang but throughout the whole of Peninsular Malaysia.

The management would like to apologize for the inconvenience caused during the MCO period.

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2 QUESTIONS ON HUP SENG'S FUTURE PROSPECTS AND GROWTH

Recognizing and understanding the changing business environment and moving into the “new norm” era, the Management will continue to exercise prudence and find new business strategies moving forward.

Also to be cautious and find ways to stay ahead of the competition and to preserve the company's business growth.

Firstly,

The management would be giving priority to the product quality and using modern technology (as noted in page 13 of the Annual Report), our new cracker line is fired by “natural gas” to reduce fuel cost.

Second,

Increase the production capacity which currently stand at about 88.4% of capacity utilization (Annual Report 2019, page 13) and,

Lastly,

To focus on reducing production wastage

All these will lead to an increase in profit margin.

Another immediate strategy, learning from the Covid 19 lockdown, is to introduce our product into the “online platform” for the convenience of our existing customers and hopefully it will attract more new customers.

So, for the next 3 to 5 years, the Group's focus will be as follows: -

For Domestic Market

- Introduce Hup Seng's products into the “Online Platform”,
- Extensive marketing to reach out to new consumer segments like the younger generation,
- Continue to ensure and maintain our product to be produced at the highest level in terms of quality and cost effective,
- To intensify research into new products that will appeal to the consumer and capture new market with the introduction of these new products and at the same time increase market share of our existing products,

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- improve efficiency of our production process by maintaining an optimal and balanced capital expenditure to improve the production line,
- Introduction into the market new cookies and flavor biscuits to complement our existing line of products.

For the Export Market

- to improve visibility of the Hup Seng branding with the intention of penetrating into overseas market and reaching a bigger population of consumers,
- tie in with overseas distributors with marketing incentives and increase promotional activities.

On questions raised by shareholders in relation to concerns in the competitive business environment and how would Hup Seng keep pace with the cost increase.

Hup Seng is facing strong competition locally and in the overseas market. Main issue is Price War. Second would be the Product Packing Form whereby our product is competing with smaller and cheaper packaging form. Hup Seng will continue to improve on its efficiency and cost saving efforts to keep up.

To maintain our market share, Hup Seng has not increase the Selling Price since 2011 for domestic market and the last time Hup Seng increased the Selling Price for its overseas market was back in 2010.

A shareholder also raised question on the Hup Seng's entry into the China Market (as noted in Page 15 of the Annual Report) and what is the investment in China are we referring to?

The investment into China as mentioned in the Annual Report is the investment in time and effort by the Management. In order to successfully enter the China Market, the Management has spent on advertisement and promotion activities. Market in China is very competitive and it takes time to see any return from the effort made.

Nonetheless,

Hup Seng's effort are being reviewed by Walmart and the Management look forward to China contributing positively from FY 2021 onwards.

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3. QUESTION ON OPERATIONS, MANUFACTURING AND PRODUCTION LINE, CAPITAL EXPENDITURE AND INNOVATIONS

Moving into a full automation environment involves careful and detail planning and commitment.

The Management allocates a reasonable budget for capital expenditure every year into the production line to constantly improve the efficiency, minimize wastages and prevent down time.

However, the company still relies on labour to handle operations which do not require an immediate need for automation in the areas like the packaging and storage section.

Finding the right balance between the allocation of capital expenditure and capitalizing on the relative lower labour cost will be the company's immediate focus.

In relation to this category, there was a specific question posted by shareholders asking about the amount of RM16.557 million which was spent on the purchase of PPE for FY2019 (as noted in the Statement of Cash Flow page 57 in the Annual Report) and what is the amount spent on the new cracker line as stated in page 13.

The answer from the Management is ..

The cost of the new cracker production line incurred in FY 2019 was about RM14 million. The balance of PPE was spent mainly on various factory facilities and a few replacements of transportation vehicles for the delivery and logistic department.

Also there is a question enquiring about the Capital Expenditure budgeted for FY 2020 and the nature of this Capex.

The answer provided by the Management is..

The capital expenditure for FY 2020 is budgeted to be spent on various plant, machinery and production facilities, where improvement is necessary for the ongoing operation.

It is a technology upgrade for better efficiency in terms of output and fuel costs.

Moving on to another category...

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4. QUESTIONS ON DIVIDENDS AND SHARE PRICE

Hup Seng shares have always been a dividend stock. The company has a dividend policy of paying out at least 60% of the profits generated from the financial year.

For the current year and the past few years the company has been paying a dividend 6 sen per share which at current share price the effective return per share is about more than 7% per annum.

The Board of Directors hopes to maintain this policy and see a stronger performance in share price of the company over time.

5. QUESTIONS ON REQUEST FOR E-VOUCHERS

Hup Seng Industries Berhad apologizes for not giving any E-Vouchers. We appreciate the suggestion and Thank you for making this request. Maybe next time.

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Before I move to taking on the question that is coming in from the RPV QUERY BOX...

There is last “Pre-Posted Question” from shareholder asking about the Hup Seng’s Investment in its subsidiary In-Comix Food Industry Sdn Bhd.

The carrying cost is RM23.97 million after impairment losses of RM5.63 million (as reported in page 94 of the Annual Report) and also in Note 27 on Segmental Reporting (page 106 of the Annual Report) it shows the revenue contribution declining.

The shareholder asked..

What are the plans for this company and does the Management have any intention to dispose of this company.

The market for Beverage Industry is tough.

Being in this segment does not take away the consumer from the Biscuit segment. This is actually complimentary to the Biscuits segment.

The Management sees this as an opportunity to reach a wider population of consumer by having a presence in the beverage segment. But the performance is not as forthcoming and the expected return is taking a longer gestation period.

The Management will look into all options and will consider all risks carefully before taking any decision on this company.