

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2011

A. Compliance with Financial Reporting Standard (FRS) 134, Interim Financial Reporting and Bursa Listing Requirements

1. *Accounting Policies and Methods of Computation*

The interim financial statements are unaudited and have been prepared in accordance with FRS 134, *Interim Financial Reporting* and Paragraph 9.22 of the Bursa Malaysia Securities Berhad Listing Requirements.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2010. The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 December 2010, except for the adoption of the following which are applicable to its financial statements and are relevant to its operations:

(i). Adoption of New and Revised FRSs , IC Interpretations and Amendments

| | |
|--|---|
| FRS 3 | Business Combinations (Revised) |
| Amendments to FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| Amendments to FRS 127 | Consolidated and Separate Financial Statements |
| Amendments to FRS 138 | Intangible Assets |
| Amendments to IC Interpretation 9 | Reassessment of Embedded Derivatives |
| IC Interpretation 17 | Distribution of Non-cash Assets to Owner |
| Amendments to FRS1 | Limited Exemption from Comparative FRS7 Disclosures for First-time Adopters |
| Amendments to FRS7 | Improving Disclosures about Financial Instruments |
| Amendment to FRSs contained in the document entitled "Improvement to FRS (2010)" | |

The adoption of the other FRSs, Amendments to FRSs and Interpretation does not have significant financial impact to the Group's consolidated financial statements of the current quarter.

(ii). Standards and Interpretations issued but not yet effective.

The Group yet to adopt FRS 124 Related Party Disclosures which is effective beginning on 1 January 2012 as it is not yet effective for the current quarter ended 31 March 2011 and current financial year ending 31 December 2011. The adoption of this new Standard in next financial year is not expected to result in any significant impact in the accounting policies of the Group.

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2. *Comments About Seasonal or Cyclical Factors*

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

3. *Unusual Items Due to their Nature, Size or Incidence*

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows for the cumulative financial period ended 31 March 2011.

4. *Changes in Estimates*

There were no changes in estimates that have had a material effect in the current quarter results.

5. *Capital Management, Debt and Equity Securities*

The Group's objectives of managing capital are to safeguard the Group's ability to continue in operations as a going concern in order to provide fair returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the optimal capital structure, the Group may, from time to time, adjust the dividend payout to shareholders, return capital to shareholders and issue new shares, where necessary. For capital management purposes, the Group considers shareholders' equity and total liabilities to be the key components in the group's capital structure. The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as the total liabilities to total equity. Total equity is the sum of total equity attributable to shareholders. The gearing ratio as at 31 March 2011 and 31 December 2010, which are within the Group's objectives for capital management, are as follows:

| | 31.03.2011 | 31.12.2010 |
|-------------------|---------------|---------------|
| | <u>RM'000</u> | <u>RM'000</u> |
| Total liabilities | 41,967 | 47,615 |
| Total equity | 153,044 | 146,498 |
| Total capital | 60,000 | 60,000 |
| Gearing ratio | 27% | 32% |

The decrease in the gearing ratio is mainly due to the increase in equity through net profits earned.

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period to date.

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FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2011****6. Dividends Paid**

Dividends declared on 15 April 2011 in respect of year ending 31 December 2011, being interim dividend of 5 sen per ordinary share under the single-tier system, amounting to RM6,000,000 were paid on 23 May 2011.

7. Operating Segments

| Quarter ended 31 March 2011 | Biscuit manufacturing division RM'000 | Beverage manufacturing division RM'000 | Trading division RM'000 | Group RM'000 |
|--------------------------------|--|---|-------------------------------|-----------------|
| Revenue | 14,061 | 1,040 | 43,571 | 58,672 |
| Profit for reportable segments | 4,460 | (6) | 4,906 | 9,360 |

Reconciliation of profit

Profit or loss for the quarter ended 31 March 2011

| | |
|--------------------------------------|-------|
| Total profit for reportable segments | 9,360 |
| Other income | 100 |
| Unallocated expenses | (668) |
| Profit before taxation | 8,792 |

| Quarter ended 31 March 2010 | Biscuit manufacturing division RM'000 | Beverage manufacturing division RM'000 | Trading division RM'000 | Group RM'000 |
|--------------------------------|--|---|-------------------------------|-----------------|
| Revenue | 10,568 | 2,649 | 37,963 | 51,180 |
| Profit for reportable segments | 4,894 | 30 | 3,904 | 8,828 |

Reconciliation of profit

Profit or loss for the quarter ended 31 March 2010

| | |
|--------------------------------------|-------|
| Total profit for reportable segments | 8,828 |
| Other income | 63 |
| Unallocated expenses | (699) |
| Profit before taxation | 8,192 |

8. Subsequent Events

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

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9. *Changes in Composition of the Group*

There were no changes in the composition of the Group for the current quarter and financial year to date.

10. *Changes in Contingent Liabilities and Contingent Assets*

The Group has no contingent liabilities or contingent assets since the last annual date of the statement of financial position as at 31 December 2010.

11. *Capital commitments*

Authorised capital commitments not recognised in the interim financial statements as at 31 March 2011 are as follows:

Purchase of plant and equipments

| | RM'000 |
|---------------------------------|---------------------|
| Approved and contracted for | 3,481 |
| Approved but not contracted for | <u>2</u> |
| | <u><u>3,483</u></u> |

12. *Related Party Transactions*

| <u>Related parties</u> | Current quarter ended 31.03.2011 <u>RM</u> | <u>Relationship</u> |
|---|--|---|
| Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. | 36,300 | Certain directors of the Company and subsidiaries are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd. |
| -Tiong Bee Industries Sdn. Bhd. | 15,000 | Certain directors of the Company are also directors of Tiong Bee Industries Sdn. Bhd. |

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B. Explanatory Notes pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

13. *Performance Review*

The Group's revenue for the current quarter ended 31 March 2011 has increased to RM58,672,000 from RM51,180,000 in the quarter ended 31 March 2010. Profit before tax has slightly increased to RM8,792,000 from RM8,192,000 for the respective periods mainly due to the increase in sales volume during the current quarter.

14. *Comment of Material Change in Profit Before Taxation*

Group's revenue has increased to RM58,672,000 in the current quarter ended 31 March 2011 as compared to RM57,926,000 in the preceding quarter.

Profit before tax for the current quarter has increased to RM8,792,000 as compared to RM5,066,000 in the preceding quarter. Profit in the preceding quarter is lower mainly due to the impairment of goodwill amounting to RM4,319,000.

15. *Commentary of Prospects*

The operating environment is expected to remain highly competitive this year. The sharp increase in the global commodity prices and the government's gradual withdrawal of food and fuel subsidies which put pressure on the Group's input costs remains a concern. The Group will monitor closely the development of commodity prices, evaluate and adjust its pricing strategies accordingly. The Group will leverage operational efficiencies and cost savings initiatives so as to keep the current margin as sustainable as possible.

16. *Profit Forecast or Profit Guarantee*

The disclosure requirements for explanatory notes for the variance of actual profit after tax and minority interest and forecast profit after tax and minority interest and for the shortfall in profit guarantee are not applicable.

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| | Quarter ended | |
|--|----------------------|---|
| | 31.03.2011 RM'000 | 31.03.2010 RM'000 |
| Income Tax | | |
| -Current year | 2,039 | 1,975 |
| -Deferred Taxation | 207 | 145 |
| | <u>2,246</u> | <u>2,120</u> |
| Major components of tax expenses | | Current Quarter Ended 31.03.2011 RM'000 |
| Current tax expense | | 2,039 |
| Deferred tax expenses | | <u>207</u> |
| | | <u>2,246</u> |
| Profit before taxation | | 8,792 |
| Tax at the statutory income tax rate of 25% | | 2,198 |
| Add/(Less): | | |
| -Effect of expenses with double deduction | | (27) |
| -Effects of other expenses not deductible for tax purposes | | <u>75</u> |
| Income tax expenses | | <u>2,246</u> |
| Effective tax rate | | <u>25.5%</u> |

18. *Sale of Unquoted Investments and Properties*

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

19. *Quoted Securities*

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

20. *Corporate Proposals*

There were no corporate proposals announced but not completed not earlier than seven (7) days from 25 May 2011.

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

22. Derivative Financial Instruments

As at the reporting date of 31 March 2011, the Group has no outstanding derivative financial instruments.

23. Gains / Losses arising from Fair Value Changes of Financial Liabilities

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

24. Breakdown of Realised and Unrealised Profit or Losses of the Group

| | At end of current quarter 31 March 2011 <u>RM'000</u> | At end of preceding quarter 31 December 2010 <u>RM'000</u> |
|--|--|---|
| Total retained profits | | |
| Realised | 121,815 | 115,029 |
| Unrealised | (8,715) | (8,379) |
| Total retained profits | 113,100 | 106,650 |
| Less: Consolidation adjustments | (38,785) | (38,881) |
| Retained profits as per statement of financial position | <u>74,315</u> | <u>67,769</u> |

25. Changes in Material Litigation

There were no material litigation not earlier than seven (7) days from 25 May 2011.

26. Dividend Payable

Other than as disclosed in Note 6 above, the Board of Directors do not recommend the payment of any further dividend for the financial quarter under review.

27. Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period.

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(i) Basic

| | Current quarter ended <u>31.03.2011</u> |
|--|--|
| Profit for the period (RM'000) | 6,546 |
| Weighted average number of ordinary shares in issue ('000) | 120,000 |
| Basic earnings per share (sen) | <u>5.46</u> |

(ii) Diluted

| | |
|--------------------------------|-------------|
| Basic earnings per share (sen) | <u>5.46</u> |
|--------------------------------|-------------|

28. *Authorisation for Issue*

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 May 2011.

By Order of the Board

Leong Siew Foong
Company Secretary
Johor Bahru
Dated: 25 May 2011