

# HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

## EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER ENDED 30 JUNE 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 30 June 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 30 June 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 30 June 2011 and 31 December 2010, which are within the Group's objectives for capital management, are as follows:

	30.06.2011	31.12.2010
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	46,981	47,615
Total equity	155,171	146,498
Total capital	60,000	60,000
Gearing ratio	30%	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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	6 months cumulative to date <u>30.06.2011</u>
Dividend paid on ordinary shares: Financial year ending 31.12.2011	
Interim dividend of 5 sen per share single tier	6,000
	<u>6,000</u>

**7. Operating Segments**

<b>Quarter ended 30 June 2011</b>	<b>Biscuit manufacturing division RM'000</b>	<b>Beverage manufacturing division RM'000</b>	<b>Trading division RM'000</b>	<b>Group RM'000</b>
Revenue	15,012	1,164	47,156	63,332
Profit for reportable segments	6,190	9	5,022	11,221
<b>6 months cumulative to date 30 June 2011</b>				
Revenue	29,073	2,204	90,727	122,004
Profit for reportable segments	10,650	3	9,928	20,581
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	6 months cumulative to date
			30.06.2011	30.06.2011
			RM'000	RM'000
Total profit for reportable segments			11,221	20,581
Other income			103	203
Unallocated expenses			(701)	(1,369)
Profit before taxation			10,623	19,415

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<b>Quarter ended 30 June 2010</b>	<b>Biscuit manufacturing division RM'000</b>	<b>Beverage manufacturing division RM'000</b>	<b>Trading division RM'000</b>	<b>Group RM'000</b>
Revenue	13,644	1,034	40,955	55,633
Profit for reportable segments	6,858	18	4,082	10,958
<b>6 months cumulative to date 30 June 2010</b>				
Revenue	24,212	3,683	78,918	106,813
Profit for reportable segments	11,751	49	7,986	19,786
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	6 months cumulative to date
			30.06.2010	30.06.2010
			RM'000	RM'000
Total profit for reportable segments			10,958	19,786
Other income			64	127
Unallocated expenses			(677)	(1,376)
Profit before taxation			10,345	18,537

**8. Subsequent Events**

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

**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 30 June 2011 are as follows:

Purchase of property, plant and equipments

Approved and contracted for	RM'000
	<u>1,308</u>

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**EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS  
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	Current quarter ended 30.06.2011 <u>RM</u>	Current quarter ended 30.06.2011 <u>RM</u>	<u>Relationship</u>
<u>Related parties</u>			
Rental of premises payable to:			
-Hup Seng Brothers Holdings Sdn. Bhd.	36,300	72,600	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	30,000	Certain directors of the Company are also directors of Tiong Bee Industries Sdn. Bhd.

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#### **B. Explanatory Notes pursuant to Main Market Listing Requirements of Bursa Malaysia Securities Berhad**

##### **13. *Performance Review***

The Group's revenue for the current quarter ended 30 June 2011 has increased by 13.8% to RM63,332,000 from RM55,633,000 in the quarter ended 30 June 2010. The robust double digit growth was driven by both domestic and export sales due to buoyant demand in anticipation of a price hike of the Groups' products. Profit before tax, however, only marginally improved by 2.7% to RM10,623,000 from RM10,345,000 for the respective periods mainly due to the higher input cost which eroded overall margin during the current quarter.

For the six months ended 30 June 2011, the Group registered a turnover of RM122,004,000, 14.2% higher than the same period last year driven by the same factors mentioned above. It is to be noted the Group has successfully effected the price increase for export market towards the end of second quarter. Profit before tax stood at RM19,415,000, an improvement of 4.7% over the same period last year. Escalating input cost slowed down margin growth of the Group despite a strong improvement in turnover.

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

Group's revenue has increased to RM63,332,000 which represents a rise of 7.9% in the current quarter ended 30 June 2011 as compared to the preceding quarter.

Profit before tax for the current quarter has increased by 20.8% to RM10,623,000 as compared to RM8,792,000 in the preceding quarter. The strong improvement in profit margin is the result of higher contribution from export sales coupled with stronger recovery of manufacturing overheads during the current quarter.

##### **15. *Commentary of Prospects***

The operating environment is expected to remain highly competitive in the second half of this year. The sharp increase in the global commodity and energy prices and the government's gradual reduction in food and fuel subsidies which put pressure on the Group's input cost may require the Group to evaluate carefully on price strategy for domestic market. The Group will also monitor very closely the beverage business to sustain its growth. At the same time, the Group will continue to look for ways to sustain its competitive position while remain focused on operational efficiency and productivity so that satisfactory results are achieved in this year.

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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.

**17. Income Tax Expense**

	Quarter ended		6 months cumulative to date	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	RM'000	RM'000	RM'000	RM'000
Income Tax				
-Current year	2,257	2,370	4,296	4,345
-Deferred Taxation	239	269	446	414
	<u>2,496</u>	<u>2,639</u>	<u>4,742</u>	<u>4,759</u>

## Major components of tax expenses

	Current Quarter Ended 30.06.2011 RM'000	6 months cumulative to date 30.06.2011 RM'000
Current tax expense	2,257	4,296
Deferred tax expenses	239	446
	<u>2,496</u>	<u>4,742</u>
Profit before taxation	10,623	19,415
Tax at the statutory income tax rate of 25%	2,656	4,854
Add/(Less):		
-Effect of expenses with double deduction	(31)	(58)
-Effects of other expenses not deductible for tax purposes	40	115
-Overprovision in prior year	(169)	(169)
Income tax expenses	<u>2,496</u>	<u>4,742</u>
Effective tax rate	23.5%	24.4%

**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**

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There were no corporate proposals announced but not completed not earlier than seven (7) days from 15 August 2011.

**21. Borrowings and Debt Securities**

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 30 June 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 30 June 2011 <u>RM'000</u>	At end of preceding quarter 31 March 2011 <u>RM'000</u>
Total retained profits		
Realised	124,146	121,815
Unrealised	(8,950)	(8,715)
Total retained profits	115,196	113,100
Less: Consolidation adjustments	(38,754)	(38,785)
Retained profits as per statement of financial position	<u>76,442</u>	<u>74,315</u>

**25. Changes in Material Litigation**

There were no material litigation not earlier than seven (7) days from 15 August 2011.

**26. Dividend Payable**

Other than as disclosed in Note 6 above, the Board of Directors recommends the payment of single tier interim dividend of 5 sen per ordinary share for the financial quarter under review. The entitlement date will be announced in due course.



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### 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.

#### (i) **Basic**

	Current quarter ended <u>30.06.2011</u>	6 months cumulative to date <u>30.06.2011</u>
Profit for the period (RM'000)	8,127	14,673
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	<u>6.77</u>	<u>12.23</u>

#### (ii) **Diluted**

Basic earnings per share (sen)	<u>6.77</u>	<u>12.23</u>
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### 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 15 August 2011.

By Order of the Board

Leong Siew Foong  
Company Secretary

Johor Bahru

Dated: 15 August 2011