

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS

FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 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 has yet to adopt FRS 124 Related Party Disclosures which is effective for financial period beginning on 1 January 2012 as it is not yet effective for the current quarter ended 30 September 2011 and current financial year ending 31 December 2011. The adoption of this new Standard in the 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***

The beverage manufacturing division continued to be operating under very competitive and difficult conditions. Management diligently performed an impairment testing on the recoverable amount of the goodwill in accordance with the relevant Financial Reporting Standards. Based on the assessment, the goodwill required to be impaired amounted to RM8.9 million. Other than the above, there were no unusual items affecting assets, liabilities, equity, net income, or cash flows for the cumulative financial period ended 30 September 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 September 2011 and 31 December 2010, which are within the Group's objectives for capital management, are as follows:

	30.09.2011	31.12.2010
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	42,661	47,615
Total equity	151,469	146,498
Total capital	60,000	60,000
Gearing ratio	28%	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

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equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period to date.

6. Dividends Paid

	9 months cumulative to date <u>30.09.2011</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

Quarter ended 30 September 2011	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Group RM'000
Revenue	13,635	594	39,009	53,238
Profit/(loss) for reportable segments	4,097	(9,021)	3,564	(1,360)
9 months cumulative to date 30 September 2011				
Revenue	42,708	2,798	129,736	175,242
Profit/(loss) for reportable segments	14,747	(9,018)	13,492	19,221
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	9 months cumulative to date
			30.09.2011	30.09.2011
			RM'000	RM'000
Total (loss)/profit for reportable segments			(1,360)	19,221
Other income			126	329
Unallocated expenses			(662)	(2,031)
(Loss)/profit before tax			(1,896)	17,519

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Quarter ended 30 September 2010	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Group RM'000
Revenue	15,519	1,547	37,266	54,332
Profit for reportable segments	6,276	103	3,336	9,715
9 months cumulative to date 30 September 2010				
Revenue	39,731	5,230	116,184	161,145
Profit for reportable segments	18,027	152	11,322	29,501
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	9 months cumulative to date
			30.09.2010	30.09.2010
			RM'000	RM'000
Total profit for reportable segments			9,715	29,501
Other income			79	206
Unallocated expenses			(655)	(2,031)
Profit before tax			9,139	27,676

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 September 2011 are as follows:

Purchase of property, plant and equipments

Approved but not contracted for	RM'000
	<u>33</u>

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	Current quarter ended 30.09.2011 <u>RM</u>	9 months cumulative to date 30.09.2011 <u>RM</u>	<u>Relationship</u>
<u>Related parties</u>			
Rental of premises payable to:			
-Hup Seng Brothers Holdings Sdn. Bhd.	36,300	108,900	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	45,000	Certain directors of the Company are also directors of Tiong Bee Industries Sdn. Bhd.
Purchase of property payable to:			
-Tiong Bee Industries Sdn. Bhd.	1,000,000	1,000,000	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 September 2011 has decreased marginally to RM53,238,000 from RM54,332,000 in the quarter ended 30 September 2010. The Group registered a loss before tax of RM1,896,000 as compared to a profit before tax of RM9,139,000 in the preceding corresponding quarter due mainly to the impairment of goodwill amounting to RM8,909,000 during the current quarter. The higher input cost which eroded overall margin also contributed to the reduction in profits.

For the nine months ended 30 September 2011, the Group registered a turnover of RM175,242,000, 8.7% higher than the same period last year driven by both domestic and export sales due to buoyant demand in anticipation of a price hike of the Group's products during the first half of this year.

Profit before tax has decreased from RM27,676,000 to RM17,519,000 over the same period last year. The decrease in profit was mainly due to the impairment of goodwill as discussed above. Escalating input cost slowed down margin growth of the Group despite an improvement in turnover.

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

Group's revenue has decreased 16% to RM53,238,000 in the current quarter ended 30 September 2011 as compared to RM63,332,000 in the preceding quarter where sales demand was extremely buoyant due to the anticipation of price hike. Sales demand in domestic market have been affected by Hari Raya festival, while export market has seen a lower off takes during the quarter as a result of price increase in previous quarter.

Similarly, the impairment of goodwill of RM8,909,000 mainly accounted for loss before tax of RM1,896,000, a reduction of 118% as compared to profit before tax of RM10,623,000 in the preceding quarter. At the same time, lower sales which resulted in lower recovery of manufacturing overheads have also depressed the overall profit contribution during the quarter.

15. *Commentary of Prospects*

The operating environment is expected to remain highly competitive. Prices for key materials should remain high despite small recent falls, which will keep pressure on profit margins of the Group. The Group will continue to monitor very closely the beverage division in view of the competitive environment. At the same time, the Group will continue to look for ways to sustain its competitive position while remaining 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		9 months cumulative to date	
	30.09.2011	30.09.2010	30.09.2011	30.09.2010
	RM'000	RM'000	RM'000	RM'000
Income Tax				
-Current year	2,259	2,752	6,555	7,097
-Deferred Taxation	(510)	(479)	(64)	(65)
	<u>1,749</u>	<u>2,273</u>	<u>6,491</u>	<u>7,032</u>
Major components of tax expenses			Current Quarter Ended 30.09.2011 RM'000	9 months cumulative to date 30.09.2011 RM'000
Current tax expense			2,259	6,555
Deferred tax expenses			(510)	(64)
			<u>1,749</u>	<u>6,491</u>
(Loss)/profit before taxation			(1,896)	17,519
Tax at the statutory income tax rate of 25%			(474)	4,380
Add/(Less):				
-Tax incentive			(60)	(60)
-Effect of expenses with double deduction			(28)	(86)
-Effects of other expenses not deductible for tax purposes			2,311	2,426
-Overprovision in prior year			-	(169)
Income tax expenses			<u>1,749</u>	<u>6,491</u>
Effective tax rate			(92.3%)	37.1%

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18. *Sale of Unquoted Investments and Properties*

There were no sale of unquoted investments and properties except for the following :

	Current quarter ended 30.09.2011 RM'000	9 months cumulative to date 30.09.2011 RM'000
Net gain on disposal of investment properties	232	498

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 14 November 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 September 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 September 2011 <u>RM'000</u>	At end of preceding quarter 30 June 2011 <u>RM'000</u>
Total retained profits		
Realised	119,912	124,146
Unrealised	(8,296)	(8,950)
Total retained profits	111,616	115,196
Less: Consolidation adjustments	(38,852)	(38,754)
Retained profits as per statement of financial position	<u>72,764</u>	<u>76,442</u>

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25. *Changes in Material Litigation*

There were no material litigation not earlier than seven (7) days from 14 November 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.

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>30.09.2011</u>	9 months cumulative to date <u>30.09.2011</u>
(Loss)/profit for the period (RM'000)	(3,645)	11,028
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic (loss)/earnings per share (sen)	<u>(3.04)</u>	<u>9.19</u>

(ii) Diluted

Basic (loss)/earnings per share (sen)	<u>(3.04)</u>	<u>9.19</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 14 November 2011.

By Order of the Board

Leong Siew Foong
Company Secretary
Johor Bahru
Dated: 14 November 2011