

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)
INTERIM FINANCIAL STATEMENTS
FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 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.*

- a. 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 31 December 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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b. Malaysian Financial Reporting Standards

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 31 December 2011 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 December 2012.

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 31 December 2011.

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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 December 2011 and 31 December 2010, which are within the Group's objectives for capital management, are as follows:

	31.12.2011	31.12.2010
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	56,713	47,615
Total equity	147,101	146,498
Total capital	60,000	60,000
Gearing ratio	39%	32%

The increase in the gearing ratio is mainly due to the increase in total liabilities mainly arising from dividend payables and trade payables.

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.

6. ***Dividends Paid***

	Date of <u>payment</u>	Current quarter ended <u>31.12.2011</u>	12 months cumulative to date <u>31.12.2011</u>
Dividend paid on ordinary shares:			
Financial year ended 31.12.2011			
Interim dividend of 5 sen per share single tier	23.05.2011	-	6,000
Interim dividend of 5 sen per share single tier	07.10.2011	-	6,000
Interim dividend of 5 sen per share single tier	10.01.2012	6,000	6,000
		<u>6,000</u>	<u>18,000</u>

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7. Operating Segments

Quarter ended 31 December 2011	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Group RM'000
Revenue	18,658	1,006	45,325	64,989
Profit/(loss) for reportable segments	7,406	(718)	3,965	10,653
12 months cumulative to date 31 December 2011				
Revenue	61,366	3,804	175,061	240,231
Profit/(loss) for reportable segments	22,153	(9,736)	17,457	29,874
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	12 months cumulative to date
			31.12.2011	31.12.2011
			RM'000	RM'000
Total profit for reportable segments			10,653	29,874
Other income			147	476
Unallocated expenses			(669)	(2,700)
Profit before tax			10,131	27,650

Quarter ended 31 December 2010	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Group RM'000
Revenue	14,708	2,689	40,529	57,926
Profit/(loss)for reportable segments	5,789	(4,089)	3,839	5,539
12 months cumulative to date 31 December 2010				
Revenue	54,439	7,919	156,713	219,071
Profit/(loss) for reportable segments	23,816	(3,937)	15,161	35,040
<i>Reconciliation of profit</i>				
Profit or loss			Quarter ended	12 months cumulative to date
			31.12.2010	31.12.2010
			RM'000	RM'000
Total profit for reportable segments			5,539	35,040
Other income			116	322
Unallocated expenses			(589)	(2,620)
Profit before tax			5,066	32,742

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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 31 December 2011 are as follows:

	RM'000
Purchase of property, plant and equipments	
Approved but not contracted for	176
Contracted but not provided for	348
	<u>524</u>

12. ***Related Party Transactions***

<u>Related parties</u>	Current quarter ended 31.12.2011 <u>RM</u>	12 months cumulative to date 31.12.2011 <u>RM</u>	<u>Relationship</u>
Rental of premises payable to:			
-Hup Seng Brothers Holdings Sdn. Bhd.	28,800	137,700	Certain directors of the Company and subsidiaries are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd.
-Tiong Bee Industries Sdn. Bhd.	-	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	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 31 December 2011 has increased by 12% to RM64,989,000 from RM57,926,000 in the quarter ended 31 December 2010. The robust double digit growth was driven by both domestic and export sales. Higher off take prior to selling price increase effective from 1 January 2012 mainly contributed to higher sales for domestic market. On the other hand, natural disasters experienced in Southeast Asia during the quarter had helped to create a higher demand for biscuits for export market.

The Group registered a profit before tax of RM10,131,000 as compared to a profit before tax of RM5,066,000 in the preceding corresponding quarter. The preceding corresponding quarter's profit included non-recurring impairment of goodwill of RM4,319,000.

For the twelve months ended 31 December 2011, the Group's turnover grew by 10% from RM219,071,000 to RM240,231,000 for 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.

On the other hand, profit before tax has decreased from RM32,742,000 to RM27,650,000 over the same period last year. The decrease in profit was mainly due to the impairment of goodwill amounting to RM8,909,000 during the year. In addition to that, escalating input cost also 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 increased 22% to RM64,989,000 in the current quarter ended 31 December 2011 as compared to RM53,238,000 in the preceding quarter. Unlike preceding quarter where festive seasons slackened the domestic demand and initial impact on off takes in export market as a result of the increase in selling price, revenue has improved helped out by higher off take in domestic market and more stabilised export market sales.

Profit before tax improved significantly by 634% to RM10,131,000 as compared to loss of RM1,896,000 in the preceding quarter which included an impairment of goodwill amounting to RM8,909,000. Strong improvement in sales mainly contributed to the improvement in profit before tax.

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15. *Commentary of Prospects*

The outlook of the global economy has become significantly more uncertain following heightened downside risks in the advanced economies. As such, the operating environment is expected to remain highly competitive and much still depends on how global events pan out over the coming months. 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 the coming year.

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.

17. *Income Tax Expense*

	Quarter ended		12 months cumulative to date	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM'000	RM'000	RM'000	RM'000
Income Tax				
-Current year	2,802	2,409	9,357	9,506
-Deferred Taxation	(303)	(38)	(367)	(103)
	<u>2,499</u>	<u>2,371</u>	<u>8,990</u>	<u>9,403</u>
Major components of tax expenses			Current Quarter Ended	12 months cumulative to date
			31.12.2011	31.12.2011
			RM'000	RM'000
Current tax expense			2,802	9,357
Deferred tax expenses			(303)	(367)
			<u>2,499</u>	<u>8,990</u>
Profit before taxation			10,131	27,650
Tax at the statutory income tax rate of 25%			2,533	6,913
Add/(Less):				
-Tax incentive			(125)	(185)
-Effect of expenses with double deduction			(30)	(116)
-Effects of other expenses not deductible for tax purposes			121	2,547
-Overprovision in prior year			-	(169)
Income tax expenses			<u>2,499</u>	<u>8,990</u>
Effective tax rate			24.7%	32.5%

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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 31.12.2011 RM'000	12 months cumulative to date 31.12.2011 RM'000
Net gain on disposal of investment properties	-	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 15 February 2012.

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 31 December 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 December 2011 <u>RM'000</u>	At end of current quarter 30 September 2011 <u>RM'000</u>
Total retained profits		
Realised	115,384	119,912
Unrealised	(7,994)	(8,296)
Total retained profits	107,390	111,616
Less: Consolidation adjustments	(38,994)	(38,852)
Retained profits as per statement of financial position	68,396	72,764

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25. *Changes in Material Litigation*

There were no material litigation not earlier than seven (7) days from 15 February 2012.

26. *Dividend Payable*

Other than as disclosed in Note 6 above, the Board of Directors recommends a special single tier dividend of 10 sen per ordinary share for the financial quarter under review. The entitlement date will be determined later.

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>31.12.2011</u>	12 months cumulative to date <u>31.12.2011</u>
Profit for the period (RM'000)	7,632	18,660
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	<u>6.36</u>	<u>15.55</u>

(ii) Diluted

Basic earnings per share (sen)	<u>6.36</u>	<u>15.55</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 February 2012.

By Order of the Board

Leong Siew Foong
Company Secretary
Johor Bahru
Dated: 15 February 2012