

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2012

1. Corporate information

Hup Seng Industries Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad.

2. First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

These condensed consolidated interim financial statements, for the period ended 30 June 2012, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards. ("FRS").

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 31 December 2012. MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

The explanatory notes attached to these condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position, financial performance and cash flows is set out in Note 3 below. These notes include reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of cash flows.

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3. Significant accounting policies

3.1 Application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for year ended 31 December 2011 except as discussed below:

(a). Business combination

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition,

- (i). The classification of former business combinations under FRS is maintained;
- (ii). There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
- (iii). The carrying amount of goodwill recognised under FRS is not adjusted.

(b). Property, plant and equipment

The Group has previously recorded its land and buildings at revalued amount, which is the fair value at the date of the revaluation less accumulated depreciation and any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed at least once in every five years to ensure that the carrying amount does not differ materially from the fair value of the land and buildings at the reporting date.

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using cost model under MFRS 116 Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to regard the revalued amounts of land and buildings as at 21 December 2009 as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date. The revaluation surplus of RM4,396,000 (30 June 2011: RM4,396,000; 31 December 2011: RM4,372,000) was transferred to retained earnings on date of transition to MFRS.

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The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are provided below:

(i). Reconciliation of equity as at 1 January 2011

	FRS as at 01.01.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 01.01.2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Equity			
Other reserve	4,396	(4,396)	-
Retained earnings	67,769	4,396	72,165

(ii). Reconciliation of equity as at 30 June 2011

	FRS as at 30.06.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 30.06.2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Equity			
Other reserve	4,396	(4,396)	-
Retained earnings	76,442	4,396	80,838

(iii). Reconciliation of equity as at 31 December 2011

	FRS as at 31.12.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 31.12.2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Equity			
Other reserve	4,372	(4,372)	-
Retained earnings	68,396	4,372	72,768

(iv). Reconciliations of total comprehensive income for the period ended 30 June 2011 and for the year ended 31 December 2011

The total comprehensive incomes for the period ended 30 June 2011 and for the year ended 31 December 2011 reported under FRS are deemed as at the period at the date of transition under MFRS respectively.

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3.2 MFRSs, Amendments to MFRSs and IC Interpretation issued but not yet effective

At the date of authorisation of these interim financial statements, the followings MFRSs, Amendments to MFRSs and IC interpretation were issued but not yet effective and have not been applied by the Group:

<u>MFRSs, Amendments to MFRSs and IC Interpretation</u>		<u>Effective for annual periods beginning on or after</u>
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

4. 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.

5. 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 2012.

6. Changes in estimates

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

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7. 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 2012 and 31 December 2011, which are within the Group's objectives for capital management, are as follows:

	As at 30.06.2012 <u>RM'000</u>	As at 31.12.2011 <u>RM'000</u>
Total liabilities	50,380	56,713
Total equity	152,280	147,101
Total capital	60,000	60,000
Gearing ratio	33%	39%

The decrease in the gearing ratio is mainly due to the increase in equity through net profits earned, in excess of dividends declared.

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.

8. Dividends paid

	Date of <u>payment</u>	Current quarter ended 30.06.2012 <u>RM'000</u>
Dividend paid on ordinary shares:		
-Interim dividend of 5 sen per share (single-tier) for 2011	10.01.2012	6,000
-Special dividend of 10 sen per share (single-tier) for 2011	24.04.2012	12,000
		<u>18,000</u>

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9. Operating Segments

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

- I. The biscuit manufacturing segment is in the business of manufacture and sales of biscuits.
- II. The beverage manufacturing segment is in the business of manufacture and wholesale of coffee mix and all kinds of foodstuff.
- III. The trading division segment is in the business of sales and distribution of biscuits, confectionery and other foodstuff.

Quarter ended 30.06.2012	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue	46,554	3,026	49,195	98,775
Profit for reportable segments	7,508	262	5,779	13,549
6 months cumulative to date				
Revenue	89,004	6,161	95,199	190,364
Profit for reportable segments	13,510	309	10,979	24,798

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.06.2012	Quarter ended	Cumulative to date
	RM'000	RM'000
Total profit for reportable segments	13,549	24,798
Profit from inter-segment sales	(175)	(134)
Other income	178	341
Unallocated expenses	(717)	(1,414)
Profit before tax	12,835	23,591

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10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		6 months cumulative to date	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	RM'000	RM'000	RM'000	RM'000
Interest income	(566)	(461)	(1,132)	(880)
Rental income	(5)	(5)	(10)	(10)
Allowance for doubtful debts	1	50	19	68
Bad debts written off	6	13	6	15
Depreciation of property, plant and equipment	1,048	1,087	2,054	2,040
Depreciation of investment properties	-	-	1	1
Loss/ (Gain) on disposal of property, plant and equipment	60	(141)	(15)	(135)
Reversal of inventories written down	-	(85)	-	(85)
Inventories written off	6	102	52	102
Property, plant and equipment written off	6	36	9	79
Realised exchange losses	20	81	203	222

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	30.06.2012	31.12.2011	01.01.2011
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	7,534	6,940	9,103
Short term deposits	64,884	66,915	44,593
Total cash and cash equivalents	<u>72,418</u>	<u>73,855</u>	<u>53,696</u>

12. Events after the reporting period

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

13. Changes in composition of the Group

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

14. 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 2011.

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15. Capital commitments

Authorised capital commitments not recognised in the interim financial statements as at 30 June 2012 are as follows:

	RM'000
Purchase of property, plant and equipments	
Contracted but not provided for	<u>175</u>

16. Related party transactions

	Current quarter ended 30.06.2012 <u>RM</u>	6 months cumulative to date 30.06.2012 <u>RM</u>
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>28,800</u>	<u>57,600</u>

Note:

Certain directors of the Group are also directors and shareholders of Hup Seng Brothers Holdings Sdn. Bhd.

The Directors are of the opinion that the above transactions have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
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17. Performance review

The Group's revenue for the current quarter ended 30 June 2012 has increased by 4% to RM66,016,000 from RM63,332,000 in the quarter ended 30 June 2011. Increase in selling prices coupled with a stronger market demand for biscuits mainly contributed to the positive growth in sales.

The Group registered a profit before tax of RM12,835,000 as compared to a profit before tax of RM10,623,000 in the preceding corresponding quarter mainly due to the lower material input cost and higher sales recorded.

For the six months ended 30 June 2012, the Group's turnover grew by 5% from RM122,004,000 to RM127,810,000 for the same period last year driven by both domestic and export sales. Cream Crackers continued to be the strong performer in terms of growth for the Group during the period.

Profit before tax has increased to RM23,591,000 when compared with the preceding year corresponding period of RM19,415,000. The increase in profit before tax is mainly due to the lower material input cost and higher sales recorded with favourable prices and stronger volume during the period.

18. Comment of material change in profit before taxation

Group's revenue has increased 7% to RM66,016,000 in the current quarter ended 30 June 2012 as compared to RM61,794,000 in the preceding quarter, where sales were affected by festive seasons. It was noted that the Group has successfully effected the price increase for domestic market towards the end of first quarter, which contributed positively to sales growth.

Profit before tax improved significantly by 16% to RM12,835,000 as compared to RM10,756,000 in the preceding quarter mainly due to stronger revenue in the form of sales volume and more favourable prices.

19. Commentary of prospects

The operating environment is expected to remain highly competitive ahead due to many uncertainties in the global economy. However, the domestic economy looks more resilient and if the current positive domestic demand is sustainable, we believe the Group is able to withstand the global uncertainties. At the same time, the Group will continue to look for opportunities 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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20. 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.

21. Income tax expense

	Quarter ended		6 months cumulative to date	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	3,615	2,257	6,299	4,296
-Deferred taxation	59	239	113	446
	<u>3,674</u>	<u>2,496</u>	<u>6,412</u>	<u>4,742</u>

Major components of tax expenses	Current	6 months
	quarter ended 30.06.2012	cumulative to date 30.06.2012
	RM'000	RM'000
Current tax expense	3,615	6,299
Deferred tax expense	59	113
	<u>3,674</u>	<u>6,412</u>
Profit before taxation	12,835	23,591
Taxation at the Malaysian statutory tax rate of 25%	3,209	5,898
Adjustments:		
-Non-deductible expenses	395	471
-Expenses with double deduction	(44)	(71)
-Under provision in prior year	114	114
Income tax expense	<u>3,674</u>	<u>6,412</u>
Effective tax rate	28.6%	27.2%

22. Sale of unquoted investments and properties

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

23. Quoted securities

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

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24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 14 August 2012.

25. Borrowings and debt securities

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

26. Derivative financial instruments

As at the reporting date of 30 June 2012, the Group has no outstanding derivative financial instruments.

27. Gains / Losses arising from fair value changes of financial liabilities

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

28. Breakdown of realised and unrealised profit or losses of the Group

	At end of current quarter 30.06.2012 <u>RM'000</u>	At end of preceding quarter 31.03.2012 <u>RM'000</u>
Total retained profits		
Realised	129,558	115,797
Unrealised	(8,107)	(8,048)
	<u>121,451</u>	<u>107,749</u>
Less: Consolidation adjustments	(43,504)	(38,963)
Retained profits as per statement of financial position	<u><u>77,947</u></u>	<u><u>68,786</u></u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 14 August 2012.

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment of single tier interim dividend of 12 sen per ordinary share of RM0.50 each for the financial quarter under review. The entitlement date will be announced in due course.

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31. 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.

	Current quarter ended <u>30.06.2012</u>	6 months cumulative to date <u>30.06.2012</u>
(a) Basic		
Profit for the period (RM'000)	9,161	17,179
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	7.63	14.32
(b) Diluted		
Basic earnings per share (sen)	7.63	14.32

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2011 was not qualified.

33. 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 August 2012.

By Order of the Board

Leong Siew Foong
Company Secretary
Johor Bahru
Dated: 14 August 2012