

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 September 2013

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. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 September 2013, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 December 2012. 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 2012.

3. Significant accounting policies

The significant 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 2012 except for the adoption of the following which are applicable to its financial statements and are relevant to its operations:

(i) Adoption of standards and interpretations

MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101)

MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)

MFRS 10 Consolidated Financial Statements

MFRS 11 Joint Arrangements

MFRS 12 Disclosure of interests in Other Entities

MFRS 13 Fair Value Measurement

MFRS 119 Employee Benefits

MFRS 127 Separate Financial Statements

MFRS 128 Investment in Associate and Joint Ventures

MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)

Amendments to MFRS 7: Disclosures – Offsetting Financial Assets to and Financial Liabilities

Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans

Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance

Amendments to MFRS 11: Joint Arrangements: Transition Guidance

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Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance
Amendment to MFRSs contained in the document entitled “Annual Improvements
2009-2011 Cycle”

The adoption of the above standards and interpretations 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

At the date of authorisation of these interim financial statements, the followings standards
and interpretations were issued but not yet effective and have not been applied by the
Group:

<u>Description</u>		<u>Effective for annual periods beginning on or after</u>
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS12 and MFRS 127	Investment Entities	1 January 2014
MFRS 9	Financial Instruments	1 January 2015
Amendments to MFRS 136	Impairment of Assets-Recoverable Amount disclosures for Non-Financial Assets	1 January 2014
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21	Levies	1 January 2014

The adoption of these standards above will have no material impact on the financial
statements in the year of initial adoption.

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 September 2013.

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6. Changes in estimates

There were no changes in estimates that have had a material effect in the current quarter results except that the depreciation on other property, plant and equipment is computed using the straight line method over the estimated useful life of the assets with effective from 1 January 2013, the change in depreciation method does not have significant financial impact to the Group's consolidated financial statements of the cumulative to date.

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 September 2013 and 31 December 2012, which are within the Group's objectives for capital management, are as follows:

	As at 30.09.2013 <u>RM'000</u>	As at 31.12.2012 <u>RM'000</u>
Total liabilities	66,164	51,706
Total equity	141,035	153,242
Total capital	60,000	60,000
Gearing ratio	47 %	34%

The increase in the gearing ratio is due to the increase in total liabilities mainly arising from dividends payable.

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>	Cumulative to date 30.09.2013 <u>RM'000</u>
Dividend paid on ordinary shares:		
-Interim dividend of 15 sen per share (single-tier) for 2012	24.04.2013	18,000
-Special dividend of 3 sen per share (single-tier) for 2012	24.04.2013	3,600
-Interim dividend of 15 sen per share (single-tier) for 2013	24.10.2013	18,000
		<u>39,600</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 30.09.2013	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue	41,433	2,438	41,431	85,302
Profit for reportable segments	6,861	230	3,950	11,041
9 months cumulative to date				
Revenue	129,065	7,604	136,145	272,814
Profit for reportable segments	22,862	673	15,279	38,814

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.09.2013	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	11,041	38,814
Profit from inter-segment sales	(7)	(52)
Other income	214	710
Unallocated expenses	(668)	(2,157)
Profit before tax	10,580	37,315

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10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest income	(661)	(646)	(1,885)	(1,778)
Rental income	(5)	(4)	(15)	(14)
Allowance for doubtful debts	(9)	36	26	55
Bad debts written off	24	1	31	7
Depreciation of property, plant and equipment	1,131	1,058	3,276	3,112
Depreciation of investment properties	-	1	-	2
Gain/(loss) on disposal of property, plant and equipment	(7)	7	(9)	(8)
Inventories written off	5	4	13	56
Impairment loss on property, plant and equipment	(3)	-	-	-
Property, plant and equipment written off	11	37	32	46
Realised exchange losses	(47)	60	36	263

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	30.09.2013	31.12.2012
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	3,542	9,436
Short term deposits	82,009	69,980
Total cash and cash equivalents	<u>85,551</u>	<u>79,416</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 2012.

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15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 30 September 2013 are as follows:

	RM'000
Purchase of property, plant and equipment	
Approved but not contracted for	6,209
Contracted but not provided for	<u>101</u>
	<u><u>6,310</u></u>

16. Related party transactions

	Current quarter ended 30.09.2013 <u>RM</u>	9 months cumulative to date 30.09.2013 <u>RM</u>
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>90,000</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.

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17. Performance review

The Group's revenue for the current quarter ended 30 September 2013 has increased by 3% to RM58,716,000 from RM56,864,000 in the quarter ended 30 September 2012. Higher local market demand for biscuits mainly contributed to the positive growth in sales.

During the quarter, the Group managed to register a profit before tax of RM10,580,000 as compared to a profit before tax of RM9,480,000 in the preceding corresponding quarter, an increase of nearly 12% mainly due to higher sales recorded.

Revenue for the nine months ended 30 September 2013 increased slightly to RM184,715,000 as compared to corresponding quarter ended 30 September 2012.

Profit before tax, on the other hand, has improved strongly to RM37,315,000 when compared with the preceding year corresponding period of RM33,071,000. The surge in earnings came mainly from the cumulative effects of lower material input cost and optimal utilization of existing new operational facilities.

18. Comment of material change in profit before taxation

Group's revenue has decreased 11% to RM58,716,000 in the current quarter ended 30 September 2013 as compared to RM66,126,000 in the preceding quarter, where sales were affected by festive seasons occurred during the quarter.

Similarly, profit before tax decreased by 27% to RM10,580,000 as compared to RM14,593,000 in the preceding quarter as a result of lower domestic revenue.

19. Commentary of prospects

Soft CPO prices have contributed largely to strong earnings for the Group. A price recovery in the immediate future may not be afoot, barring any freak weather conditions. This bodes well for the Group's performance for the remaining part of the year. Notwithstanding that, the Group will continue to build the competitiveness of our products and address the needs of consumers to sustain the performance.

20. Profit forecast or profit guarantee

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

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21. Income tax expense

	Quarter ended		9 months cumulative to date	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	2,868	2,467	10,049	8,766
-Deferred taxation	(71)	86	(127)	199
	<u>2,797</u>	<u>2,553</u>	<u>9,922</u>	<u>8,965</u>

Major components of tax expenses

	Current	9 months
	quarter ended 30.09.2013	cumulative to date 30.09.2013
	RM'000	RM'000
Current tax expense	2,868	10,049
Deferred tax expense	(71)	(127)
	<u>2,797</u>	<u>9,922</u>
Profit before taxation	10,580	37,315
Taxation at the Malaysian statutory tax rate of 25%	2,645	9,329
Adjustments:		
-Non-deductible expenses	221	757
-Expenses with double deduction	(51)	(146)
-Overprovision in prior year	(18)	(18)
Income tax expense	<u>2,797</u>	<u>9,922</u>
Effective tax rate	26.4%	26.6%

22. Sale of unquoted investments and properties

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

23. Quoted securities

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

24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 13 November 2013.

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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 September 2013, 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 30.09.2013 <u>RM'000</u>	At end of preceding quarter 30.06.2013 <u>RM'000</u>
Total retained profits		
Realised	108,670	118,952
Unrealised	989	918
	<u>109,659</u>	<u>119,870</u>
Less: Consolidation adjustments	(42,957)	(42,951)
Retained profits as per statement of financial position	<u>66,702</u>	<u>76,919</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 13 November 2013.

30. Dividend payable

The Board of Directors do not recommend the payment of any dividend for the financial quarter under review.

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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>30.09.2013</u>	9 months cumulative to date <u>30.09.2013</u>
(a) Basic		
Profit for the period (RM'000)	7,783	27,393
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	6.49	22.83
(b) Diluted		
Basic earnings per share (sen)	6.49	22.83

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2012 was not qualified.

33. Authorization for Issue

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the directors on 13 November 2013.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 13 November 2013