

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 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 31 December 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 the financial statements and are relevant to the 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

Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance

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

	As at 31.12.2013 <u>RM'000</u>	As at 31.12.2012 <u>RM'000</u>
Total liabilities	54,816	51,706
Total equity	150,387	153,242
Total capital	60,000	60,000
Gearing ratio	36 %	34%

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

8. Dividends paid

	Date of <u>payment</u>	Cumulative to date <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 31.12.2013	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue	46,726	2,833	47,597	97,156
Profit for reportable segments	8,220	327	4,759	13,306
12 months cumulative to date				
Revenue	175,791	10,437	183,742	369,970
Profit for reportable segments	31,082	1,000	20,038	52,120

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.12.2013	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	13,306	52,120
Profit from inter-segment sales	49	(3)
Other income	216	926
Unallocated expenses	(804)	(2,961)
Profit before tax	12,767	50,082

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10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Interest income	(620)	(587)	(2,505)	(2,365)
Rental income	(4)	(5)	(19)	(19)
Allowance for doubtful debts	45	93	71	148
Bad debts written off	4	3	35	10
Depreciation of property, plant and equipment	1,107	1,109	4,383	4,221
Depreciation of investment properties	1	-	1	2
Gain/(loss) on disposal of property, plant and equipment	-	1	(9)	(7)
Inventories written off	3	7	18	63
Impairment loss on property, plant and equipment	-	196	-	196
Property, plant and equipment written off	183	815	215	861
Realised exchange losses	68	67	104	330

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	31.12.2013	31.12.2012
	RM'000	RM'000
Cash at bank and in hand	5,273	9,436
Short term deposits	75,872	69,980
Total cash and cash equivalents	<u>81,145</u>	<u>79,416</u>

12. Events after the reporting period

There were no material events subsequent to the end of the current quarter, except for the following:

- a. Bursa Securities had approved the following corporate proposals on 6 January 2014:-
 - i. Proposed share split involving the subdivision of every one (1) existing ordinary shares of RM0.50 each in the Company into five (5) new ordinary shares of RM0.10 each in the Company (“Subdivided Share(s)”) held by shareholders of the Company on an entitlement date to be determined and announced later (“Entitlement Date”) (“Proposed Share Split”);

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- ii. Proposed bonus issue of 200,000,000 new Subdivided Shares (“Bonus Shares(s)”) on the basis of one (1) Bonus Share for every three (3) Subdivided Shares held on the Entitlement Date (“Proposed Bonus Issue”); and
 - iii. Proposed amendment to the Memorandum of Association of the Company (“Proposed Amendment”)
- b. The multiple proposals have been approved by the shareholders of the Company at the Extraordinary General Meeting held on 18 February 2014.

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.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 31 December 2013 are as follows:

	RM'000
Purchase of property, plant and equipment	
Contracted but not provided for	<u>4,909</u>

16. Related party transactions

	Current quarter ended 31.12.2013 <u>RM</u>	12 months cumulative to date 31.12.2013 <u>RM</u>
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>120,000</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.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad

17. Performance review

The Group's revenue for the current quarter ended 31 December 2013 has increased by 6% to RM66,692,000 from RM63,144,000 in the quarter ended 31 December 2012. Stronger market demand for biscuits mainly contributed to the positive growth in sales.

The Group registered a profit before tax of RM12,767,000 as compared to a profit before tax of RM11,280,000 in the preceding corresponding quarter, an increase of nearly 13% mainly due to higher sales recorded.

For the twelve months ended 31 December 2013, the Group's turnover grew by 1% from RM247,818,000 to RM251,407,000 for the same period last year. Sales performance within the domestic market was encouraging with Cream Crackers continuing to be the strong performer.

Profit before tax has improved strongly to RM50,082,000 when compared with the preceding year corresponding year of RM44,351,000. Favourable input cost trends together with higher sales have resulted in a higher gross profit margin which improved by 2.1% against the same period of last year.

18. Comment of material change in profit before taxation

Group's revenue has increased 14% to RM66,692,000 in the current quarter ended 31 December 2013 as compared to RM58,716,000 in the preceding quarter without the effects of seasonality as experienced in the previous quarter.

Similarly, profit before tax increased by 21% to RM12,767,000 as compared to RM10,580,000 in the preceding quarter as a result of higher biscuits sales in domestic market.

19. Commentary of prospects

The Group expects 2014 to be increasingly challenging as the global economic environment has become more difficult. The Group will remain focused on growing both top and bottom line while continuing its long term strategy of investing in manufacturing capacity to support its growth. We are confident that we will continue to capitalise on the resilient Malaysia economy and remain active in innovating our product portfolio.

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		12 months cumulative to date	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	3,518	3,118	13,567	11,884
-Deferred taxation	(103)	(273)	(230)	(74)
	<u>3,415</u>	<u>2,845</u>	<u>13,337</u>	<u>11,810</u>

Major components of tax expenses

	Current	12 months
	quarter ended	cumulative
	31.12.2013	to date
	RM'000	31.12.2013
	RM'000	RM'000
Current tax expense	3,518	13,567
Deferred tax expense	(103)	(230)
	<u>3,415</u>	<u>13,337</u>
Profit before taxation	12,767	50,082
Taxation at the Malaysian statutory tax rate of 25%	3,192	12,521
Adjustments:		
-Non-deductible expenses	284	1,041
-Expenses with double deduction	(61)	(207)
-Overprovision in prior year	-	(18)
Income tax expense	<u>3,415</u>	<u>13,337</u>
Effective tax rate	26.7%	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 except for as disclosed in Note 12.

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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 31 December 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 31.12.2013 <u>RM'000</u>	At end of preceding quarter 30.09.2013 <u>RM'000</u>
Total retained profits		
Realised	117,882	108,670
Unrealised	1,092	989
	<u>118,974</u>	<u>109,659</u>
Less: Consolidation adjustments	(42,920)	(42,957)
Retained profits as per statement of financial position	<u>76,054</u>	<u>66,702</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 18 February 2014.

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment interim dividend of 5 sen per ordinary share of RM0.50 each and special dividend of 3 sen per ordinary share of RM0.50 each under single tier system 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>31.12.2013</u>	12 months cumulative to date <u>31.12.2013</u>
(a) Basic		
Profit for the period (RM'000)	9,352	36,745
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	7.79	30.62
(b) Diluted		
Basic earnings per share (sen)	7.79	30.62

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 18 February 2014.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 18 February 2014