

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2014

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 March 2014, 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 2013. 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 2013.

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 2013 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

	Effective for annual periods beginning <u>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
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 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:

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	Effective for annual periods beginning <u>on or after</u>
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)	To be announced
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)	To be announced
MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139	To be announced

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 March 2014

6. Changes in estimates

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

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 March 2014 and 31 December 2013, which are within the Group's objectives for capital management, are as follows:

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	As at 31.03.2014 <u>RM'000</u>	As at 31.12.2013 <u>RM'000</u>
Total liabilities	59,497	54,816
Total equity	150,345	150,387
Total capital	60,000	60,000
Gearing ratio	40 %	36%

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 except for the following:-

- i. 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 ('Subdivided Shares') each in the Company held by shareholders of the Company; and
- ii. bonus issue of 200,000,000 new Subdivided Shares ('Bonus Shares') on the basis of one (1) Bonus Share for every three (3) Subdivided Shares held.

The enlarged issued and paid-up share capital of the Company comprising 800,000,000 Subdivided Shares (including 200,000,000 Bonus Shares) were listed and quoted on the Main market of Bursa Malaysia Securities Berhad on 7 April 2014.

8. Dividends paid

	Date of <u>payment</u>	Cumulative to date 31.03.2014 <u>RM'000</u>
Dividend paid on ordinary shares:		
-Interim dividend of 5 sen per share (single-tier) for 2013	18.04.2014	6,000
-Special dividend of 3 sen per share (single-tier) for 2013	18.04.2014	3,600
		<u>9,600</u>

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.

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Quarter ended 31.03.2014	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue	44,977	2,449	48,989	96,415
Profit for reportable segments	7,702	174	5,726	13,602

Reconciliation of profit or loss

Profit or loss for the financial period ended 31.03.2014	Quarter ended RM'000
Total profit for reportable segments	13,602
Profit from inter-segment sales	(27)
Other income	245
Unallocated expenses	(760)
Profit before tax	13,060

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended	
	31.03.2014	31.03.2013
	RM'000	RM'000
Interest income	(625)	(635)
Rental income	(5)	(5)
Allowance for doubtful debts	6	-
Bad debts written off	-	11
Depreciation of property, plant and equipment	1,153	1,074
Gain on disposal of property, plant and equipment	(12)	(3)
Inventories written off	5	4
Property, plant and equipment written off	17	14
Realised exchange losses	53	49

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	31.03.2014	31.12.2013
	RM'000	RM'000
Cash at bank and in hand	4,649	5,273
Short term deposits	79,376	75,872
Total cash and cash equivalents	<u>84,025</u>	<u>81,145</u>

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12. Events after the reporting period

The Company completed the corporate exercises after the reporting period which is disclosed in Note 7 above.

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 2013.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 31 March 2014 are as follows:

	RM'000
Purchase of property, plant and equipment Contracted but not provided for	<u>2,696</u>

16. Related party transactions

	Current quarter ended 31.03.2014 <u>RM</u>
Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</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 31 March 2014 has increased by 8% to RM64,450,000 from RM59,873,000 in the quarter ended 31 March 2013. Higher demand for biscuits in local and export market mainly contributed to sales volume increased.

The Group registered a profit before tax of RM13,060,000 as compared to RM12,142,000 in the preceding corresponding quarter, an increase of nearly 8% mainly due to higher sales recorded.

18. Comment of material change in profit before taxation

Group's revenue has decreased 3% to RM64,450,000 in the current quarter ended 31 March 2014 as compared to RM66,692,000 in the preceding quarter mainly as a result of slower demand of biscuits for export market.

Profit before tax increased by 2% to RM13,060,000 as compared to RM12,767,000 in the preceding quarter mainly due to lower promotional expenses incurred during the current quarter.

19. Commentary of prospects

The operating environment is expected 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.

21. Income tax expense

	Quarter ended	
	31.03.2014	31.03.2013
	RM'000	RM'000
Current income tax :		
-Malaysia income tax	3,518	3,308
Deferred taxation	(16)	(70)
	<u>3,502</u>	<u>3,238</u>

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Major components of tax expenses	3 months cumulative to date 31.03.2014 RM'000
Current tax expense	3,518
Deferred tax expense	(16)
	<u>3,502</u>
Profit before taxation	13,060
Taxation at the Malaysian statutory tax rate of 25%	3,265
Adjustments:	
-Non-deductible expenses	269
-Expenses with double deduction	(32)
Income tax expense	<u>3,502</u>
Effective tax rate	26.8%

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 20 May 2014.

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 March 2014, 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.

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

	At end of current quarter 31.03.2014 <u>RM'000</u>	At end of preceding quarter 31.12.2013 <u>RM'000</u>
Total retained profits		
Realised	112,178	117,882
Unrealised	1,107	1,092
	<u>113,285</u>	<u>118,974</u>
Less: Consolidation adjustments	(42,940)	(42,920)
Retained profits as per statement of financial position	<u>70,345</u>	<u>76,054</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 20 May 2014.

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment special dividend of 1.5 sen per ordinary share of RM0.10 each under single tier system for the financial quarter under review. The entitlement date will be announced in due course.

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 31.03.2014	Preceding year corresponding quarter 31.03.2013
(a) Basic		
Profit for the period (RM'000)	<u>9,558</u>	<u>8,904</u>
Number of ordinary shares at beginning of the period for basic earnings per share computation ('000)	120,000	120,000
Effect of share split ('000)	480,000	480,000
Effect of bonus issue ('000)	200,000	200,000
Weighted average number of ordinary shares for earnings per share computation * ('000)	<u>800,000</u>	<u>800,000</u>

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Basic earnings per share (sen)	1.19	1.11
(b) Diluted		
Diluted earnings per share (sen)	1.19	1.11

*The calculation for basic and diluted earnings per share has been adjusted retrospectively to take into account the effect of the share split from 120,000,000 shares to 600,000,000 share and bonus issue of 200,000,000 shares which were completed subsequent to 31 March 2014.

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2013 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 20 May 2014.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 20 May 2014