

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

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

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2014

(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:

	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
MFRS 14 Regulatory Deferral Accounts	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to MFRS 11)	1 January 2016

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 June 2014.

6. Changes in estimates

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

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2014

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

	As at 30.06.2014 <u>RM'000</u>	As at 31.12.2013 <u>RM'000</u>
Total liabilities	64,320	54,816
Total equity	148,085	150,387
Total capital	80,000	60,000
Gearing ratio	43 %	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.

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2014

8. Dividends paid

	Date of payment	Cumulative to date 30.06.2014 RM'000
Dividend paid on ordinary shares of RM0.50 each :		
-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
Dividend paid on ordinary shares of RM0.10 each:		
-Special dividend of 1.5sen per share (single-tier) for 2014	23.07.2014	12,000
		<u>21,600</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.

Quarter ended 30.06.2014	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	48,520	2,335	50,864	101,719
Profit for reportable segments	7,869	85	5,894	13,848
6 months cumulative to date				
Revenue *	93,497	4,784	99,853	198,134
Profit for reportable segments	15,571	259	11,620	27,450

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.06.2014	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	13,848	27,450
Profit from inter-segment sales	9	(18)
Other income	237	482
Unallocated expenses	(810)	(1,570)
Profit before tax	13,284	26,344

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 6 months cumulative to date are RM33,465,000 and RM65,430,000 respectively.

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2014

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest income	(652)	(589)	(1,277)	(1,224)
Rental income	(5)	(5)	(10)	(10)
Allowance for doubtful debts	19	24	25	35
Bad debts written off	1	7	1	7
Depreciation of property, plant and equipment	1,190	1,071	2,343	2,145
(Gain)/loss on disposal of property, plant and equipment	(9)	1	(21)	(2)
Inventories written off	4	4	9	8
(Reversal of)/Impairment loss on property, plant and equipment	(42)	3	(42)	3
Property, plant and equipment written off	298	7	315	21
Realised exchange losses	81	34	134	83

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	30.06.2014	31.12.2013
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	8,549	5,273
Short term deposits	76,464	75,872
Total cash and cash equivalents	<u>85,013</u>	<u>81,145</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 2013.

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2014

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 30 June 2014 are as follows:

	RM'000
Purchase of property, plant and equipment Contracted but not provided for	<u>753</u>

16. Related party transactions

	Current quarter ended 30.06.2014 <u>RM</u>	6 months cumulative to date 30.06.2014 <u>RM</u>
Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>60,000</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.

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2014

17. Performance review

The Group's revenue for the current quarter ended 30 June 2014 has increased by 3% to RM68,254,000 from RM66,126,000 in the quarter ended 30 June 2013.

The Group register a profit before tax of RM13,284,000 as compared to a profit before tax of RM14,593,000 in the preceding corresponding quarter, a decrease of nearly 9% mainly due to higher cost of certain raw materials and operating costs during the current quarter.

For the six months ended 30 June 2013, the Group's turnover grew by 5% from RM125,999,000 to RM132,704,000 for the same period last year driven by both domestic and export sales led by strong performance of Cream Crackers.

Profit before tax has decreased to RM26,344,000 when compared with the preceding year corresponding period of RM26,735,000. The increase in prices of certain raw materials during the first half of the year depressed the profit performance.

18. Comment of material change in profit before taxation

Group's revenue has increased 6% to RM68,254,000 in the current quarter ended 30 June 2014 as compared to RM64,450,000 in the preceding quarter driven by both domestic and export sales.

Profit before tax increased by 2% to RM13,284,000 as compared to RM13,060,000 in the preceding quarter mainly due to higher sales recorded.

19. Commentary of prospects

The global economy is expected to be challenging, resulting from the rollback of the quantitative easing in US and slower than expected growth in China. However the domestic economy is expected to be resilient because of sustainable domestic demand.

The Group witnessed some margin compression arising from costs pressures amid continued growth in revenue. Despite this, we will continue to build the competitiveness of our products 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.

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2014

21. Income tax expense

	Quarter ended		6 months cumulative to date	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	3,577	3,873	7,095	7,181
-Deferred taxation	(33)	14	(49)	(56)
	<u>3,544</u>	<u>3,887</u>	<u>7,046</u>	<u>7,125</u>

Major components of tax expenses

	Current quarter ended 30.06.2014 RM'000	6 months cumulative to date 30.06.2014 RM'000
Current tax expense	3,577	7,095
Deferred tax expense	(33)	(49)
	<u>3,544</u>	<u>7,046</u>
Profit before taxation	<u>13,284</u>	<u>26,344</u>
Taxation at the Malaysian statutory tax rate of 25%	3,321	6,586
Adjustments:		
-Non-deductible expenses	312	581
-Expenses with double deduction	(89)	(121)
Income tax expense	<u>3,544</u>	<u>7,046</u>
Effective tax rate	26.7%	26.7%

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.

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2014

24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 13 August 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 30 June 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.

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

	At end of current quarter 30.06.2014 <u>RM'000</u>	At end of preceding quarter 31.03.2014 <u>RM'000</u>
Total retained profits		
Realised	109,878	112,178
Unrealised	1,140	1,107
	<hr/>	<hr/>
	111,018	113,285
Less: Consolidation adjustments	(42,933)	(42,940)
Retained profits as per statement of financial position	<hr/> <hr/>	<hr/> <hr/>
	68,085	70,345

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 13 August 2014.

30. Dividend payable

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

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.

HUP SENG INDUSTRIES BERHAD (226098-P)
(Incorporated in Malaysia)

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2014

	Quarter ended		6 months cumulative to date	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
(a) Basic				
Profit for the period (RM'000)	9,740	10,706	19,298	19,610
Number of ordinary shares at beginning of the period for basic earnings per share computation (‘000)	120,000	120,000	120,000	120,000
Effect of share split (‘000)	480,000	480,000	480,000	480,000
Effect of bonus issue (‘000)	200,000	200,000	200,000	200,000
Weighted average number of ordinary share for earnings per share computation* (‘000)	800,000	800,000	800,000	800,000
Basic earnings per share (sen)	1.22	1.34	2.41	2.45
(b) Diluted				
Diluted earnings per share (sen)	1.22	1.34	2.41	2.45

*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 listed and quoted on the Main market of Bursa Malaysia Securities Berhad on 7 April 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 13 August 2014.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 13 August 2014