

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

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

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(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
Amendments to MFRS 116 and MFRS 138:-Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
MFRS15: Revenue from Contracts with Customers	1 January 2017

The Group has not completed its assessment of the financial effects of the adoption of these standards above. However, the directors expect that the adoption of these standards will have no material impact on the financial statements in the period 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 2014.

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

	As at 30.09.2014 <u>RM'000</u>	As at 31.12.2013 <u>RM'000</u>
Total liabilities	47,754	54,816
Total equity	154,338	150,387
Total capital	80,000	60,000
Gearing ratio	31 %	36%

The decrease in the gearing ratio is mainly due to the decrease in 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, 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.

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8. Dividends paid

	Date of payment	Cumulative to date 30.09.2014 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 30.09.2014	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	40,541	2,235	38,896	81,672
Profit for reportable segments	5,835	78	3,284	9,197
9 months cumulative to date				
Revenue *	134,038	7,019	138,749	279,806
Profit for reportable segments	21,406	337	14,904	36,647

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.09.2014	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	9,197	36,647
Profit from inter-segment sales	(108)	(126)
Other income	246	728
Unallocated expenses	(696)	(2,266)
Profit before tax	8,639	34,983

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 9 months cumulative to date are RM25,804,000 and RM91,234,000 respectively.

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10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	30.09.2014 RM'000	30.09.2013 RM'000	30.09.2014 RM'000	30.09.2013 RM'000
Interest income	(662)	(661)	(1,939)	(1,885)
Rental income	(5)	(5)	(15)	(15)
Allowance for doubtful debts	21	(9)	46	26
Bad debts written off	2	24	3	31
Depreciation of property, plant and equipment	1,214	1,131	3,557	3,276
Gain on disposal of property, plant and equipment	-	(7)	(21)	(9)
Inventories written off	9	5	18	13
Impairment loss/(reversal of impairment loss) on property, plant and equipment	-	3	(42)	-
Property, plant and equipment written off	38	11	353	32
Realised exchange losses/(gain)	63	(47)	197	36

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	30.09.2014 RM'000	31.12.2013 RM'000
Cash at bank and in hand	4,483	5,273
Short term deposits	78,151	75,872
Total cash and cash equivalents	<u>82,634</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.

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15. Capital commitments

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

	RM'000
Purchase of property, plant and equipment Contracted but not provided for	<u>413</u>

16. Related party transactions

	Current quarter ended 30.09.2014 <u>RM</u>	9 months cumulative to date 30.09.2014 <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 2014 has decreased by 5% to RM55,868,000 from RM58,716,000 in the quarter ended 30 September 2013. Domestic sales came in lower compared to previous corresponding period. This was mainly due to lower demand from certain key accounts, a trend the Group experienced since second quarter of 2014.

The Group register a profit before tax of RM8,639,000 as compared to a profit before tax of RM10,580,000 in the preceding corresponding quarter, a decrease of nearly 18% mainly due to the lower sales and higher cost of certain raw materials during the current quarter.

For the nine months ended 30 September 2014, the Group's turnover grew by 2% from RM184,715,000 to RM188,572,000 for the same period last year driven by both domestic and export sales led by strong performance of Cream Crackers.

Profit before tax, however, has decreased to RM34,983,000 when compared with the preceding year corresponding period of RM37,315,000. Input costs notably certain raw material prices have been on the uptrend which depressed the overall margin of the Group.

18. Comment of material change in profit before taxation

Group's revenue has decreased 18% to RM55,868,000 in the current quarter ended 30 September 2014 as compared to RM68,254,000 in the preceding quarter, where sales were adversely affected by festive seasons occurred during the quarter.

Similarly, profit before tax decreased by 35% to RM8,639,000 as compared to RM13,284,000 in the preceding quarter as a result of lower domestic revenue.

19. Commentary of prospects

We remain cautiously optimistic for the remaining of 2014. Recovery in the global economy is expected to continue albeit at a slower pace as predicted by International Monetary Fund and the domestic demand is expected to be moderate.

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.

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21. Income tax expense

	Quarter ended		9 months cumulative to date	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	2,506	2,868	9,601	10,049
-Deferred taxation	(120)	(71)	(169)	(127)
	<u>2,386</u>	<u>2,797</u>	<u>9,432</u>	<u>9,922</u>

Major components of tax expenses

	Current quarter ended 30.09.2014 RM'000	9 months cumulative to date 30.09.2014 RM'000
Current tax expense	2,506	9,601
Deferred tax expense	(120)	(169)
	<u>2,386</u>	<u>9,432</u>
Profit before taxation	<u>8,639</u>	<u>34,983</u>
Taxation at the Malaysian statutory tax rate of 25%	2,160	8,746
Adjustments:		
-Non-deductible expenses	220	801
-Expenses with double deduction	(28)	(149)
-Under provision in prior year	34	34
Income tax expense	<u>2,386</u>	<u>9,432</u>
Effective tax rate	27.6%	27.0%

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.

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24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 12 November 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 September 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 30.09.2014 <u>RM'000</u>	At end of preceding quarter 30.06.2014 <u>RM'000</u>
Total retained profits		
Realised	116,092	109,878
Unrealised	1,260	1,140
	<u>117,352</u>	<u>111,018</u>
Less: Consolidation adjustments	(43,014)	(42,933)
Retained profits as per statement of financial position	<u>74,338</u>	<u>68,085</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 12 November 2014.

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment interim 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.

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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.

	Quarter ended		9 months cumulative to date	
	30.09.2014	30.09.2013	30.09.2014	30.09.2013
(a) Basic				
Profit for the period (RM'000)	6,253	7,783	25,551	27,393
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)	0.78	0.97	3.19	3.42
(b) Diluted				
Diluted earnings per share (sen)	0.78	0.97	3.19	3.42

*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 12 November 2014.

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By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 12 November 2014