

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 December 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 year ended 31 December 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 |
| Annual Improvements to MFRSs 2012–2014 Cycle | 1 January 2016 |
| 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 |
| Amendments to MFRS 127: Equity Method in Separate Financial Statements | 1 January 2016 |
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 |
| MFRS15: Revenue from Contracts with Customers | 1 January 2017 |
| MFRS 9 Financial Instruments (IFRS 9 Financial Instruments as issued by IASB in July 2014) | 1 January 2018 |

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

| | As at 31.12.2014 | As at 31.12.2013 |
|-------------------|---------------------|---------------------|
| | <u>RM'000</u> | <u>RM'000</u> |
| Total liabilities | 71,073 | 54,816 |
| Total equity | 154,934 | 150,387 |
| Total capital | 80,000 | 60,000 |
| Gearing ratio | 46 % | 36% |

The increase in the gearing ratio is mainly due to the increase in total liabilities mainly arising from dividend payables and trade 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 31.12.2014 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 |
| Dividend paid on ordinary shares of RM0.10 each: | | |
| -Interim dividend of 1.5sen per share (single-tier) for 2014 | 08.01.2015 | 12,000 |
| | | <u>33,600</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 31.12.2014 | Biscuit manufacturing division RM'000 | Beverage manufacturing division RM'000 | Trading division RM'000 | Total RM'000 |
|-------------------------------------|--|---|-------------------------------|-----------------|
| Revenue * | 52,193 | 3,429 | 52,547 | 108,169 |
| Profit for reportable segments | 10,834 | 410 | 5,916 | 17,160 |
| 12 months cumulative to date | | | | |
| Revenue * | 186,231 | 10,448 | 191,296 | 387,975 |
| Profit for reportable segments | 32,240 | 747 | 20,820 | 53,807 |

Reconciliation of profit or loss

| Profit or loss for the financial period ended 31.12.2014 | Quarter ended RM'000 | Cumulative to date RM'000 |
|--|----------------------------|---------------------------------|
| Total profit for reportable segments | 17,160 | 53,807 |
| Profit from inter-segment sales | 44 | (82) |
| Other income | 242 | 970 |
| Unallocated expenses | (704) | (2,970) |
| Profit before tax | 16,742 | 51,725 |

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 12 months cumulative to date are RM34,523,000 and RM125,757,000 respectively.

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10. Profit before tax

Included in the profit before tax are the following items:

| | Quarter ended | | Cumulative to date | |
|--|---------------|---------------|-----------------------|---------------|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> | <u>RM'000</u> |
| Interest income | (752) | (620) | (2,691) | (2,505) |
| Rental income | (5) | (4) | (20) | (19) |
| Allowance for doubtful debts | 6 | 45 | 52 | 71 |
| Bad debts written off | 6 | 4 | 9 | 35 |
| Depreciation of property, plant and equipment | 1,287 | 1,108 | 4,844 | 4,384 |
| Loss/(gain) on disposal of property, plant and equipment | 23 | - | 2 | (9) |
| Inventories written off | 14 | 5 | 32 | 18 |
| Reversal of impairment loss on property, plant and equipment | - | - | (42) | - |
| Property, plant and equipment written off | 3 | 183 | 356 | 215 |
| Realised exchange (gain)/losses | (53) | 68 | 144 | 104 |

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

| | 31.12.2014 | 31.12.2013 |
|---------------------------------|----------------|---------------|
| | <u>RM'000</u> | <u>RM'000</u> |
| Cash at bank and in hand | 6,300 | 5,273 |
| Short term deposits | 94,508 | 75,872 |
| Total cash and cash equivalents | <u>100,808</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 31 December 2014 are as follows:

| | |
|--|------------|
| | RM'000 |
| Purchase of property, plant and equipment Contracted but not provided for | <u>664</u> |

16. Related party transactions

| | Current quarter ended 31.12.2014 <u>RM</u> | 12 months cumulative to date 31.12.2014 <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.

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17. Performance review

The Group's revenue for the current quarter ended 31 December 2014 has increased by 10% to RM73,646,000 from RM66,692,000 in the quarter ended 31 December 2013. The double digit growth was driven by both domestic and export sales on the back of robust growth in demand for Cream Crackers.

The Group register a profit before tax of RM16,742,000 as compared to a profit before tax of RM12,767,000 in the preceding corresponding quarter, an increase of nearly 31% mainly due to the higher sales volume during the current quarter.

For the twelve months ended 31 December 2014, the Group's turnover grew by 4% from RM251,407,000 to RM262,218,000 for the same period last year driven by both domestic and export sales led by strong performance of Cream Crackers.

Profit before tax has improved to RM51,725,000 when compared with the preceding year corresponding year of RM50,082,000 mainly due to higher sales volume recorded during the financial year.

18. Comment of material change in profit before taxation

Group's revenue has increased 32% to RM73,646,000 in the current quarter ended 31 December 2014 as compared to RM55,868,000 in the preceding quarter. Unlike preceding quarter where festive seasons slackened the domestic demand, a significant increase in Cream Crackers in the current quarter contributed to the higher sales volume.

Similarly, profit before tax increased by 94% to RM16,742,000 as compared to RM8,639,000 in the preceding quarter. The increase in profit was mainly due to higher sales volume recorded during the current quarter.

19. Commentary of prospects

The Group expects 2015 to be challenging. A faltering Euro zone and China coupled with disinflation will probably pose the biggest threat to the global economy this year. Rapidly cooling inflation around the world, thanks to a spectacular 60% drop in global crude oil prices since June 2014 has forced major central banks to ease monetary policy.

In contrary to 2014 when the Group witnessed gross margin compression arising from cost pressures, the extent to which the falling commodities and oil prices affect the consumer demand will certainly impact the Group performance this year. Notwithstanding this, we will continue to build the competitiveness of our products and remain active in innovating our product portfolio.

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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 | | 12 months cumulative to date | |
|----------------------|---------------|--------------|---------------------------------|---------------|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current income tax : | | | | |
| -Malaysia income tax | 3,831 | 3,518 | 13,432 | 13,567 |
| -Deferred taxation | 315 | (103) | 146 | (230) |
| | <u>4,146</u> | <u>3,415</u> | <u>13,578</u> | <u>13,337</u> |

Major components of tax expenses

| | Current | 12 months |
|---|-----------------------------|-------------------------------------|
| | quarter ended 31.12.2014 | cumulative to date 31.12.2014 |
| | RM'000 | RM'000 |
| Current tax expense | 3,831 | 13,432 |
| Deferred tax expense | 315 | 146 |
| | <u>4,146</u> | <u>13,578</u> |
| Profit before taxation | <u>16,742</u> | <u>51,725</u> |
| Taxation at the Malaysian statutory tax rate of 25% | 4,185 | 12,931 |
| Adjustments: | | |
| -Non-deductible expenses | 254 | 1,055 |
| -Expenses with double deduction | (178) | (327) |
| -Benefits from utilization of tax incentive | (115) | (115) |
| -Under provision in prior year | - | 34 |
| Income tax expense | <u>4,146</u> | <u>13,578</u> |
| Effective tax rate | 24.8% | 26.3% |

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.

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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 10 February 2015.

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 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 31.12.2014 <u>RM'000</u> | At end of preceding quarter 30.09.2014 <u>RM'000</u> |
|---|--|--|
| Total retained profits | | |
| Realised | 116,970 | 116,092 |
| Unrealised | 945 | 1,260 |
| | <u>117,915</u> | <u>117,352</u> |
| Less: Consolidation adjustments | (42,981) | (43,014) |
| Retained profits as per statement of financial position | <u>74,934</u> | <u>74,338</u> |

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 10 February 2015.

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30. Dividend payable

Other than as disclosed in Note 8 above, 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.

| | Quarter ended | | 12 months cumulative to date | |
|---|---------------|------------|---------------------------------|------------|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| (a) Basic | | | | |
| Profit for the period (RM'000) | 12,596 | 9,352 | 38,147 | 36,745 |
| 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) | 1.57 | 1.17 | 4.77 | 4.59 |
| (b) Diluted | | | | |
| Diluted earnings per share (sen) | 1.57 | 1.17 | 4.77 | 4.59 |

*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.

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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 10 February 2015.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 10 February 2015