

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 31 March 2015

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 2015, 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 2014. 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 2014.

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 2014 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 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

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>
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
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 101: Disclosure Initiative	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 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 2015.

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

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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 2015 and 31 December 2014, which are within the Group's objectives for capital management, are as follows:

	As at 31.03.2015 RM'000	As at 31.12.2014 RM'000
Total liabilities	51,843	71,073
Total equity	168,163	154,934
Total capital	80,000	80,000
Gearing ratio	31%	46%

The decrease in the gearing ratio is mainly due to the decrease in dividends payables, 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

Dividends declared on 24 April 2015 in respect of year ended 31 December 2014, being final dividend of 1.5 sen per ordinary share under the single-tier system, amounting to RM12,000,000 are payable on 10 June 2015 subject to shareholders' approval.

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 31.03.2015	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	49,512	2,275	52,486	104,273
Profit for reportable segments	11,628	305	6,194	18,127

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Reconciliation of profit or loss

Profit or loss for the financial period ended 31.03.2015	Quarter ended RM'000
Total profit for reportable segments	18,127
Profit from inter-segment sales	193
Other income	243
Unallocated expenses	(760)
Profit before tax	17,803

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter is RM33,167,000.

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended	
	31.03.2015	31.03.2014
	<u>RM'000</u>	<u>RM'000</u>
Interest income	(778)	(625)
Rental income	(5)	(5)
Allowance for doubtful debts	91	6
Bad debts written off	36	-
Depreciation of property, plant and equipment	1,296	1,153
Loss/(gain) on disposal of property, plant and equipment	4	(12)
Inventories written off	16	5
Property, plant and equipment written off	94	17
(Gain)/loss realised exchange difference	(71)	53

11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	31.03.2015	31.12.2014
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	6,712	6,300
Short-term deposits	88,157	94,208
Cash and cash equivalents	<u>94,869</u>	<u>100,508</u>
Short-term deposits of more than 3 months maturity period	300	300
Total cash and cash balances	<u><u>95,169</u></u>	<u><u>100,808</u></u>

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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 2014.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 31 March 2015 are as follows:

	RM'000
Purchase of property, plant and equipment	
Contracted but not provided for	<u>528</u>

16. Related party transactions

	Current quarter ended 31.03.2015 <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 2015 has increased by 10% to RM71,106,000 from RM64,450,000 in the quarter ended 31 March 2014. Benign growth in demand for biscuits in local and export market mainly contributed to increase in sales volume.

The Group registered a profit before tax of RM17,803,000 as compared to RM13,060,000 in the preceding corresponding quarter, an increase of nearly 36% mainly due to the lower material input cost and higher sales recorded with stronger volume during the period.

18. Comment of material change in profit before taxation

Group's revenue has decreased 3% to RM71,106,000 in the current quarter ended 31 March 2015 as compared to RM73,646,000 in the preceding quarter mainly as a result of slower demand of biscuits for export market.

Profit before tax increased by 6% to RM17,803,000 as compared to RM16,742,000 in the preceding quarter mainly due to the lower input costs and promotional expenses incurred during the current quarter.

19. Commentary of prospects

The Malaysian economy is projected to register a steady growth of 4.5 - 5.5% in 2015, supported mainly by a sustained expansion in domestic demand amid strong domestic fundamentals and a resilient export sector. While household spending is expected to be affected by the implementation of the Goods and Services Tax (GST) in April, its impact will, however, be partially offset by Government measures to assist targeted groups and the additional disposable incomes from lower fuel prices.

The Group expects 2015 to be challenging and will remain vigilant and respond accordingly to the market environment. Nevertheless, the Group is committed to broadening our portfolio through product innovation and diversification to support its growth.

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	
	31.03.2015	31.03.2014
	RM'000	RM'000
Current income tax :		
-Malaysia income tax	4,608	3,518
Deferred taxation	(34)	(16)
	<u>4,574</u>	<u>3,502</u>
Major components of tax expenses		3 months cumulative to date 31.03.2015 RM'000
Current tax expense		4,608
Deferred tax expense		<u>(34)</u>
		<u>4,574</u>
Profit before taxation		17,803
Taxation at the Malaysian statutory tax rate of 25%		4,451
Adjustments:		
-Effect of changes in tax rates		(97)
-Non-deductible expenses		262
-Expenses with double deduction		<u>(42)</u>
Income tax expense		<u>4,574</u>
Effective tax rate		25.7%

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.

24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 19 May 2015.

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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 March 2015, 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 31.03.2015 <u>RM'000</u>	At end of preceding quarter 31.12.2014 <u>RM'000</u>
Total retained profits		
Realised	130,019	116,970
Unrealised	979	945
	<u>130,998</u>	<u>117,915</u>
Less: Consolidation adjustments	(42,835)	(42,981)
Retained profits as per statement of financial position	<u>88,163</u>	<u>74,934</u>

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 19 May 2015.

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors do not recommend the payment of any further dividend for the financial quarter under review.

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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>31.03.2015</u>	Preceding year corresponding quarter <u>31.03.2014</u>
(a) Basic		
Profit for the period (RM'000)	13,229	9,558
Weighted average number of ordinary shares in issue ('000)	800,000	120,000
Effect of share split	-	480,000
Effect for bonus issue	-	200,000
Adjusted weighted average number of ordinary share in issue	<u>800,000</u>	<u>800,000</u>
Basic earnings per share (sen)	<u>1.65</u>	<u>1.19</u>
(b) Diluted		
Diluted earnings per share (sen)	<u>1.65</u>	<u>1.19</u>

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2014 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 19 May 2015.

By Order of the Board

Lee Wai Ngan
Chan Toyee Ying
Company Secretaries
Kuala Lumpur
Dated: 19 May 2015