

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

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

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2015

	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 30 June 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 dividend payout to shareholders, return capital to shareholders and issue new shares, where

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134 For the period ended 30 June 2015

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

	As at 30.06.2015	As at 31.12.2014
	<u>RM'000</u>	<u>RM'000</u>
Total liabilities	57,585	71,073
Total equity	170,713	154,934
Total capital	80,000	80,000
Gearing ratio	34%	46%

The decrease in the gearing ratio is mainly due to the increase in equity through net profits earned, in excess of dividends declared.

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

	Date of <u>payment</u>	Cumulative to date 30.06.2015 <u>RM'000</u>
Dividend paid on ordinary shares of RM0.10 each: -Final dividend of 1.5sen per share (single-tier) for 2014 declared on 24 April 2015	10.06.2015	<u>12,000</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.

HUP SENG INDUSTRIES BERHAD (226098-P)

(Incorporated in Malaysia)

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2015

Quarter ended 30.06.2015	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue *	52,551	2,646	50,923	106,120
Profit for reportable segments	12,954	312	7,042	20,308
6 months cumulative to date				
Revenue *	102,063	4,921	103,409	210,393
Profit for reportable segments	24,582	617	13,236	38,435

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.06.2015	Quarter ended RM'000	Cumulative to date RM'000
Total profit for reportable segments	20,308	38,435
Profit from inter-segment sales	(146)	47
Other income	246	489
Unallocated expenses	(833)	(1,593)
Profit before tax	19,575	37,378

* Revenue reported above represents revenue generated from the reportable segments. Inter-segment sales for the current quarter and 6 months cumulative to date are RM34,880,000 and RM68,047,000 respectively.

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		Cumulative to date	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Interest income	(891)	(652)	(1,669)	(1,277)
Rental income	(5)	(5)	(10)	(10)
(Reversal of)/allowance for doubtful debts	(4)	19	87	25
Bad debts written off	15	1	51	1
Depreciation of property, plant and equipment	1,319	1,190	2,615	2,343
(Gain)/loss on disposal of property, plant and equipment	-	(9)	4	(21)
Inventories written off	8	4	24	9
Reversal of impairment loss on property, plant and equipment	(15)	(42)	(15)	(42)
Property, plant and equipment written off	15	298	109	315
Realised exchange loss/(gain)	8	81	(63)	134

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2015

11. Cash and bank balances

Cash and bank balances comprised the following amounts:

	30.06.2015	31.12.2014
	<u>RM'000</u>	<u>RM'000</u>
Cash at bank and in hand	5,107	6,300
Short-term deposits	98,882	94,208
Cash and cash equivalents	<u>103,989</u>	<u>100,508</u>
Short-term deposits of more than 3 months maturity period	300	300
Total cash and cash balances	<u>104,289</u>	<u>100,808</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 2014.

15. Capital commitments

Authorized capital commitments not recognised in the interim financial statements as at 30 June 2015 are as follows:

	RM'000
Purchase of property, plant and equipment Contracted but not provided for	<u>342</u>

16. Related party transactions

	Current quarter ended 30.06.2015 <u>RM</u>	6 months cumulative to date 30.06.2015 <u>RM</u>
Rental of premises payable to: -Hup Seng Brothers Holdings Sdn. Bhd. #	<u>30,000</u>	<u>60,000</u>

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

Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 June 2015

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.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad
For the period ended 30 June 2015

17. Performance review

The Group's revenue for the current quarter ended 30 June 2015 has increased by 4% to RM71,240,000 from RM68,254,000 in the quarter ended 30 June 2014. Benign growth in demand for biscuits in local and export market mainly contributed to increase in sales volume.

The Group register a profit before tax of RM19,575,000 as compared to a profit before tax of RM13,284,000 in the preceding corresponding quarter, an increase of about 47% mainly due to improved sales margin brought about by lower input costs, weak Ringgit and successful modification in pricing strategy.

For the six months ended 30 June 2015, the Group's turnover grew by 7% from RM142,346,000 to RM132,704,000 for the same period last year driven by both domestic and export sales. Cream Crackers continued to be the strong performer in terms of growth for the Group during the period.

The Group register a profit before tax of RM37,378,000 as compared to a profit before tax of RM26,344,000 in the preceding corresponding period. The increase in profit before tax is mainly due to the improved sales margin brought about by lower input costs, weak Ringgit and successful modification in pricing strategy. The increase in sales volume also contributed to the improvement in profit before tax.

18. Comment of material change in profit before taxation

Group's revenue has slightly increased to RM71,240,000 in the current quarter ended 30 June 2015 as compared to RM71,106,000 in the preceding quarter.

Profit before tax, on the other hand, has improved to RM19,575,000 as compared to RM17,803,000 in the preceding quarter brought by improved sales margin due to lower input costs and successful modification in pricing strategy.

19. Commentary of prospects

The external environment is expected to remain tough under the current environment fraught with uncertainties and challenges. However, soft CPO and crude oil prices coupled with favourable demand for Groups' products have contributed strongly to the earnings for the Group in the first half of this year. Recent reports on forecasts for global supply and demand for these commodities suggest a price recovery in second half of 2015 may not be afoot. This bodes well for the Group's performance for the remaining part of the year.

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 2015

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		6 months cumulative to date	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	5,143	3,577	9,751	7,095
-Deferred taxation	(118)	(33)	(152)	(49)
	<u>5,025</u>	<u>3,544</u>	<u>9,599</u>	<u>7,046</u>

Major components of tax expenses

	Current Quarter ended 30.06.2015 RM'000	6 months cumulative to date 30.06.2015 RM'000
Current tax expense	5,143	9,751
Deferred tax expense	(118)	(152)
	<u>5,025</u>	<u>9,599</u>
Profit before taxation	19,575	37,378
Taxation at the Malaysian statutory tax rate of 25%	4,894	9,345
Adjustments:		
-Effect of changes in tax rates	(89)	(186)
-Non-deductible expenses	263	525
-Expenses with double deduction	(43)	(85)
Income tax expense	<u>5,025</u>	<u>9,599</u>
Effective tax rate	<u>25.7%</u>	<u>25.7%</u>

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.

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 2015

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 18 August 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 30 June 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 30.06.2015 <u>RM'000</u>	At end of preceding quarter 31.03.2015 <u>RM'000</u>
Total retained profits		
Realised	132,563	130,019
Unrealised	1,097	979
	<hr/>	<hr/>
	133,660	130,998
Less: Consolidation adjustments	(42,947)	(42,835)
Retained profits as per statement of financial position	<hr/>	<hr/>
	90,713	88,163

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 18 August 2015.

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 2015

30. Dividend payable

Other than as disclosed in Note 8 above, the Board of Directors recommends the payment of single tier interim dividend of 2 sen per ordinary share of RM0.10 each 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.

	Quarter ended		6 months cumulative to date	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
(a) Basic				
Profit for the period (RM'000)	14,550	9,740	27,779	19,298
Weighted average number of ordinary share for earnings per share ('000)	800,000	800,000	800,000	800,000
Basic earnings per share (sen)	1.82	1.22	3.47	2.41
(b) Diluted				
Diluted earnings per share (sen)	1.82	1.22	3.47	2.41

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 18 August 2015.