Part A: Explanatory notes pursuant to MFRS 134
For the period ended 30 September 2012

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. First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

These condensed consolidated interim financial statements, for the period ended 30 September 2012, have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards. ("FRS").

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 31 December 2012. MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

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 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group's financial position, financial performance and cash flows is set out in Note 3 below. These notes include reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of cash flows.

3. Significant accounting policies

3.1 Application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for year ended 31 December 2011 except as discussed below:

(a). Business combination

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

<u>Acquisition before date of transition</u>

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition,

(i). The classification of former business combinations under FRS is maintained;
(ii). There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
(iii). The carrying amount of goodwill recognised under FRS is not adjusted.

(b). Property, plant and equipment

The Group has previously recorded its land and buildings at revalued amount, which is the fair value at the date of the revaluation less accumulated depreciation and any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed at least once in every five years to ensure that the carrying amount does not differ materially from the fair value of the land and buildings at the reporting date.

Upon transition to MFRS, the Group has elected to measure all its property, plant land equipment using cost model under MFRS 116 Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to regard the revalued amounts of land and buildings as at 21 December 2009 as deemed cost at the date of the revaluation as these amounts were broadly comparable to fair value at that date. The revaluation surplus of RM4,396,000 (30 September 2011: RM4,372,000; 31 December 2011: RM4,372,000) was transferred to retained earnings on date of transition to MFRS.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are provided below:

(i). Reconciliation of equity as at 1 January 2011

	FRS as at 01.01.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 01.01.2011
Equity	RM'000	RM'000	RM'000
Other reserve	4,396	(4,396)	-
Retained earnings	67,769	4,396	72,165

(ii). Reconciliation of equity as at 30 September 2011

	FRS as at 30.09.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 30.09.2011
Equity	RM'000	RM'000	RM'000
Other reserve	4,372	(4,372)	-
Retained earnings	72,764	4,372	77,136

(iii). Reconciliation of equity as at 31 December 2011

	FRS as at 31.12.2011	Note 3.1 (b) Property, plant and equipment	MFRS as at 31.12.2011
Equity	RM'000	RM'000	RM'000
Other reserve	4,372	(4,372)	-
Retained earnings	68,396	4,372	72,768

(iv). Reconciliations of total comprehensive income for the period ended 30 September 2011 and for the year ended 31 December 2011

The total comprehensive incomes for the period ended 30 September 2011 and for the year ended 31 December 2011 reported under FRS are to be the same for those periods at the date of transition under MFRS respectively.

3.2 MFRSs, Amendments to MFRSs and IC Interpretation issued but not yet effective

At the date of authorisation of these interim financial statements, the followings MFRSs, Amendments to MFRSs and IC interpretation were issued but not yet effective and have not been applied by the Group:

MFRSs, Amendments to MFRSs and IC Interpretation		Effective for annual periods beginning on or after
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits	1 January 2013
MFRS 127	Separate Financial Statements	1 January 2013
MFRS 128	Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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 2012.

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 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 2012 and 31 December 2011, which are within the Group's objectives for capital management, are as follows:

	As at 30.09.2012 RM'000	As at 31.12.2011 RM'000
Total liabilities	60,466	56,713
Total equity	144,807	147,101
Total capital	60,000	60,000
Gearing ratio	42 %	39%

The increase in the gearing ratio is mainly 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 for the financial period to date.

8. Dividends paid

	Date of payment	Current quarter ended 30.09.2012 RM'000
Dividend paid on ordinary shares:		
-Interim dividend of 5 sen per share (single-tier) for 2011	10.01.2012	6,000
-Special dividend of 10 sen per share (single-tier) for 2011	24.04.2012	12,000
-Interim dividend of 12 sen per share (single-tier) for 2012	03.10.2012	14,400
		32,400

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 30.09.2012	Biscuit manufacturing division RM'000	Beverage manufacturing division RM'000	Trading division RM'000	Total RM'000
Revenue	37,645	2,212	38,073	77,930
Profit for reportable segments	5,367	114	3,712	9,193
9 months cumulative to date				
Revenue	126,649	8,373	133,272	268,294
Profit for reportable segments	18,877	423	14,691	33,991

Reconciliation of profit or loss

Profit or loss for the financial period ended 30.09.2012	Quarter ended	Cumulative to date
	RM'000	RM'000
Total profit for reportable segments	9,193	33,991
Profit from inter-segment sales	768	634
Other income	195	536
Unallocated expenses	(676)	(2,090)
Profit before tax	9,480	33,071

10. Profit before tax

Included in the profit before tax are the following items:

	Quarter ended		9 months cumulative to date	
	30.09.2012 RM'000	30.09.2011 RM'000	30.09.2012 RM'000	30.09.2011 RM'000
Interest income	(646)	(538)	(1,778)	(1,418)
Rental income	(4)	(4)	(14)	(14)
Allowance for doubtful debts	36	11	55	79
Bad debts written off	1	2	7	17
Depreciation of property, plant and equipment	1,058	1,104	3,112	3,144
Depreciation of investment properties	1	2	2	3
Impairment of goodwill	-	8,909	-	8,909
Loss/ (Gain) on disposal of property, plant and equipment	7	(62)	(8)	(197)
Reversal of inventories written down	-	(85)	-	(85)
Inventories written off	4	66	56	168
Property, plant and equipment written off	37	12	46	91
Realised exchange losses	60	24	263	246

11. Cash and cash equivalents

Cash and cash equivalents comprised the following amounts:

	30.09.2012 RM'000	31.12.2011 RM'000	01.01.2011 RM'000
Cash at bank and in hand	5,602	6,940	9,103
Short term deposits	63,451	66,915	44,593
Total cash and cash equivalents	69,053	73,855	53,696

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 2011.

15. Capital commitments

Authorised capital commitments not recognised in the interim financial statements as at 30 September 2012 are as follows:

	RM'000
Purchase of property, plant and equipments	
Contracted but not provided for	666

16. Related party transactions

	Current quarter ended 30.09.2012 RM	9 months cumulative to date 30.09.2012 RM
Rental of premises payable to:		
-Hup Seng Brothers Holdings Sdn. Bhd. #	28,800	86,400

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

17. Performance review

The Group's revenue for the current quarter ended 30 September 2012 has increased by 7% to RM56,864,000 from RM53,238,000 in the quarter ended 30 September 2011. Strong demand from the export market for biscuits mainly contributed to the positive growth in sales.

The Group registered a profit before tax of RM9,480,000 as compared to a loss before tax of RM1,896,000 in the preceding corresponding quarter. Included in the previous corresponding quarter's administrative expenses was a non-recurring impairment of goodwill of RM8,909,000.

For the nine months ended 30 September 2012, the Group's turnover grew by 5% from RM184,674,000 to RM175,242,000 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.

Profit before tax has increased to RM33,071,000 as compared to the preceding year corresponding period of RM17,519,000 which included an impairment of goodwill amounting to RM8,909,000.The increase in profit before tax is also contributed by the cumulative effects of lower material input costs and higher sales recorded with favourable prices in domestic market and stronger volume of export market during the period.

18. Comment of material change in profit before taxation

Group's revenue has decreased by 14% to RM56,864,000 in the current quarter ended 30 September 2012 as compared to RM66,016,000 in the preceding quarter mainly due to slower off takes in the domestic market as a result of festive seasons during the quarter.

Profit before tax decreased significantly by 26% to RM9,480,000 as compared to RM12,835,000 in the preceding quarter. During the quarter, a comparatively weaker domestic demand normally associated with festive seasons depressed the sales and hence dip in earnings.

19. Commentary of prospects

The operating environment is expected to remain tough under the current environment fraught with uncertainties and challenges. However, the domestic economy seems to have cruised along relatively well judging by the strong growth performance in the first half of the year. Notwithstanding this, the impact of global economic weaknesses on the domestic economy has yet to be seen in the second half of the year. We believe the Group is able to withstand the global uncertainties and register a positive growth in revenue and earnings in the foreseeable future.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
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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 minority interest and forecast profit after tax and minority interest and for the shortfall in profit guarantee are not applicable.

21. Income tax expense

	Quarter ended		9 months cumulative to date	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	RM'000	RM'000	RM'000	RM'000
Current income tax :				
-Malaysia income tax	2,467	2,259	8,766	6,555
-Deferred taxation	86	(510)	199	(64)
	2,553	1,749	8,965	6,491

Major components of tax expenses	Current quarter ended 30.09.2012 RM'000	9 months cumulative to date 30.09.2012 RM'000
Current tax expense	2,467	8,766
Deferred tax expense	86	199
	2,553	8,965
Profit before taxation	9,480	33,071
Taxation at the Malaysian statutory tax rate of 25%	2,370	8,268
Adjustments:		
-Non-deductible expenses	207	678
-Expenses with double deduction	(24)	(95)
-Under provision in prior year	-	114
Income tax expense	2,553	8,965
Effective tax rate	26.9%	27.1%

22. Sale of unquoted investments and properties

There were no sale of unquoted investments and properties for the current quarter and financial period to date.

23. Quoted securities

There were no purchase and sale of quoted securities for the current quarter and financial period to date.

Part B: Explanatory notes pursuant to Main Market Listing Requirements of
Bursa Malaysia Securities Berhad

24. Corporate proposals

There were no corporate proposals announced but not completed not earlier than seven (7) days from 21 November 2012.

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 2012, 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 30.09.2012 RM'000	At end of preceding quarter 30.06.2012 RM'000
Total retained profits		
Realised	121,594	129,558
Unrealised	(8,193)	(8,107)
	113,401	121,451
Less: Consolidation adjustments	(42,927)	(43,504)
Retained profits as per statement of financial position	70,474	77,947

29. Changes in material litigation

There were no material litigation not earlier than seven (7) days from 21 November 2012.

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.

	Current quarter ended 30.09.2012	9 months cumulative to date 30.09.2012
(a) Basic		
Profit for the period (RM'000)	6,927	24,106
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	5.77	20.09
(b) Diluted		
Basic earnings per share (sen)	5.77	20.09

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2011 was not qualified.

33. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 November 2012.

By Order of the Board

Leong Siew Foong
Company Secretary
Johor Bahru
Dated: 21 November 2012