

Part A - Explanatory Notes Pursuant To MFRS 134

1. Basis of Preparation

The condensed consolidated interim financial statements (“Report”) have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This Report also complies with IAS 34: Interim Financial Reporting issued by the International Accounting Standards Board (“IASB”).

This condensed report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2012. The explanatory notes attached to this Report 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 financial year ended 31 December 2012.

2. Significant Accounting Policies

2.1 Adoption of new MFRSs, Amendments/Improvements to MFRSs and IC Interpretation (“IC Int”)

The accounting policies adopted for this Report are consistent with those of the last audited financial statements for the financial year ended 31 December 2012, except for the adoption of the following:

MFRSs, Amendments/Improvements to MFRSs and IC Interpretation

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interests in Other Entities
MFRS 13	Fair Value Measurement
MFRS 101	Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income
MFRS 119	Employee Benefits (International Accounting Standard (“IAS”) 19 as amended by International Accounting Standards Board (“IASB”) in June 2011)
MFRS 127	Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 128	Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards - Government Loans
Amendments to MFRS 7	Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amendments to MFRS 101	Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income
Annual Improvements 2009 - 2011 Cycle issued in July 2012	
IC Int 20	Stripping Costs in the Production of A Surface Mine

The adoption of the above pronouncements did not have any material impact on the financial statements of the Group.

2.2 Standards issued but not yet effective

At the date of authorisation of this Report, the following MFRSs and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

MFRSs and Amendments to MFRSs		Effective date
Amendments to MFRS 10,12 and 127	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements: Investment Entities	1 January 2014
Amendments to MFRS 132	Financial Instruments: Presentation - Offsetting	1 January 2014
MFRS 7	Financial Assets and Financial Liabilities	
	Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures	1 January 2015
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010)	1 January 2015

3. Auditors' Report of Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 31 December 2012 was not qualified.

4. Seasonality or Cyclicity of Operations

Generally, sales of the Group's products are higher in the second half of the financial year due to majority of the festive seasons fall within this period.

5. Items of Unusual Nature

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

6. Changes in Accounting Estimates

There were no changes in estimates of amounts reported in the prior financial year that have a material effect in the current quarter and financial period results.

7. Changes in Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial period ended 31 March 2013.

8. Dividends Paid

The following dividends were paid during the current and previous corresponding period:

	31.3.2013	31.3.2012
Third interim dividend for the financial year	31 December 2012	31 December 2011
Declared and approved on	12 December 2012	20 December 2011
Date paid	18 January 2013	18 January 2012
Dividend per share (single-tier)	5 sen	5 sen
Net dividend paid	RM3,475,939	RM3,091,400

9. Segmental Information

Segmental information is presented in respect of the Group's business segments.

	3 months ended 31.3.13 (RM'000)	3 months ended 31.3.12 (RM'000)
Segment Revenue		
Personal care	15,505	20,842
Household	1,806	3,398
Investment holding	3,450	3,100
Total revenue including inter segment sales	20,761	27,340
Elimination of inter-segment sales	(3,487)	(3,560)
Total revenue excluding inter segment sales	17,274	23,780
Interest income	8	8
	<u>17,282</u>	<u>23,788</u>
Segment Results		
Personal care	2,313	3,533
Household	96	279
Investment holding	3,527	3,174
Total results	5,936	6,986
Elimination	(3,450)	(3,100)
Results excluding inter segment sales	2,486	3,886
Interest expense	(2)	(1)
Interest income	87	90
Profit before taxation	2,571	3,975
Taxation	(686)	(1,067)
Profit for the period	<u>1,885</u>	<u>2,908</u>

10. Valuation of Property, Plant and Equipment

There were no changes in the valuation of property, plant and equipment since the last audited financial statements for the financial year ended 31 December 2012.

11. Subsequent Event

In the opinion of Directors, there were no material events subsequent to the end of the current quarter.

12. Changes in Composition of the Group

There were no changes in the composition of the Group for the financial period under review.

13. Changes in Contingent Liabilities and Contingent Assets

There were no contingent assets or contingent liabilities since the end of the last annual reporting period.

14. Capital Commitments

The outstanding capital commitment as at the end of the current quarter is as follows:

	RM'000
Contracted but not provided for:	
- Property, plant and equipment	17
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Part B: Explanatory Notes Pursuant To Appendix 9B Of The Listing Requirements Of Bursa Malaysia Securities Berhad

1. Review of Performance

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	31.3.13	31.3.12	31.3.13	31.3.12
	RM'000	RM'000	RM'000	RM'000
Revenue	17,282	23,788	17,282	23,788
Profit before taxation	2,571	3,975	2,571	3,975

Comparison with Corresponding Quarter in Previous Year

Generally, impact of seasonality on the demand for the Group's products is not that significant. The turnover for the reporting quarter was RM17.282 million as compared to RM23.788 million of the preceding year corresponding quarter. The lower turnover was mainly due to lesser orders placed during the reporting quarter.

During the quarter, the demand for personal care products was 89.72% and household products was 10.45% as compared to 87.62% and 14.29% respectively of the previous year corresponding quarter. The change was fairly usual in terms of manufacturing activities of the Group.

During the quarter under review, the Profit Before Taxation ("PBT") margin was approximately 14.88% as compared to 16.71% of the previous year corresponding quarter. The lower PBT margin was mainly due to the change in product mix, higher operating expenses inclusive therein the implementation of national minimum wage policy, as well as additional expenses incurred for upgrading of SAP software system.

2. Comparison with Immediate Preceding Quarter's Results

The Group recorded a PBT of RM2.571 million for the reporting quarter ended 31 March 2013 as compared to RM3.292 million of the immediate preceding quarter ended 31 December 2012, a decrease of approximately 21.9%.

The turnover for the reporting quarter was RM17.282 million as compared to RM16.604 million of the immediate preceding quarter, an increase of approximately 4.08%.

During the quarter under review, the PBT margin was approximately 14.88% as compared to 19.83% of the immediate preceding quarter. The lower PBT margin was mainly due to the change in product mix, higher operating expenses inclusive therein the implementation of national minimum wage policy, as well as additional expenses incurred for upgrading of SAP software system.

3. Commentary on Prospects

Generally, the market conditions of the industry are relatively stable. As the Group manufactures a wide range of products, the change in product mix may impact on profit margin of the Group.

Going forward, the Group will further strengthen its presence in overseas markets, particularly the China markets. As part of its market diversification strategy, the Group had also incorporated a company in Indonesia to achieve its business objective.

Eng Kah Enterprise Sdn. Bhd. is the winner among the three finalists for the prestigious Excellence Awards 2012 (Anugerah Kecemerlangan Industri) for External OTC (Over-The-Counter) & Cosmetics Industry, organised for the first time by the National Pharmaceutical Control Bureau, Ministry of Health, Malaysia. This award recognition has further enhanced the Group's confidence to become one of the leading contract manufacturers in the industry.

The Group's strategy will continue to focus on Multi-National Corporations ("MNC") to expand and diversify its customer base. It is also part of the Group's marketing strategy to continue in exploring other potential customers.

Barring unforeseen circumstances, the Group's performance is expected to be satisfactory for the financial year ending 31 December 2013.

4. Profit Forecast Variance

There was no profit forecast made in any public documents.

5. Profit for the Period

	Current period (Unaudited) 31.3.13 RM'000
Depreciation	660
Interest expense	2
Interest income	87
Realised (gain)/loss on foreign exchange	(6)

Other than the above items, there were no gain or loss on disposal of property, plant and equipment, quoted or unquoted investments or properties, provision for and write off of inventories or receivables, gain or loss on derivatives as well as other exceptional items.

6. Taxation

	Individual Quarter 3 Months Ended		Cumulative Quarter 3 Months Ended	
	(Unaudited) 31.3.13 RM'000	(Unaudited) 31.3.12 RM'000	(Unaudited) 31.3.13 RM'000	(Unaudited) 31.3.12 RM'000
Malaysian income tax:				
Based on results for the period				
- Current tax	(751)	(1,102)	(751)	(1,102)
- Deferred tax	22	35	22	35
	<u>(729)</u>	<u>(1,067)</u>	<u>(729)</u>	<u>(1,067)</u>
Over provision in prior year				
- Deferred tax	43	-	43	-
	<u>(686)</u>	<u>(1,067)</u>	<u>(686)</u>	<u>(1,067)</u>

The Group's effective tax rate for the current quarter and cumulative quarter ended 31 March 2013 was higher than the statutory tax rate of 25% due to certain expenses are non-deductible for tax purposes.

7. Corporate Proposal

There was no corporate proposal announced or not completed as at the date of this Report.

8. Borrowings and Debt Securities

There were no borrowings and debt securities for the financial period under review.

9. Material Litigations

A pending civil proceeding instituted by the subsidiary company, Eng Kah Enterprise Sdn. Bhd. ("EKE") (as plaintiff) against Tohtonku Sdn. Bhd. ("TSB") (as defendant) initially in Georgetown Sessions Court (2) vide Summons No.: 52-1140-1997 but has now been transferred to High Court of Malaya in Penang vide civil suit No. 22-843-2010 claiming for the following:

- (i) RM188,256.30 as at 21 August 1990 being the unpaid purchase price for goods sold and delivered;
- (ii) interest of RM14,137.04 as at 15 July 1990;
- (iii) further interests to accrue at the rate of 2% per month from 16 July 1990 until full settlement;
- (iv) RM296,288.52 as at 17 September 1990 being special damages for stock purchased and kept by EKE for TSB's use; and
- (v) interest on the said RM296,288.52 at the rate of 8.0% per annum from the date of filing of the Summons until full settlement.

The solicitors acting for EKE for the above proceeding, Messrs Ghazi & Lim, is of the opinion that EKE has a "good chance of winning" of the abovementioned suit.

TSB had on 28 January 1991 filed a counter-claim against EKE under Georgetown Sessions Court Summons No.: 52-1140-1997 for the following:

- (i) RM146,035.34;
- (ii) general damages for breach of contract;
- (iii) incentives amount of RM30,000.00;
- (iv) interest at the rate of 8% per annum from 9 February 1990 until full settlement; and
- (v) costs.

The solicitors acting for EKE in the above-mentioned proceeding, Messrs Ghazi & Lim, is of the opinion that EKE has a good chance in defending the said counter-claim.

This matter is now fixed for full trial on 11 - 12 July 2013.

10. Proposed Dividends

At the forthcoming Annual General Meeting, a final single-tier dividend of 7.5 sen per share amounting to RM5,213,909 in respect of the financial year ended 31 December 2012 will be proposed for shareholder's approval. The financial statements for the current financial period do not reflect these proposed dividends. Such dividend, if approved by the shareholders will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2013.

During the current quarter under review, the Board of Directors has declared a first interim single-tier dividend of 5 sen per share amounting to RM3,475,940 in respect of the financial year ending 31 December 2013, payable at a date to be determined later.

11. Earnings Per Share

Basis of calculation of earnings per share

The basic earnings per share for the current quarter and cumulative period to date are computed as below:

	Individual Quarter		Cumulative Quarter	
	3 Months Ended		3 Months Ended	
	31.3.13	31.3.12	31.3.13	31.3.12
Profit after taxation				
Attributable to owners of the parent (RM'000)	1,885	2,908	1,885	2,908
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	69,519	61,828	69,519	61,828
Basic earnings per share (sen)	2.71	4.70	2.71	4.70

The diluted earnings per share for the current quarter and cumulative period to date are computed as below:

	Individual Quarter		Cumulative Quarter	
	3 Months Ended	3 Months Ended	3 Months Ended	3 Months Ended
	31.3.13	31.3.12	31.3.13	31.3.12
Profit after taxation				
Attributable to owners of the parent (RM'000)	1,885	2,908	1,885	2,908
Weighted average number of shares ('000):				
Weighted average number of ordinary shares in issue ('000)	69,519	61,828	69,519	61,828
Adjustment for dilutive effect on exercise of ESOS options ('000)	503	1,010	503	1,010
	<u>70,022</u>	<u>62,838</u>	<u>70,022</u>	<u>62,838</u>
Diluted earnings per share (sen)	<u>2.69</u>	<u>4.63</u>	<u>2.69</u>	<u>4.63</u>

12. Realised and Unrealised Profits

	31.3.13	31.12.12
	(RM'000)	(RM'000)
Total retained profits of the Company and its subsidiaries		
- Realised	40,599	38,779
- Unrealised	(2,101)	(2,166)
	<u>38,498</u>	<u>36,613</u>
Less: Consolidation adjustments	(27,776)	(27,776)
	<u>10,722</u>	<u>8,837</u>