

SKP RESOURCES BHD

(Company No: 524297-T)

Explanatory notes pursuant to MFRS 134 For the twelve-month period ended 31 March 2014

1. Corporate information

SKP Resources Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 20 May 2014.

2. Basis of preparation

These condensed interim financial statements, for the period ended 31 March 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. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards board.

The consolidated financial statements of the Group for the year ended 31 March 2013, which were prepared under MFRS are available upon request from the Company registered office at Level 7, Menara Milenium Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur.

The interim financial statements should be read in conjunction with the Group's annual audited financial statements for the year ended 31 March 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 March 2013.

3. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and revised MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 July 2012 and 1 January 2013:

MFRSs, Amendments to FRSs and Interpretations

MFRS 101 Presentation of Items of Other Comprehensive Income (Amendments to MFRS 101).
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10 Consolidated Financial Statements
MFRS 11 Joint Arrangements
MFRS 12 Disclosure of interests in Other Entities
MFRS 13 Fair Value Measurement
MFRS119 Employee Benefits
MFRS 127 Separate Financial Statements
MFRS 128 Investment in Associate and Joint Ventures
MFRS 127 Consolidated and Separate Financial Statements (IAS 27 as revised by IASB in December 2003)
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)

The Board of Directors expects the Group to remain profitable fuels by strong order books from existing customers which will contribute p
Amendments to MFRS 7: Disclosures – Offsetting Financial Assets and Financial Assets and Financial Liabilities
Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards – Government Loans

The Board is optimistic that with the strong existing business base coupled with the expansion plan which was announced on 14 May 2014, 2 April 2014 and 28 March 2014 that the Company will be incurring approximately RM34 million capital expenditures to increase its production capacity, the Group would be moving towards another promising year for the financial year ending 31 March 2015.

Amendments to MFRS 134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance
Amendments to MFRS 11: Joint Arrangement: Transition Guidance
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance

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Standards, amendments and interpretations issued but not yet effective

Standards, amendments and interpretations issued but not yet effective up to the date of issuance of the Group's and Company's financial statements are listed below. The Group intends to adopt, where applicable, these standards, amendments and interpretations

(a) Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities

(b) Effective for annual periods beginning on or after 1 January 2015

MFRS 9 Financial Instruments

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 on Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novation.

4. Change in estimates

There were no significant changes in estimates that have had a material effect in the current interim results.

5. Changes in composition of the Group

There were no changes in composition of the Group for the current financial quarter.

6. Segment information

Segment information is not prepared as the Group is principally involved in manufacturing of plastic products, which is predominantly carried out in Malaysia.

7. Seasonality of operations

The business operations of the Group are not significantly affected by any seasonal factors.

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8. Profit before tax

Included in the profit before tax are the following items :

	Current quarter 3 months ended		Cumulative quarters 12 months ended	
	31 Mar 2014 RM'000	31 Mar 2013 RM'000	31 Mar 2014 RM'000	31 Mar 2013 RM'000
Interest income	(278)	(614)	(1,439)	(2,243)
Interest expense	-	-	-	1
Depreciation and amortisation	2,091	2,165	8,392	8,755
(Gain) / Loss on disposal of property, plant and equipment	47	(49)	42	(65)
(Gain) / loss on foreign exchange - realised	(580)	(1,210)	(580)	(1,210)
(Gain) / loss on foreign exchange - unrealised	(132)	(127)	(132)	(127)

9. Income tax expense

	Current quarter 3 months ended		Cumulative quarters 12 months ended	
	31 Mar 2014 RM'000	31 Mar 2013 RM'000	31 Mar 2014 RM'000	31 Mar 2013 RM'000
Current income tax				
- Malaysia income tax	2,089	1,744	9,299	13,812
- Overprovision in respect of previous years	-	(41)	-	(41)
	<u>2,089</u>	<u>1,703</u>	<u>9,299</u>	<u>13,771</u>
Deferred tax				
- Origination and reversal of temporary difference	684	114	684	114
- Under provision in respect of previous years	-	354	-	354
	<u>684</u>	<u>468</u>	<u>684</u>	<u>468</u>
Income tax expense recognised in profit or loss	<u>2,773</u>	<u>2,171</u>	<u>9,983</u>	<u>14,239</u>

The effective tax rate of the Group for the current quarter and financial year to-date is lower than the statutory income tax rate due to the utilisation of reinvestment allowances of subsidiaries.

10. Earnings Per Share

Basic earnings per share amounts are calculated by dividing profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period held by the Company.

Diluted earnings per share amounts are calculated by dividing profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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The following reflect the profit and share data used in the computation of basic and diluted earnings per share:

	Current quarter 3 months ended		Cumulative quarters 12 months ended	
	31 Mar 2014 <u>RM'000</u>	31 Mar 2013 <u>RM'000</u>	31 Mar 2014 <u>RM'000</u>	31 Mar 2013 <u>RM'000</u>
Profit net of tax attributable to owners of the parent used in the computation of earnings per share (RM'000)	8,247	7,048	30,080	39,550
Weighted average number of ordinary shares in issue ('000)	900,000	900,000	900,000	900,000
Effects of dilution : Warrants	-	-	-	-
Weighted average number of ordinary shares for diluted earnings per share computation ('000)	900,000	900,000	900,000	900,000
Basic earnings per share (sen per share)	0.92	0.78	3.34	4.39
Diluted earnings per share (sen per share)	0.92	0.78	3.34	4.39

The effect on the basic earnings per share for the current financial period arising from the assumed conversion of the warrants is anti-dilutive. Accordingly, the diluted earnings per share for the current period is presented as equaled to the basic earnings per share.

11. Property, plant and equipment

During the year ended 31 March 2014, the Group acquired assets at a cost of RM13,860,000 (31 March 2013: RM7,408,000).

Assets with a carrying amount of RM483,000 were disposed of by the Group during the year ended 31 March 2014 (31 March 2013: RM498,000), resulting in a loss on disposal of RM42,000 (31 March 2013: gain of RM65,000), recognised and included in other income in the statement of comprehensive income.

12. Inventories

There was no write-down of inventories to net realisable value for the current quarter (31 March 2013: Nil).

13. Cash and cash equivalents

Cash and cash equivalents comprised of the following amounts:

	31 Mar 2014 <u>RM'000</u>	31 Mar 2013 <u>RM'000</u>
Cash at bank and in hand	16,641	19,835
Short term deposits with financial institution	4,500	71,781
Money market funds	71,984	-
Total cash and cash equivalents	<u>93,125</u>	<u>91,616</u>

There is no maturity period for money market funds as these money are callable on demand.

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14. Fair value hierarchy

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs that are based on observable market data, either directly or indirectly

Level 3 – Inputs that are not based on observable market data

As at the reporting date, the Group held the following financial assets that are measured at fair value:

	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Available-for-sale financial assets				
Quoted investment - Bond Fund	1,456	1,456	-	-
Held-to-maturity investment				
Fixed deposits with licensed bank	239	239	-	-
	<u>1,695</u>	<u>1,695</u>	<u>-</u>	<u>-</u>
31 March 2013				
Available-for-sale financial assets				
Quoted investment - Bond Fund	1,456	1,456	-	-
Held-to-maturity investment				
Fixed deposits with licensed bank	850	850	-	-
	<u>2,306</u>	<u>2,306</u>	<u>-</u>	<u>-</u>

No transfers between any levels of the fair value hierarchy took place during the current interim period and the comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore represents the potential credit risk.

There were no assets being disposed off during the current quarter and preceding quarter.

15. Dividends

No interim dividend has been declared for the financial period ended 31 March 2014 (31 March 2013: Nil)

On 29 February 2012, the Board of Directors announced that the Company has adopted a dividend policy where SKP will endeavour to distribute a minimum of 50% of its after tax profits annually to shareholders with effect from the financial year ending 31 March 2012.

The Company will endeavour to maintain the dividend policy subject to amongst others, factors such as the availability of distributable reserves as well as the Company's future cash flow or capital expenditure requirements, investment opportunities, regulatory and statutory restrictions and market conditions.

16. Commitment

	31 Mar 2014 RM'000	31 Mar 2013 RM'000
Capital expenditure		
Approved but not contracted for:		
Property, plant and equipment	26,000	-

17. Contingencies

There were no contingent assets and no changes in the contingent liability for the Group for the current financial period to date.

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18. Related party transactions

Transactions that have been entered into are in the normal course of business and have been established under mutually agreed terms that are not materially different from those obtainable in transactions with unrelated parties.

19. Events after the reporting period

There were no material events subsequent to the end of the current quarter.

20. Performance review

The Group recorded a turnover of RM425.51 million with profit before tax of RM40.06 million for the current financial year to date as compared to RM423.29 million and RM53.79 million in the preceding year corresponding period respectively.

Compared to last year, profit before tax was lower mainly due to different products mix during the period as well as the impact from implementation of minimum wage policy.

21. Comment on material change in profit before tax

	Current Quarter 2014 <u>RM'000</u>	Preceding Quarter 31/12/2013 <u>RM'000</u>	Variance <u>%</u>
Revenue	123,286	87,782	40.4%
Profit before taxation	11,020	7,310	50.8%

Compared with preceding quarter, the revenue had increased by 40.4% from RM87.78 million to RM123.28 million. Profit before tax also increased from RM7.31 million in last quarter to RM11.02 million mainly due to increase in revenue during the period as well as different products mix.

22. Commentary on prospects

The Board of Directors expects the Group to remain profitable fuels by strong order books from existing customers which will contribute positively to the Group's performance for the financial year ending 31 March 2015.

The Board is optimistic that with the strong existing business base coupled with the expansion plan which was announced on 14 May 2014, 2 April 2014 and 28 March 2014 that the Company will be incurring approximately RM34 million capital expenditures to increase its production capacity, the Group would be moving towards another promising year for the financial year ending 31 March 2015.

23. Profit forecast or profit guarantee

Not applicable as no profit forecast or profit guarantee announced as at the date of this quarterly report.

24. Corporate proposals

There were no corporate proposals announced but not completed as at to date.

25. Changes in material litigation

There were no material litigation as at the date of this quarterly report.

26. Dividend payable

No dividend was paid during the current quarter.

27. Disclosure of nature of outstanding derivatives

There are no outstanding derivative as at reporting period.

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28. Rationale for entering into derivatives

The Group did not enter into any derivatives during the year ended 31 March 2014 or the previous financial year ended 31 March 2013.

29. Risks and policies of derivatives

The Group did not enter into any derivatives during the period ended 31 March 2014 or the previous financial year ended 31 March 2013.

30. Disclosure of gains / losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit or loss as at 31 March 2014 and 31 March 2013.

31. Breakdown of realised and unrealised profits or losses

The breakdown of the retained profits of the Group as at 31 March 2014 and 31 March 2013 into realised and unrealised profits is presented in accordance with the directives issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and 20 December 2010, prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysia Institute of Accountants.

The breakdown of the retained profits of the Group as at 31 March 2014 into realised and unrealised profits, is as follows :

	Current year ended 31 Mar 2014 RM'000	Previous financial year ended 31 March 2013 RM'000
Total retained profits of the Group		
- Realised	189,058	166,352
- Unrealised	(9,017)	(7,524)
	<u>180,041</u>	<u>158,828</u>
Less : Consolidated adjustment	(49,561)	(50,328)
Total group retained earnings as per financial statements	<u>130,480</u>	<u>108,500</u>

32. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 March 2013 was not qualified.