

EP MANUFACTURING BHD.

(Company No. 390116-T)

Interim Financial Report for the Second Quarter ended 30 June 2013

A Notes to the Interim Financial Statements Pursuant to Malaysian Financial Reporting Standards (“MFRS”) 134

A1. Basis of preparation

These condensed consolidated interim financial statements for the second quarter ended 30 June 2013 are unaudited and have been prepared in accordance with MFRS 134: *Interim Financial Reporting* and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. They do not include all of the information required for a full annual financial statements.

The unaudited interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2012. The explanatory notes attached to the unaudited interim financial 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.

A2. Changes in accounting policies

The significant accounting policies and methods of computation adopted in these interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2012 except for the adoption of the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but are 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 1 January 2014

- Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

MFRSs, Amendments to MFRSs and IC Interpretation effective for annual periods beginning on or after 1 January 2015

- MFRS 9 Financial Instruments (2009)
- MFRS 9 Financial Instruments (2010)
- Amendments to MFRS 7 Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosure

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A2. Changes in accounting policies (continued)

The initial application of the above standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

A3. Audit qualifications

The audited financial statements of the Group for the financial year ended 31 December 2012 was not subject to any qualification.

A4. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no items affecting assets, liabilities, equity, net income, or cash flows that were unusual in nature, size or incidence during this financial period-to-date.

A5. Material changes in estimates

There were no changes in nature and amount of changes in estimates of amounts reported in current financial period or changes in estimates of amounts reported in prior financial years that have a material effect in the financial period-to-date.

A6. Changes in the composition of the Group

There are no changes in the composition of the Group for the quarter under review.

A7. Seasonality or cyclicity of operations

The business operations of the Group were not materially affected by any seasonal or cyclical factors.

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A8. Segmental information

Segment information is presented in respect of the Group's business segment:

(a) For individual quarter

	Automotive		Water		Consolidated	
	3 months ended 30/06/2013	3 months ended 30/06/2012	3 months ended 30/06/2013	3 months ended 30/06/2012	3 months ended 30/06/2013	3 months ended 30/06/2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE:						
Total revenue	127,227	122,838	237	8,175	127,464	131,013
Less: Inter-segment revenue	(12,188)	(6,386)	-	-	(12,188)	(6,386)
Revenue from external customers	115,039	116,452	237	8,175	115,276	124,627
RESULTS:						
Profit before taxation	6,597	8,143	(446)	(195)	6,151	7,948
Profit before taxation includes:						
Depreciation and amortisation	(6,176)	(11,619)	(138)	(223)	(6,314)	(11,842)
Interest income	313	127	14	-	327	127
Interest expense	(3,187)	(2,365)	(2)	(54)	(3,189)	(2,419)

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A8. Segmental information (Cont'd)

Segment information is presented in respect of the Group's business segment:
(Cont'd)

(b) For cumulative period

	Automotive		Water		Consolidated	
	6 months ended 30/06/2013	6 months ended 30/06/2012	6 months ended 30/06/2013	6 months ended 30/06/2012	6 months ended 30/06/2013	6 months ended 30/06/2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE:						
Total revenue	241,844	257,723	366	14,604	242,210	272,327
Less: Inter-segment revenue	(16,533)	(9,996)	-	-	(16,533)	(9,996)
Revenue from external customers	255,311	247,727	366	14,604	255,677	262,331
RESULTS:						
Profit before taxation	14,710	19,125	(1,027)	(660)	13,683	18,465
Profit before taxation includes:						
Depreciation and amortisation	(13,844)	(29,485)	(284)	(324)	(14,128)	(29,809)
Interest income	574	198	14	-	588	198
Interest expense	(6,263)	(4,786)	(3)	(141)	(6,267)	(4,926)

A9. Valuation of property, plant and equipment

The valuations of certain property, plant and equipment have been brought forward without amendment from the latest audited annual financial statements.

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A10. Capital commitments

Capital commitments not provided for in the financial statements as at 30 June 2013 are as follows:

	RM'000
Property, plant and equipment	
Authorized but not contracted for and payable	9,326
Contracted but not provided for and payable	27,603
	<hr/>
	36,929
	<hr/>

A11. Changes in contingent liabilities or contingent assets

The changes in contingent liabilities since 31 December 2012 are summarised as follows:-

	RM'000
Balance as at 31 December 2012	207,731
Additional corporate guarantee issued to financial institutions for banking facilities granted to the subsidiaries	7,638
	<hr/>
Balance as at 30 June 2013	215,369
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A12. Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the quarter under review except for 20,000 ordinary shares of RM1.00 each were repurchased in the open market for a total consideration of RM15,600.00 or at an average purchase cost of approximately RM0.74 per share. The shares bought back are held as treasury shares.

As at 30 June 2013, total shares bought back and held as treasury shares were 6,666,700 shares.

A13. Related party transactions

The Group has significant related party transactions with companies in which certain directors of the Company have interests. Related parties are those defined under MFRS 124 Related Party Disclosures. Transactions with these related parties have been entered into in the normal course of business and have been established under arms length basis.

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A14. Material events subsequent to the end of the financial year

There were no material events subsequent to the current quarter ended 30 June 2013 up to the date of this report.

A15. Dividends Paid

There is no dividend paid during the quarter under review.

B. Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1. Review of the performance

Current Quarter

Revenue of the Group for the current quarter was lower than the preceding year corresponding quarter, due to reduction in sales from automotive and water segments. Accordingly, the Group registered a lower profit by RM3.5mil for current quarter compared to preceding year corresponding quarter.

B2. Comparison with Immediate Preceding Quarter

The Group revenue was 4.4% higher than the preceding quarter, contributed from higher sales from automotive.

The Group profit for the current quarter was RM2.0mil lower than the preceding quarter mainly arose from lower sales from automotive.

B3. Prospects for coming financial year

The operating environment continues to be challenging. However the Group believes that the demand for local automotive still remains positive. The Board remains confident that the Group will continue to register satisfactory performance.

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B4. Profit forecast or profit guarantee

There were no profit forecast or profit guarantee issued by the Group during the financial period-to-date.

B5. Tax expense

	Individual Quarter		Cumulative Period	
	Current year quarter ended 30/06/2013 RM'000	Preceding year corresponding quarter ended 30/06/2012 RM'000	Current year- to-date 30/06/2013 RM'000	Preceding year-to-date 30/06/2012 RM'000
Income tax:				
-Current year	1,051	192	1,521	1,048
-Prior years	-	-	-	-
	<u>1,051</u>	<u>192</u>	<u>1,521</u>	<u>1,048</u>
Deferred tax:				
-Current year	1,545	1,034	3,017	2,001
-Prior years	-	(300)	-	(300)
	<u>1,545</u>	<u>734</u>	<u>3,017</u>	<u>1,701</u>
	<u>2,596</u>	<u>926</u>	<u>4,538</u>	<u>2,749</u>

The effective tax rate of the Group for the current quarter was higher than the statutory tax rate mainly due to expenses not deductible for tax purposes and no deferred tax assets recognised for certain subsidiaries.

B6. Status of corporate proposals

On 16 May 2013, Maybank Investment Bank Berhad and ZJ Advisory Sdn Bhd (collectively "Joint Advisers") on behalf of the Board have announced that the Company, Maju Expressway Sdn Bhd ("MESB"), Bright Focus Berhad ("BFB") and Ulimas Sdn Bhd ("Ulimas") had agreed that the Acquisition Agreement be terminated.

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B7. Group borrowings and debt securities

The group borrowings as at 30 June 2013 are as follows:

	RM'000
Non-current	
- Finance lease liabilities	670
- Bai Bithaman Ajil facilities	30,702
- Term loans	32,574
	<hr/> 63,946 <hr/>
Current	
- Finance lease liabilities	377
- Bankers' acceptance	133,481
- Bai Bithaman Ajil facilities	9,390
- Term loans	9,222
	<hr/> 152,470 <hr/>
Total	<hr/> 216,416 <hr/>

The above borrowings are secured and denominated in Ringgit Malaysia.

B8. Changes in material litigation

On 5 April 2013, Circle Ring Network Sdn Bhd ("CRN"), a wholly-owned subsidiary of the Company received a writ of summon and a statement of claim dated 1 April 2013 from Salcon Engineering Berhad ("Salcon"), for the sum of RM11,111,606.20 ("Sum") together with a claim for interest for the Sum with reference to the total amount invoiced for the supply of water meters by CRN to Salcon. Based on legal advice, CRN has a good defense to the claim and the Company had filed the Memorandum of Appearance and the Defence and Counter Claim. The amount claimed was amended to RM10,079,126.20 with interest via a Notice of Application for amendment filed by Salcon's lawyer and the judge has set 4 September 2013 to hear the application. Case Management has been held on 17 July 2013 and the trial dates were set on 7th to 10th October 2013.

B9. Dividend

The Board of Directors does not declare any dividend for the financial period-to-date.

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B10.Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to owners of the Company for the period divided by the weighted average number of ordinary shares:

	Individual Quarter		Cumulative Period	
	Current year quarter ended 30/06/2013	Preceding year corresponding quarter ended 30/06/2012	Current year-to-date 30/06/2013	Preceding year-to-date 30/06/2012
Profit for the period attributable to owners of the Company (RM'000)	3,574	7,062	9,181	15,801
Weighted average number of ordinary shares ('000)	159,303	159,361	159,303	159,361
Basic earnings per share (sen)	2.24	4.43	5.76	9.92
Diluted earnings per share (sen)	N/A	N/A	N/A	N/A

No diluted EPS is disclosed in these condensed consolidated interim financial statements as there are no dilutive potential ordinary shares.

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B11. Notes to the Statement of Comprehensive Income

	Individual Quarter		Cumulative Period	
	Current year quarter ended 30/06/2013 RM'000	Preceding year corresponding quarter ended 30/06/2012 RM'000	Current year-to-date 30/06/2013 RM'000	Preceding year-to-date 30/06/2012 RM'000
Interest income	327	127	588	198
Other income	1,921	1,309	3,540	4,186
Interest expense	(3,189)	(2,419)	(6,267)	(4,926)
Depreciation and amortisation	(6,314)	(11,842)	(14,128)	(29,809)
Provision for and write off of inventories	(296)	(3)	(669)	(3)
Impairment of assets	-	(1,211)	-	(2,479)
Foreign exchange gain/(loss)	20	431	(397)	1,936

The above disclosure is prepared in accordance with the paragraph 16 of Appendix 9B of the Main Listing Requirements ("MLR") issued by Bursa Malaysia Securities Berhad. Except for the above, the rest of the items required for disclosures pursuant to Paragraph 16 of MLR are not applicable to the Group.

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B12. Realized and Unrealized Profits

The breakdown of the retained profits of the Group as at 30 June 2013 into realized and unrealized profits, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirement are as follows:

	Current year quarter ended 30/06/2013 RM'000	As at end of 31/12/2012 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realized	209,996	177,791
- Unrealized	(7,766)	16,942
	<hr/> 202,230	<hr/> 194,733
Less: Consolidation adjustments	(52,066)	(52,157)
Total retained earnings as per statement of financial positions	<hr/> 150,164	<hr/> 142,576

The determination of realized and unrealized profits is compiled based on Guidance on Special Matter No. 1 *Determination of Realized and Unrealized Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realized and unrealized profits above is solely for the purposes of complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

By order of The Board
EP Manufacturing Bhd.

Tay Li Li
Company Secretary
Shah Alam
Date: 30 August, 2013