

# EP MANUFACTURING BHD.

(Company No. 390116-T)

Interim Financial Report for the Third Quarter ended 30 September 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 third quarter ended 30 September 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
- Amendments to MFRS 136, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

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## **A2. Changes in accounting policies (continued)**

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

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**

On 3 October 2013, Peps-JV (M) Sdn Bhd, a wholly-owned subsidiary acquired the entire equity interest representing 2 ordinary shares of RM1.00 each in Peps-JV (Melaka) Sdn Bhd (formerly known as EPTS Manufacturing Sdn Bhd) from EP Polymers (M) Sdn Bhd, another wholly-owned subsidiary of the Company for a cash consideration of RM2.00. After this internal re-organisation, Peps-JV (Melaka) Sdn Bhd became a wholly-owned subsidiary of Peps-JV (M) Sdn Bhd.

## **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 30/09/2013	3 months ended 30/09/2012	3 months ended 30/09/2013	3 months ended 30/09/2012	3 months ended 30/09/2013	3 months ended 30/09/2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>REVENUE:</b>						
Total revenue	125,476	126,326	4	1,767	125,480	128,093
Less: Inter-segment revenue	(9,329)	(1,054)	-	-	(9,329)	(1,054)
Revenue from external customers	116,147	125,260	4	1,767	116,151	127,027
<b>RESULTS:</b>						
Profit before taxation	5,216	10,373	(197)	(2,971)	5,019	7,402
Profit before taxation includes:						
Depreciation and amortisation	(9,245)	(8,042)	(133)	(160)	(9,378)	(8,202)
Interest income	149	302	6	-	155	302
Interest expense	(2,763)	(2,756)	(1)	(82)	(2,764)	(2,838)

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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	
	9 months ended 30/09/2013	9 months ended 30/09/2012	9 months ended 30/09/2013	9 months ended 30/09/2012	9 months ended 30/09/2013	9 months ended 30/09/2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>REVENUE:</b>						
Total revenue	367,321	384,038	370	16,371	367,691	400,409
Less: Inter-segment revenue	(25,863)	(11,051)	-	-	(25,863)	(11,051)
Revenue from external customers	341,458	372,987	370	16,371	341,828	389,358
<b>RESULTS:</b>						
Profit before taxation	19,926	29,496	(1,224)	(3,631)	18,702	25,865
Profit before taxation includes:						
Depreciation and amortisation	(23,089)	(37,457)	(417)	(484)	(23,506)	(37,941)
Interest income	723	499	20	-	743	499
Interest expense	(9,027)	(7,542)	(4)	(223)	(9,031)	(7,765)

## 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 September 2013 are as follows:

	RM'000
<b>Property, plant and equipment</b>	
Authorized but not contracted for and payable	-
Contracted but not provided for and payable	39,465
	<u>39,465</u>

## 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	5,531
Balance as at 30 September 2013	<u>213,262</u>

## 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 5,000 ordinary shares of RM1.00 each were repurchased in the open market for a total consideration of RM3,825.00 or at purchase cost of RM0.765 per share. The shares bought back are held as treasury shares.

As at 30 September 2013, total shares bought back and held as treasury shares were 6,671,700 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 September 2013 up to the date of this report.

## **A15. Dividends Paid**

In respect of the financial year ended 31 December 2012, a tax exempt final dividend of 2 sen per share amounted to RM3,185,866 was paid on 18 July 2013.

## **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 RM3.2mil for current quarter compared to preceding year corresponding quarter.

### **B2. Comparison with Immediate Preceding Quarter**

The Group revenue was 0.76% higher than the preceding quarter, contributed from higher sales from automotive. Accordingly, the Group registered a higher profit by 2.14% for current quarter compared to preceding year corresponding quarter.

### **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 30/09/2013 RM'000	Preceding year corresponding quarter ended 30/09/2012 RM'000	Current year- to-date 30/09/2013 RM'000	Preceding year-to-date 30/09/2012 RM'000
<b>Income tax:</b>				
-Current year	2,144	51	3,665	1,099
-Prior years	-	-	-	-
	<u>2,144</u>	<u>51</u>	<u>3,665</u>	<u>1,099</u>
<b>Deferred tax:</b>				
-Current year	(756)	192	2,261	1,619
-Prior years	-	311	-	584
	<u>(756)</u>	<u>503</u>	<u>2,261</u>	<u>2,203</u>
	<b>1,388</b>	<b>554</b>	<b>5,926</b>	<b>3,302</b>

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

There were no new or outstanding corporate proposals announced which have not been completed as at the date of this report.

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## B7. Group borrowings and debt securities

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

	RM'000
Non-current	
- Finance lease liabilities	593
- Bai Bithaman Ajil facilities	28,342
- Term loans	30,197
	<hr/> 59,132 <hr/>
Current	
- Finance lease liabilities	355
- Bankers' acceptance	136,116
- Bai Bithaman Ajil facilities	9,278
- Term loans	9,329
	<hr/> 155,078 <hr/>
Total	<hr/> 214,210 <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. Case Management was held on 17 July 2013. Further to the trials held on 7 to 10 October 2013, the Court continued trials of the matter on 29 October 2013 and 6 to 7 November 2013.

However, hearing dates on 6 and 7 November 2013 has been vacated and the Court has fixed for continued hearing of the matter on 22 to 24 January 2014 and 24 February 2014.

## B9. Dividend

The Board has declared a first tax exempt interim dividend of 1 sen per share for the financial year ending 31 December 2013 to be paid on 20 January 2014 to the Depositors registered in the Record of Depositors at the close of business on 3 January 2014.



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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 30/09/2013	Preceding year corresponding quarter ended 30/09/2012	Current year-to-date 30/09/2013	Preceding year-to-date 30/09/2012
Profit for the period attributable to owners of the Company (RM'000)	3,649	6,870	12,830	22,670
Weighted average number of ordinary shares ('000)	159,302	159,350	159,302	159,350
Basic earnings per share (sen)	2.29	4.31	8.05	14.23
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 30/09/2013 RM'000	Preceding year corresponding quarter ended 30/09/2012 RM'000	Current year-to-date 30/09/2013 RM'000	Preceding year-to-date 30/09/2012 RM'000
Interest income	155	302	743	499
Other income	2,305	1,589	5,845	5,776
Interest expense	(2,764)	(2,838)	(9,031)	(7,765)
Depreciation and amortisation	(9,378)	(8,202)	(23,506)	(37,941)
Provision for and write off of inventories	225	(31)	(445)	(34)
Impairment of assets	-	(1,211)	-	(3,690)
Foreign exchange gain/(loss)	(498)	(164)	(895)	1,772

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 September 2013 into realized and unrealized profits, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirement are as follows:

	<b>Current year quarter ended 30/09/2013 RM'000</b>	<b>As at end of 31/12/2012 RM'000</b>
Total retained earnings of the Company and its subsidiaries:		
- Realized	210,333	177,791
- Unrealized	(7,659)	16,942
	<hr/> 202,674	<hr/> 194,733
Less: Consolidation adjustments	(52,047)	(52,157)
Total retained earnings as per statement of financial positions	<hr/> 150,627	<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: 28 November, 2013