

EP MANUFACTURING BHD.

(Company No. 390116-T)

Interim Financial Report for the Second Quarter ended 30 June 2015

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 2015 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 2014. 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 2014.

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 2014 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 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*

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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 July 2014 (continued)

- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptance Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018¹

- MFRS 9, *Financial Instruments (2014)²*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

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.

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A3. Audit qualifications

The audited financial statements of the Group for the financial year ended 31 December 2014 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 year 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 were 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.

A8. Segmental information

During the current reporting period, the Group operates under one main business segment which is Automotive. The information contain in the Condensed statement of profit or loss and other comprehensive income represent the Automotive segment.

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 2015 are as follows:

	RM'000
Property, plant and equipment	
Authorized but not contracted for	32,260
Contracted but not provided for	57,548
	<u>89,808</u>

A11. Changes in contingent liabilities or contingent assets

The changes in contingent liabilities since 31 December 2014 are summarised as follows:-

	RM'000
Balance as at 31 December 2014	139,644
Movement in corporate guarantee issued to financial institutions for banking facilities granted to the subsidiaries	<u>(23,279)</u>
Balance as at 30 June 2015	<u>116,365</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.

As at 30 June 2015, total shares bought back and held as treasury shares were 6,712,700 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 2015 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 17.2% lower than the preceding year corresponding quarter arose from lower sales from automotive and consequentially, it registered a lower profit by RM4.7mil

B2. Comparison with Immediate Preceding Quarter

The Group revenue was 11.4% lower than the preceding quarter arose from lower sales from automotive. Accordingly, the Group recorded lower profit by RM2.1mil for current quarter compared to the immediate preceding quarter.

B3. Prospects for coming financial year

The operating environment continues to be challenging. The Group expected the demand for local automotive to be sustainable and will impact the Group's performance accordingly.

B4. Profit forecast or profit guarantee

There were no profit forecast or profit guarantee issued by the Group during the financial year.

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B5. Tax expense

	Individual Quarter		Cumulative Period	
	Current year quarter ended 30/06/2015 RM'000	Preceding year corresponding quarter ended 30/06/2014 RM'000	Current year-to-date 30/06/2015 RM'000	Preceding year-to-date 30/06/2014 RM'000
<u>Income tax:</u>				
-Current year	1,883	2,275	3,570	3,451
-Prior years	-	-	-	-
	1,883	2,275	3,570	3,451
<u>Deferred tax:</u>				
-Current year	(416)	(41)	(593)	75
-Prior years	-	-	-	-
	(416)	(41)	(593)	75
	1,467	2,234	2,977	3,526

The effective tax rate of the Group for the current quarter was higher than the statutory tax rate mainly due to certain expenses not deductible for tax purposes and no deferred tax assets recognized 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 June 2015 are as follows:

	RM'000
Non-current	
- Finance lease liabilities	1,209
- Bai Bithaman Ajil facilities	10,739
- Term loans	72,676
	<u>84,624</u>
Current	
- Finance lease liabilities	473
- Bankers' acceptance	127,181
- Bai Bithaman Ajil facilities	10,152
- Term loans	22,798
	<u>160,604</u>
Total	<u>245,228</u>

The above borrowings are secured and denominated in Ringgit Malaysia.

B8. Changes in material litigation

As at the date of this report, there is no pending material litigation.

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 30/06/2015	Preceding year corresponding quarter ended 30/06/2014	Current year-to-date 30/06/2015	Preceding year-to-date 30/06/2014
Profit for the period attributable to owners of the Company (RM'000)	568	5,117	3,081	8,386
Weighted average number of ordinary shares ('000)	159,267	159,288	159,267	159,288
Basic earnings per share (sen)	0.36	3.21	1.93	5.26
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 30/06/2015 RM'000	Preceding year corresponding quarter ended 30/06/2014 RM'000	Current year-to-date 30/06/2015 RM'000	Preceding year-to-date 30/06/2014 RM'000
Interest income	151	325	374	519
Other income	2,431	1,734	4,359	3,211
Interest expense	(3,238)	(2,883)	(6,525)	(5,597)
Depreciation and amortisation	(16,292)	(10,777)	(32,836)	(20,150)
Foreign exchange gain/(loss)	216	51	(1)	(416)

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 2015 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 30/06/2015 RM'000	As at end of 31/12/2014 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realized	176,214	176,570
- Unrealized	14,235	15,823
	<hr/>	<hr/>
	190,449	192,393
Less: Consolidation adjustments	(27,222)	(27,470)
Total retained earnings as per statement of financial positions	<hr/>	<hr/>
	163,227	164,923

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: 25 August 2015