

EP MANUFACTURING BHD.

(Company No. 390116-T)

Interim Financial Report for the Fourth Quarter ended 31 December 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 fourth quarter ended 31 December 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, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*

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A2. Changes in accounting policies (continued)

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

- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

- MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfer of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The initial application of the accounting standards, amendments and interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group.

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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 year-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 year-to-date.

A6. Changes in the composition of the Group

On 16 February 2016, Peps-JV (M) Sdn Bhd ("Peps-JV"), a wholly-owned subsidiary of the Company, incorporated a joint venture company with Y-tec Corporation ("Y-tec") known as Peps Y-tec (Malaysia) Sdn Bhd ("Peps Y-tec"). Peps-JV and Y-tec each subscribed for 6 ordinary shares and 4 ordinary shares of RM1.00 each, representing 60% and 40% equity shareholdings of Peps Y-tec respectively.

There were no other 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.

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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.

A10. Capital commitments

Capital commitments not provided for in the financial statements as at 31 December 2015 are as follows:

	RM'000
Property, plant and equipment	
Authorized but not contracted for	9,238
Contracted but not provided for	112,816
	<u>122,054</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	(22,035)
Balance as at 31 December 2015	<u>117,609</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 31 December 2015, total shares bought back and held as treasury shares were 6,714,700 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 31 December 2015 up to the date of this report.

A15. Dividends Paid

In respect of financial year ended 31 December 2015, a first single tier interim dividend of 0.5 sen per share amounted to RM796,227 was paid on 22 January 2016.

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 0.6% higher than the preceding year corresponding quarter, contributed from higher sales from automotive.

The Group registered a lower profit by RM6.5mil for current quarter compared to preceding year corresponding quarter due to changes in sales mixed and volume.

B2. Comparison with Immediate Preceding Quarter

The Group revenue was 15.8% higher than the preceding quarter, arose from higher sales from automotive.

Profit is lower by RM0.3mil for current quarter compared to immediate preceding quarter due to provision of income tax.

B3. Prospects for coming financial year

The operating environment continues to be challenging due to weaker demand for motor vehicles. However, the Board remains confident that the Group will continue to be competitive in the automotive industry.

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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 year.

B5. Tax expense

	Individual Quarter		Cumulative Period	
	Current year quarter ended 31/12/2015 RM'000	Preceding year corresponding quarter ended 31/12/2014 RM'000	Current year- to-date 31/12/2015 RM'000	Preceding year-to-date 31/12/2014 RM'000
Income tax:				
-Current year	3,956	(15)	9,214	4,794
-Prior years	(553)	(748)	(553)	(748)
	<u>3,403</u>	<u>(763)</u>	<u>8,661</u>	<u>4,046</u>
Deferred tax:				
-Current year	(347)	2,802	(1,186)	3,470
-Prior years	97	858	97	858
	<u>(250)</u>	<u>3,660</u>	<u>(1,089)</u>	<u>4,328</u>
	<u>3,153</u>	<u>2,897</u>	<u>7,572</u>	<u>8,374</u>

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 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 31 December 2015 are as follows:

	RM'000
Non-current	
- Finance lease liabilities	1,125
- Hire purchase facility	11,253
- Bai Bithaman Ajil facilities	11,122
- Term loans	47,562
	<u>71,062</u>
Current	
- Finance lease liabilities	475
- Bankers' acceptance	133,772
- Bai Bithaman Ajil facilities	4,543
- Term loans	35,784
	<u>174,574</u>
Total	<u>245,636</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 has declared a second single tier interim dividend of 0.5 sen per share for the financial year ended 31 December 2015 to be paid on 31 March 2016 to the Depositors registered in the Record of Depositors at the close of business on 17 March 2016.

A total single tier dividend of 1 sen per ordinary share has been declared for the financial year ended 31 December 2015.

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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 31/12/2015	Preceding year corresponding quarter ended 31/12/2014	Current year-to-date 31/12/2015	Preceding year-to-date 31/12/2014
Profit for the period attributable to owners of the Company (RM'000)	281	6,685	3,957	18,678
Weighted average number of ordinary shares ('000)	159,248	159,276	159,248	159,276
Basic earnings per share (sen)	0.18	4.20	2.48	11.73
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 31/12/2015 RM'000	Preceding year corresponding quarter ended 31/12/2014 RM'000	Current year-to-date 31/12/2015 RM'000	Preceding year-to-date 31/12/2014 RM'000
Interest income	157	276	643	1,017
Other income	2,425	3,937	8,586	9,099
Interest expense	(3,396)	(3,190)	(13,086)	(11,748)
Depreciation and amortisation	(13,442)	(21,816)	(59,291)	(53,497)
Provision for and write off of receivables	(28)	(136)	(28)	(136)
Provision for and write off of inventories	-	(753)	-	(753)
Impairment of assets	(930)	(120)	(930)	(120)
Foreign exchange gain/(loss)	(3)	189	(410)	133

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 31 December 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 31/12/2015 RM'000	As at end of 31/12/2014 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realized	169,196	176,570
- Unrealized	17,565	15,823
	<hr/>	<hr/>
	186,761	192,393
Less: Consolidation adjustments	(23,454)	(27,470)
Total retained earnings as per statement of financial positions	<hr/>	<hr/>
	163,307	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: 26 February 2016