

HPI RESOURCES BERHAD

(Company No. 376950-K)
(Incorporated in Malaysia)

Interim Financial Report 1st Quarter Ended 31 August, 2010

HPI RESOURCES BERHAD

(Company No. 376950-K)
(Incorporated in Malaysia)

Condensed Consolidated Statement of Comprehensive Income For The First Quarter Ended 31 August, 2010

	Note	CURRENT QUARTER 3 MONTHS ENDED		CUMULATIVE QUARTER 3 MONTHS ENDED	
		31.08.10 RM'000	31.08.09 RM'000	31.08.10 RM'000	31.08.09 RM'000
Continuing Operations					
Revenue	3	106,419	88,337	106,419	88,337
Cost of sales		(88,766)	(72,405)	(88,766)	(72,405)
Gross Profit		17,653	15,932	17,653	15,932
Other Income		398	645	398	645
Interest Income		35	10	35	10
Administrative expenses		(4,926)	(5,462)	(4,926)	(5,462)
Selling and marketing expenses		(2,179)	(2,944)	(2,179)	(2,944)
Finance costs		(1,595)	(1,219)	(1,595)	(1,219)
Profit before tax		9,386	6,962	9,386	6,962
Income tax expenses		(1,714)	(557)	(1,714)	(557)
Profit for the period		7,672	6,405	7,672	6,405
Other comprehensive income (expenses) net of tax					
Exchange differences on translation of foreign operations		(1,951)	730	(1,951)	730
Total comprehensive income for the period		5,721	7,135	5,721	7,135
Profit attributable to:					
Owners of the Parent		7,650	6,341	7,650	6,341
Non-Controlling interest		22	64	22	64
		7,672	6,405	7,672	6,405
Total comprehensive income attributable to:					
Owners of the Parent		5,699	7,071	5,699	7,071
Non-Controlling interest		22	64	22	64
		5,721	7,135	5,721	7,135
Earnings per share (in sen)					
Basic EPS	26	14.37	11.91	14.37	11.91
Diluted, for profit for the period	26	Not applicable		Not applicable	

The condensed consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 May 2010 and the accompanying explanatory notes attached to the interim financial statements.

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Condensed Consolidated Statement Of Financial Position As At 31 August, 2010

	Note	As At 31.08.2010 RM'000	(Restated) As At 31.5.2010 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		128,845	130,576
Investment properties		2,151	2,162
Intangible assets		2,514	2,514
Investments in associates		148	148
Other investment		149	162
Deferred tax benefit		245	374
		<u>134,052</u>	<u>135,936</u>
Current assets			
Inventories		50,482	49,472
Trade receivables		97,525	88,048
Other receivables		15,937	7,774
Tax recoverable		873	1,108
Fixed deposit		257	141
Cash and bank balances		22,521	30,972
		<u>187,595</u>	<u>177,515</u>
TOTAL ASSETS		<u>321,647</u>	<u>313,451</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		53,229	53,229
Share premium		-	-
Other reserves		(5,908)	(3,957)
Retained earnings		101,856	94,206
		<u>149,177</u>	<u>143,478</u>
Non-controlling interest		<u>797</u>	<u>775</u>
Total equity		<u>149,974</u>	<u>144,253</u>
Non-current liabilities			
Borrowings	22	21,882	24,324
Deferred tax liabilities		4,951	4,650
		<u>26,833</u>	<u>28,974</u>
Current liabilities			
Borrowings	22	105,823	102,168
Trade payables		31,535	28,544
Other payables		6,525	8,859
Tax payable		957	653
		<u>144,840</u>	<u>140,224</u>
Total liabilities		<u>171,673</u>	<u>169,198</u>
TOTAL EQUITY AND LIABILITIES		<u>321,647</u>	<u>313,451</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		2.8026	2.6955

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 May 2010 and the accompanying explanatory notes attached to the interim financial statements.

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Condensed Consolidated Statement of Changes in Equity For The First Quarter Ended 31 August, 2010

	←----- Attributable to Equity Holders of the parent----->						Non- Controllin g Interest	Total Equity
	←--- Non-distributable --->				Distribu- table			
	Share Capital RM1000	Share premium RM1000	Foreign Exchange Reserve RM1000	Statutory Reserve RM1000	Retained Earnings RM1000	Total RM1000	RM1000	RM1000
At 1 June 2009								
As previously stated	42,583	6,881	(2,226)	298	76,331	123,867	468	124,335
Total comprehensive income for the period	-	-	730	-	6,341	7,071	64	7,135
At 31 August 2009	<u>42,583</u>	<u>6,881</u>	<u>(1,496)</u>	<u>298</u>	<u>82,672</u>	<u>130,938</u>	<u>532</u>	<u>131,470</u>
At 1 June 2010								
As previously stated	53,229	-	(4,333)	376	94,206	143,478	775	144,253
Total comprehensive income for the period	-	-	(1951)	-	7,650	5,699	22	5,721
At 31 August 2010	<u>53,229</u>	<u>-</u>	<u>(6,284)</u>	<u>376</u>	<u>101,856</u>	<u>149,177</u>	<u>797</u>	<u>149,974</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 May 2010 and the accompanying explanatory notes attached to the interim financial statements.

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Condensed Consolidated Statement Of Cash Flow For The First Quarter Ended 31 August, 2010

	3 months ended	
	31.08.2010 RM'000	31.08.2009 RM'000
Cash Flows From Operating Activities		
Profit before tax	9,386	6,962
Adjustment for:		
Depreciation and amortisation	3,213	2,684
Interest income and expenses	1,560	1,209
Provisions	558	399
Other non-cash items	(5)	(118)
Operating profit before changes in working capital	14,712	11,136
Net change in current assets	(10,636)	(13,542)
Net change in current liabilities	(3,497)	13,886
Cash flows from operations	579	11,480
Tax paid	(746)	(472)
Net Cash Flows From Operating Activities	(167)	11,008
Cash Flows From Investing Activities		
Acquisition of subsidiaries, net of cash required	-	(600)
Purchase of property, plant and equipment	(2,338)	(5,949)
Proceeds from disposal of PPE	-	198
Proceeds from disposal of other investment	18	-
Net Cash Used in Investing activities	(2,320)	(5,751)
Cash Flows From Financing Activities		
Proceeds from bank borrowings and other liabilities	6,017	1,444
Payment for borrowings	(10,781)	(2,544)
Net Cash Flows From Financing Activities	(4,764)	(1,100)
Net Increase in Cash and Cash Equivalents	(7,251)	4,157
Cash and Cash Equivalents at the beginning of the year	31,113	15,248
Effects of changes in foreign exchange rates	(1,084)	553
Cash and Cash Equivalents at the end of the period	22,778	19,958
<i>Cash and cash equivalents at the end of the financial period comprise the following:</i>		
	As at	As at
	31.08.2010	31.08.2009
	RM'000	RM'000
Cash and bank balance	22,521	19,809
Fixed Deposit	257	149
	22,778	19,958

The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 May 2010 and the accompanying explanatory notes attached to the interim financial statements.

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PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 May 2010. The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the annual audited financial statements for the year ended 31 May, 2010, except for the following:-

(i) Adoption of New and Revised FRSs, IC Interpretations and Amendments

In the current period ended 31 August, 2010, the Group adopted the following new and revised FRSs, IC Interpretations and Amendments to FRSs and IC Interpretations which are applicable to its financial statements and are relevant to its operations:-

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101 (revised)	Presentation of Financial Statements
FRS 123 (revised)	Borrowing Costs
FRS 132 (revised)	Financial Instruments: Presentation
FRS 139	Financial Instruments: Recognition and Measurement
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Impairment and Interim Financial Reporting
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to FRS 2	Share-based Payment – Vesting Condition and Cancellation
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 107	Cash Flow Statements
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to FRS 110	Events After the Balance Sheet Date
Amendments to FRS 116	Property, Plant and Equipment
Amendments to FRS 117	Leases
Amendments to FRS 118	Revenue
Amendments to FRS 119	Employee Benefits
Amendments to FRS 123	Borrowing Costs
Amendments to FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 128	Investment in Associates
Amendments to FRS 131	Interest in Joint Ventures
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 138	Intangible Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 140	Investment Property

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The adoptions of the above standards did not result in any significant changes in the accounting policies and presentations of the financial results of the Group except for the following:-

a) FRS 8 : Operating Segments

Prior to the adoption of FRS 8, the Group's segment reporting was based on a primary reporting format of business segments and a secondary reporting format of geographical segments. With the adoption of FRS 8, the Group's segment reporting has been changed to operating segments based on the segment information provided to the Group Managing Director and the Board of Directors. No further segmental information disclosures will be necessary.

b) FRS 101 : Presentation of Financial Statements

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, and income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements.

With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements.

The effects of the change in presentation are as follows:

The Exchange differences on translation of foreign operations that were recognised directly in equity in the preceding year corresponding period are presented as components in other comprehensive income in the statement of comprehensive income. The total comprehensive income for preceding year corresponding period is presented separately and allocation is made to show the amount attributable to owners of the parent and to non-controlling interest. The effects on the comparatives to the Group on adoption of FRS 101 are as follows:-

For the period ended 31 August, 2009	Income Statement As previously reported RM'000	Effects of adopting FRS 101 RM'000	Statement of comprehensive income As restated RM'000
Profit for the period	6,405	-	6,405
Other comprehensive income	-	730	730
Total comprehensive income			7,135
Total comprehensive income attributable to:			
Owners of the Parent			7,071
Non-controlling interest			64
			7,135

The total comprehensive income for the period is presented as a one-line item in the statement of changes in equity.

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c) FRS 117 : Leases

Prior to the adoption of the Amendment to FRS 117, leasehold lands were treated as operating leases. The considerations paid were classified and presented as prepaid lease payments in the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incident to ownership lie. The Group has concluded the existing leasehold land as finance lease.

d) FRS 139 : Financial Instruments: Recognition and Measurement

Prior to the adoption of FRS 139, financial derivatives were recognised on their settlement dates. Outstanding derivatives at the balance sheet date were not recognised. With the adoption of FRS 139, all derivative financial instruments held by the Group will be recognised as assets or liabilities in the balance sheets, and will be classified as financial assets or financial liabilities at fair value through profit and loss. When derivative financial instruments are recognised initially, there are measured at fair value. Any gains or losses from changes in fair value of the derivatives financial instruments will be recognized in profit and loss.

2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the year ended 31 May 2010 was not qualified.

3. SEGMENTAL INFORMATION

The Group's segmental report for the current financial period ended 31 August, 2010 is as follows:

	3 months ended		3 months ended	
	31.08.2010	31.08.2009	31.08.2010	31.08.2009
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations:				
Paper Milling	17,133	13,398	17,133	13,398
Packaging	94,237	77,011	94,237	77,011
Transportation	3,116	1,653	3,116	1,653.00
Total revenue including inter-segment sales	114,486	92,062	114,486	92,062
Elimination of inter-segment sales	(8,067)	(3,725)	(8,067)	(3,725)
Total	106,419	88,337	106,419	88,337
Segment Result				
Results from continuing operations:				
Paper Milling	2,283	1,621	2,283	1,621
Packaging	7,835	5,684	7,835	5,684
Transportation	439	156	439	156
	10,557	7,461	10,557	7,461
Eliminations	(1,045)	(413)	(1,045)	(413)
	9,512	7,048	9,512	7,048
Unallocated corporate expenses	(126)	(86)	(126)	(86)
Total	9,386	6,962	9,386	6,962

4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial period ended 31 August, 2010.

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5. CHANGES IN ESTIMATES

There were no changes in estimates of amounts reported in the prior financial years that have a material effect in the current quarter.

6. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The business of the Group was not affected by any significant seasonal or cyclical factors in the current quarter.

7. DIVIDENDS PAID

There were no dividend paid for the current quarter.

8. CARRYING AMOUNT OF REVALUED ASSETS

The valuations of property, plant and equipment have been brought forward without amendment from the financial statements for the year ended 31 May 2010.

9. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter and financial year to date.

10. CHANGES IN COMPOSITION OF THE GROUP

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

11. CAPITAL COMMITMENTS

The capital commitments to the end of the current quarter under review and at the date of this announcement is as following:

	RM'000
Property, plant and equipment:	
- Contracted but not provided for	22,742
	=====

12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 August, 2010, the Company had given corporate guarantees to financial institutions and suppliers, for financial and credit facilities granted and supply of goods and services to subsidiaries as follow:-

	Total Amount Guaranteed	Amount Utilised
	RM'000	RM'000
Letter of credit/trust receipts/bankers acceptances/banker guarantees/overdrafts/term loans/credit terms by suppliers	<u>240,000</u>	<u>155,000</u>

Accordingly, the Company is contingently liable to the extent of the amount owed by the subsidiaries.

13. SUBSEQUENT EVENTS

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

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

14. PERFORMANCE REVIEW

The Group's recorded a turnover of RM106.4 million which is approximately 20.5% higher than RM88.3 million of the preceding year corresponding period. The higher turnover is due to the increases of sales volume in paper mill and the increases of selling prices in packaging companies which resulted by higher raw material cost. The performance of the Group has increased from profit before taxation of RM7.0 million in the preceding year corresponding period to profit before taxation of RM9.4 million in the first quarter ended 31 August, 2010 due to the improvement of operational efficiency.

15. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

For the current quarter under review, the Group recorded a profit before taxation of RM9.4 million and turnover of RM106.4 million as compared to a profit before taxation of RM8.9 million and turnover of RM101.6 million in the immediate preceding quarter. The favourable performance is due to higher turnover.

16. COMMENTARY ON PROSPECTS

The Group will continue the strategy to maintain its market share and improve the production efficiency and productivity. Barring unforeseen circumstances, the Group expect satisfactory performance for the year ending 31 May 2011.

17. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable to the Group as no profit forecast or profit guarantee was published.

18. INCOME TAX EXPENSE

	Current quarter 3 months ended		Cumulative quarter 3 months ended	
	31.08.2010 RM'000	31.08.2009 RM'000	31.08.2010 RM'000	31.08.2009 RM'000
Current tax:				
Malaysian income tax	1,312	546	1,312	546
Deferred tax	402	11	402	11
Total income tax expense	<u>1,714</u>	<u>557</u>	<u>1,714</u>	<u>557</u>

The effective tax rate on the Group's profit is lower than the statutory tax rate principally due to certain subsidiaries brought forward of unabsorbed capital allowances and claims of reinvestment allowances.

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19. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There were no sales of unquoted investments and properties of the Group for the current quarter and financial year to-date.

20. QUOTED SECURITIES

Save as disclosed below, there were no purchases and disposals of quoted securities for the current quarter and financial year-to-date:

On 22nd July, 2010, the wholly-owned subsidiary company, Chiga Light Industries Sdn Bhd had disposed a quoted securities with sales proceeds of RM18,000.00.

21. CORPORATE PROPOSALS

a) Status of Corporate Proposals

The Group does not have any corporate proposals which have not been completed as at the date of the announcement.

b) Status of Utilisation of Proceeds

Not applicable.

22. GROUP BORROWINGS

	As at 31 Aug 10 RM'000	As at 31 May 10 RM'000
Short term borrowings		
Secured		
- Overdraft	4,417	-
- Bankers' acceptance	16,523	17,861
- Hire purchase creditors	1,720	1,658
- Term loan	4,873	7,745
Unsecured		
- Bankers' acceptance	74,050	70,664
- Term loan	4,240	4,240
	<u>105,823</u>	<u>102,168</u>
Long term borrowings		
Secured		
- Hire purchase creditors	3,805	4,035
- Term loans	12,576	13,753
Unsecured		
- Term loans	5,501	6,536
Total	<u>21,882</u>	<u>24,324</u>

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23. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There are no off balance sheet financial instruments at the date of this quarterly report.

24. CHANGES IN MATERIAL LITIGATION

There are no pending material litigation at the date of this quarterly report.

25. DIVIDEND PAYABLE

No interim ordinary dividend has been declared for the financial period ended 31 August, 2010 (31 August, 2009 : Nil).

The first and final dividend of 5.0 sen tax exempt for the financial year ended 31 May, 2010 has been approved during the Annual General Meeting on 27th October, 2010 and payable on 22 November, 2010

26. EARNINGS PER SHARE

a Basic

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares in issue of 53,228,910 during the reporting period.

b Diluted

The Company has no convertible securities in issue and hence, computation of diluted earnings per share has not been presented.

27. Authorisation for Issue

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the directors on 27 October, 2010.

By Order of the Board

CHAN CHOR NGIAK
MANAGING DIRECTOR

27 October, 2010