

HPI RESOURCES BERHAD

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

Interim Financial Report

**3rd Quarter Ended
28 February, 2011**

HPI RESOURCES BERHAD

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

**Condensed Consolidated Statement of Comprehensive Income
For The Third Quarter Ended 28 February, 2011**

	Note	CURRENT QUARTER 3 MONTHS ENDED		CUMULATIVE QUARTER 9 MONTHS ENDED	
		28.02.11 RM'000	28.02.10 RM'000	28.02.11 RM'000	28.02.10 RM'000
Continuing Operations					
Revenue	3	105,430	94,461	314,655	270,909
Cost of sales		(86,978)	(81,590)	(262,725)	(225,424)
Gross Profit		18,452	12,871	51,930	45,485
Other Income		142	220	1,064	1,303
Interest Income		361	21	423	50
Administrative expenses		(6,671)	(5,611)	(17,485)	(16,725)
Selling and marketing expenses		(2,225)	(2,699)	(6,119)	(8,348)
Finance costs		(1,627)	(1,249)	(4,884)	(3,697)
Profit before tax		8,432	3,553	24,929	18,068
Income tax expenses		(1,460)	(385)	(4,214)	(2,290)
Profit for the period		6,972	3,168	20,715	15,778
Other comprehensive income (expenses) net of tax					
Exchange differences on translation of foreign operations		(1,502)	934	(2,934)	(498)
Total comprehensive income for the period		5,470	4,102	17,781	15,280
Profit attributable to:					
Owners of the Parent		6,936	3,132	20,628	15,598
Non-Controlling interest		36	36	87	180
		6,972	3,168	20,715	15,778
Total comprehensive income attributable to:					
Owners of the Parent		5,434	4,066	17,694	15,100
Non-Controlling interest		36	36	87	180
		5,470	4,102	17,781	15,280
Earnings per share (in sen)					
Basic EPS	26	12.43	5.88	36.98	29.30
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 28 February, 2011

	Note	As At 28.02.2011 RM'000	(Restated) As At 31.5.2010 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment		142,003	130,576
Investment properties		2,135	2,162
Intangible assets		2,514	2,514
Investments in associates		148	148
Other investment		199	162
Deferred tax benefit		-	374
		<u>146,999</u>	<u>135,936</u>
Current assets			
Inventories		54,370	49,472
Trade receivables		88,052	88,048
Other receivables		2,785	4,648
Other current assets		14,026	3,126
Tax recoverable		1,488	1,108
Fixed deposit		144	141
Cash and bank balances		29,386	30,972
		<u>190,251</u>	<u>177,515</u>
TOTAL ASSETS		<u>337,250</u>	<u>313,451</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		58,529	53,229
Share premium		4,497	-
Other reserves		(6,891)	(3,957)
Retained earnings		112,173	94,206
		<u>168,308</u>	<u>143,478</u>
Non-controlling interest		<u>862</u>	<u>775</u>
Total equity		<u>169,170</u>	<u>144,253</u>
Non-current liabilities			
Borrowings	22	27,088	24,324
Deferred tax liabilities		4,473	4,650
		<u>31,561</u>	<u>28,974</u>
Current liabilities			
Borrowings	22	101,400	102,168
Trade payables		26,683	28,544
Other payables		6,509	8,859
Tax payable		1,927	653
		<u>136,519</u>	<u>140,224</u>
Total liabilities		<u>168,080</u>	<u>169,198</u>
TOTAL EQUITY AND LIABILITIES		<u>337,250</u>	<u>313,451</u>
Net assets per share attributable to ordinary equity holders of the parent (RM)		2.8756	2.4514

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 Third Quarter Ended 28 February, 2011

	<----- Attributable to Equity Holders of the parent----->						Non- Controlli ng Interest	Total Equity
	<---- Non-distributable ----->			Distributable				
	Share Capital RM000	Share premium RM000	Foreign Exchange Reserve RM000	Statutory Reserve RM000	Retained Earnings RM000	Total RM000	RM000	RM000
At 1 June 2009								
As previously stated	42,583	6,881	(2,226)	298	76,331	123,867	540	124,407
Bonus issue	10,646	(6,881)	-	-	(3,765)	-	-	-
Dividends paid	-	-	-	-	(1,065)	(1,065)	-	(1,065)
Total comprehensive income for the period	-	-	(498)	-	15,598	15,100	109	15,209
At 28 February 2010	53,229	-	(2,724)	298	87,099	137,902	649	138,551
At 1 June 2010								
As previously stated	53,229	-	(4,333)	376	94,206	143,478	775	144,253
Changes in equity for the period :-								
Issue of shares	5,300	4,497				9,797		9,797
Dividends paid	-	-	-	-	(2,661)	(2,661)	-	(2,661)
Total comprehensive income for the period	-	-	(2,934)	-	20,628	17,694	87	17,781
At 28 February, 2011	58,529	4,497	(7,267)	376	112,173	168,308	862	169,170

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 Third Quarter Ended 28 February, 2011

	9 months ended	
	28.02.2011	28.02.2010
	RM'000	RM'000
Cash Flows From Operating Activities		
Profit before tax	24,929	18,068
Adjustment for:		
Depreciation and amortisation	9,214	8,662
Interest income and expenses	4,463	3,648
Other non-cash items	(121)	(125)
Operating profit before changes in working capital	38,485	30,253
Net change in current assets	(14,016)	(22,726)
Net change in current liabilities	(4,210)	4,676
Cash flows from operations	20,259	12,203
Tax paid	(3,122)	(1,708)
Net Cash Flows From Operating Activities	17,137	10,495
Cash Flows From Investing Activities		
Acquisition of subsidiaries, net of cash required	-	(600)
Purchase of property, plant and equipment	(22,295)	(11,411)
Purchase of quoted investment	(37)	-
Proceeds from disposal of PPE	366	427
Net Cash Used in Investing activities	(21,966)	(11,584)
Cash Flows From Financing Activities		
Issues of ordinary shares	9,797	-
Proceeds from bank borrowings and other liabilities	13,715	9,433
Payment for borrowings	(16,185)	(2,315)
Payment for dividends	(2,661)	(1,065)
Net Cash Flows From Financing Activities	4,666	6,053
Net Increase in Cash and Cash Equivalents	(163)	4,964
Cash and Cash Equivalents at the beginning of the year	31,113	13,901
Effects of changes in foreign exchange rates	(1,420)	(27)
Cash and Cash Equivalents at the end of the period	29,530	18,838
<i>Cash and cash equivalents at the end of the financial period comprise the following:</i>		
	As at	As at
	28.02.2011	28.02.2010
	RM'000	RM'000
Cash and bank balance	29,386	18,900
Fixed Deposit	144	(62)
	29,530	18,838

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 28 February, 2010	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	15,778	-	15,778
Other comprehensive expenses	-	(498)	(498)
Total comprehensive income			15,280
Total comprehensive income attributable to:			
Owners of the Parent			15,100
Non-controlling interest			180
			15,280

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

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.

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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.

SEGMENTAL INFORMATION

3. The Group's segmental report for the current financial period ended 28 February, 2011 is as follows:

	3 months ended		9 months ended	
	28.02.2011	28.02.2010	28.02.2011	28.02.2010
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations:				
Paper Milling	19,757	18,021	52,472	47,137
Packaging	93,659	80,216	279,510	234,228
Transportation	3,191	1,732	8,996	5,056
Total revenue including inter-segment sales	116,607	99,969	340,978	286,421
Elimination of inter-segment sales	(11,177)	(5,508)	(26,323)	(15,512)
Total	105,430	94,461	314,655	270,909
Segment Result				
Results from continuing operations:				
Paper Milling	2,681	909	6,496	4,573
Packaging	7,001	2,951	20,998	15,137
Transportation	161	135	1,006	477
	9,843	3,995	28,500	20,187
Eliminations	(1,165)	(316)	(3,016)	(1,501)
	8,678	3,679	25,484	18,686
Unallocated corporate expenses	(246)	(126)	(555)	(618)
Total	8,432	3,553	24,929	18,068

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 28 February, 2011.

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.

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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	12,467
	=====
- Approved but not contracted for	35,700
	=====

12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 November, 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>243,000</u>	<u>134,000</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 has recorded a turnover of RM105.4 million which is approximately 11.6% higher than RM94.5 million of the preceding year corresponding period. The higher turnover is due to the increases of sales volume which resulted by higher demand.

The Group registered a profit before taxation of RM8.4 million during the third quarter ended 28 February, 2011 as compared to a profit before taxation of RM3.6 million for the preceding year corresponding period due to higher turnover, better cost management and higher productivity and efficiency.

15. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

For the current quarter under review, the Group recorded a profit before taxation of RM8.4 million and turnover of RM105.4 million as compared to a profit before taxation of RM7.1 million and turnover of RM102.8 million in the immediate preceding quarter due to higher contribution from paper mill operation during the reporting quarter.

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 9 months ended	
	28.02.2011	28.02.2010	28.02.2011	28.02.2010
	RM'000	RM'000	RM'000	RM'000
Current tax:				
Malaysian income tax	1,351	467	4,017	2,434
Deferred tax	109	(82)	197	(144)
Total income tax expense	<u>1,460</u>	<u>385</u>	<u>4,214</u>	<u>2,290</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 23 November, 2010, the wholly-owned subsidiary company, Chiga Light Industries Sdn Bhd had purchased quoted securities with RM37,000.00.

21. CORPORATE PROPOSALS

a) Status of Corporate Proposals

On 2 November, 2010, the Company announced the proposed private placement of up to 10% (5,322,900 shares) of the issued and paid up share capital of 53,228,910 shares.

The Company completed the implementation of the listing of and quotation for 4,100,000 and 1,200,000 new ordinary shares of RM1.00 each in HPI Shares – Placement Shares on the BURSA on 9 December, 2010 and 4 January, 2011. The Placement Shares were issued at the issue price of RM1.90 per Placement Share.

Upon listing of and quotation for the Placement Shares, the latest issued and paid-up capital of HPI is 58,528,910 ordinary shares of RM1.00 each with a total paid-up capital of RM58,528,910.00

Save for the above, there were no corporate proposals or utilisation of proceeds announced but not completed as at the date of the report.

b) Status of Utilisation of Proceeds

The net proceeds raise from the private placement is RM9.8 million and is completely utilised for general working capital expenses as at the date of the report.

22. GROUP BORROWINGS

	As at 28 Feb 11 RM'000	As at 31 May 10 RM'000
Short term borrowings		
Secured		
- Overdraft	4,127	-
- Bankers' acceptance	19,487	17,861
- Hire purchase creditors	1,854	1,658
- Term loan	3,683	7,745
Unsecured		
- Bankers' acceptance	68,009	70,664
- Term loan	4,240	4,240
	101,400	102,168

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22. GROUP BORROWINGS (cont'd)

	As at 28 Feb 11 RM'000	As at 31 May 10 RM'000
Long term borrowings		
Secured		
- Hire purchase creditors	3,433	4,035
- Term loans	20,248	13,753
Unsecured		
- Term loans	3,407	6,536
Total	27,088	24,324

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 28 February, 2011 (28 February, 2010 : Nil).

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 as following during the reporting period.

	Current Quarter 3 months ended		Cumulative Quarter 9 months ended	
	28.02.11	28.02.10	28.02.11	28.02.10
Profit attributable to ordinary owners of the parent (RM'000)	6,936	3,132	20,628	15,598
Weighted average number of ordinary shares ('000)	55,779	53,229	55,779	53,229
Basic earnings per share (sen)	12.43	5.88	36.98	29.30

b Diluted

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

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27. REALISED AND UNREALISED EARNINGS DISCLOSURE

	As at end of Current Quarter 28-Feb-2011 RM'000	As at end of Preceding Quarter 30-Nov-2010 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised	133,478	126,011
- Unrealised	(9,622)	(8,617)
	<hr/> 123,856	<hr/> 117,394
Less: Consolidation adjustments	(11,683)	(12,157)
Total group retained earnings as per consolidated financial statements	<hr/> 112,173	<hr/> 105,237

28. 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 21st April, 2011.

By Order of the Board

CHAN CHOR NGIAK
MANAGING DIRECTOR
22nd April, 2011