

Notes to the condensed consolidated interim financial statements for the nine months ended 30 September 2010

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (FRS) 134, *Interim Financial Reporting*, issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Securities Malaysia Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2009. These explanatory notes attached to the interim financial statements 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 year ended 31 December 2009.

2. Significant Accounting Policies

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted for the Group’s annual audited financial statements for the year ended 31 December 2009. At the date of authorisation of the interim financial statements, the following new FRSs, Amendments to FRSs and Interpretations were issued but not yet effective and have not been applied by the Group and its subsidiaries, which are:

FRS, Amendments to FRS and Interpretations on or after	Effective for financial periods beginning
Amendment to FRS 132: Classification of Right Issues	1 March 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combination	1 July 2010
FRS 138: Intangible Assets	1 July 2010
Amendment to FRS 5: Non-current Assets held for Sales and Discontinued Operations	1 July 2010
Amendment to FRS 127: Consolidated and Separate Financial Statements	1 July 2010
IC Interpretations 12: Service Concession Agreements	1 July 2010
IC Interpretations 15: Agreement for the Constructions of Real Estate	1 July 2010
IC Interpretations 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretations 17: Distributions of Non-cash Assets to Owners	1 July 2010
Amendment to IC Interpretations 9: Reassessment of Embedded Derivatives	1 July 2010
Amendment to FRS 1: Limited Exemption from Comparative FRS7 Disclosures and Additional Exemption for First-time Adopters	1 January 2011
Amendment to FRS 2: Share-bases Payment	1 January 2011
Amendment to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
IC Interpretation 4: Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18: Transfer of Assets from Customers	1 January 2011
Technical Release 3: Guidance on Disclosures of Transition to IFRSs	1 January 2011
Technical Release i-4: Shariah Compliance Sales Contracts	1 January 2011

The new FRSs, Revised FRSs, Amendment to FRSs and Interpretations above are expected to have no significant impact on financial statements of the Group and its subsidiaries for the current year upon their initial application.

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted for the Group's annual audited financial statements for the year ended 31 December 2009, except for the adoption of the following new Financial Reporting Standards ("FRSs") and Issues Committee Interpretations ("IC Interpretations") effective for financial periods beginning on or after 1 January 2010.

FRS 7: Financial Instruments: Disclosures

FRS 8: Operating Segments

FRS 101: Presentation of Financial Statements (Revised 2010)

FRS 123: Borrowing Costs (Revised 2010)

FRS 139: Financial Instruments: Recognition and Measurement.

Amendment to FRS 1: First-time Adoption of Financial Reporting Standard and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate

Amendment to FRS 2: Share-based Payment: Vesting Conditions and Cancellations

Amendment to FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors

Amendment to FRS 116: Property, Plant and Equipment

Amendment to FRS 117: Leases

Amendment to FRS 132: Financial Instruments: Presentation

Amendment to FRS 134: Interim Financial Reporting

Amendment to FRS 139: Financial Instruments: Recognition and Measurement

IC Interpretation 9: Reassessment of Embedded Derivatives

IC Interpretation 10: Interim Financial Reporting and Impairment

IC Interpretation 11: Group and Treasury Share Transactions

The adoption of the above FRSs, Amendment to FRSs and IC Interpretations did not have any material impact on the financial results of the Group except for the following:

FRS 7 Financial Instruments: Disclosures

FRS 7 requires disclosure of information about the significant of financial instruments for the Group's financial position and performance, the nature and extent of risks arising from financial instruments, and the objectives, policies and the processes of managing capital. This Standard is considered to result in increased disclosures, both quantitative and qualitative of the Group's exposure to risks, enhanced disclosure regarding components of the Group's financial position and performance, and possible changes to the way of presenting certain items in the financial statements.

FRS 8 Operating Segments

FRS 8 which replaces FRS 114⁽²⁰⁰⁴⁾ Segment Reporting, requires identification and reporting segments based on internal reports that are regularly review by the Group's chief operating decision maker in order to allocate resources to the segments and to access their performance. Currently the Group presents segments information in respect of its geographical and business segments (see Note 9). As a

result, following to the adoption of FRS 8 will not have any significant impact on the financial statements of the Group.

FRS 101 Presentation of Financial Statements (Revised)

FRS introduces changes in the format and content of the financial statements including revised titles for financial statement. Prior to adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, income statement, statement of changes in equity, 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 statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements.

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income which presenting all items of the income and expense recognised in the income statement, either in one single statement, or in two linked statements. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements.

This revised FRS does not have any impact on the financial position and results of the Group as the revised Standard affects only the presentation of the financial statements.

FRS 117 Leases

The amendments clarify that the classification of lease of land and require entities with existing leases of land and buildings to reassess the classification of the land as finance or operating lease. Leasehold land which is substance is a financial lease will be reclassified as property, plant and equipment. The adoption of these amendments will result in change in accounting policy which will be applied retrospectively in accordance with the transitional provisions.

With the adoption of the Amendment to FRS 117, the Group has reassessed and determined that certain leasehold land of the Group which is in substance financial leases and has reclassified the leasehold land to property, plant and equipment. The reclassification has no effect to the profit or loss of the current financial period ended 30 September 2010 or the comparative prior financial period. The effect of the reclassification to the comparative of the consolidated statement of financial position as of 31 December 2009 has been restated as follows:

	As previously reported as at 31 Dec 2009 RM'000	Effects of Amendment to FRS 117 RM'000	As restated as at 31 Dec 2009 RM'000
Prepaid lease payments	2,010	(2,010)	-
Property, plant and equipment	21,108	2,010	23,118

FRS 123 Borrowing Costs (Revised)

The revised Standard eliminates the option available under the previous version of FRS 123 to recognize all borrowing costs immediately as an expense. The Group and its subsidiaries shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

FRS 123 Consolidated and Separate Financial Statements

The amendment requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The Standard also specifies the accounting when the company has lost the control. Any remaining interest in the entity is remeasured to fair value, and gain or loss is recognised in statement of comprehensive income.

FRS 139 Financial Instruments: Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items as well as the requirement for the application of hedge accounting. Requirement for presenting information about financial instruments are in FRS 132: *Financial Instruments: Presentation* and requirements for disclosing information about financial instruments are in FRS 7: *Financial Instruments: Disclosures*.

In accordance with FRS 139, the recognition and measurement requirements are applied prospectively from 1 January 2010. Prior to the adoption of FRS 139, derivative contracts were recognized in the financial statement on the settlement dates. With the adoption of FRS 139, the derivative contracts will be at contract dates as financial assets or financial liabilities and the measurement of such contracts would be at fair value through profit & loss. Forward foreign currency exchange contracts of the Group have been measured at fair value and the changes in the fair value are recognized in the statement of comprehensive income.

In accordance with the transitional provision of FRS 139, the above changes are applied prospectively and the comparatives as at 31 December 2009 not restated. The fair value adjustments arising from remeasurement of financial instruments are immaterial to the financial position and result of the Group. Thus no adjustment has been made to the opening balance of the balance sheet as at 1 January 2010.

2. Auditors' Report

The audited report of the preceding annual financial statements was not qualified.

3. Valuations of Property, Plant & Equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The Group did not carry out any revaluation exercise on its landed properties for the period under review.

The valuations of property, plant and equipment have been brought forward without any amendment from the previous audited financial statements.

4. Seasonal or Cyclical Factors

The business nature of the Group is not materially affected by any seasonal or cyclical factors.

5. Exceptional or unusual items

There were no exceptional or unusual items affecting assets, liabilities, equity, net income or cash flow of the Group for the current quarter under review.

6. Changes in Estimates

There were no changes in estimates that have a material effect in the current interim results.

7. Debts and Equity Securities

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

8. Dividends Paid & Proposed

A final dividend of 1.5% less tax 25% amounting to RM515,255 in respect of the previous financial year was paid on 13th September 2010.

No dividend was proposed for the current quarter ended 30 September 2010.

9. Segment Reporting

The Group's primary business segment is principally engaged in the manufacturing and trading of self-adhesive tapes and label stocks. The analysis of geographical and business segment of the Group is stated as follows: -

	Quarter ended 30 September		Year to date ended 30 September	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<u>Segment revenue</u>				
Malaysia	14,561	14,617	44,459	43,172
Overseas	1,858	1,780	5,224	4,296
	<u>16,419</u>	<u>16,397</u>	<u>49,683</u>	<u>47,468</u>
<u>Segment results</u>				
Malaysia	406	48	2,957	299
Overseas	94	97	258	221
	<u>500</u>	<u>145</u>	<u>3,215</u>	<u>520</u>

The directors are of the opinion that all inter segment transfers have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. Those transfers are eliminated on consolidation.

10. Subsequent Events

There were no subsequent events up to the date of this interim report that have not been reflected in these interim financial statements.

11. Changes in the Composition of the Group

There are no changes in the composition of the Group for the current quarter under review and financial year to date.

12. Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets that may have material effect on the net assets, profits or financial position of the Group for the current quarter under review.

13. Capital Commitments

The Group has entered into Sales and Purchase Agreement with Sweet Tape Enterprise (M) Sdn Bhd to purchase one unit of used RS240 slitter cum with Mistral packaging machine for a cash consideration of RM 797,601.

14. Significant Related Party Transactions

There were no significant related party transactions during the current reporting period.

15. Review of Performance

For the current quarter under review, the Group recorded a 0.1% increase in revenue to RM16.4 million and increased in profit before tax to RM0.5 million, as compared to revenue of RM16.3 million and profit before tax of RM0.1 million respectively in the preceding year corresponding quarter.

The Group has recorded revenue of RM49.6 million and the profit before tax of RM3.2 million for the nine month ended 30 September 2010, representing improvement of 4.6% and 518.2% respectively as compared to revenue in previous year corresponding period of RM47.4 million and profit before tax of RM0.5 million. The increase in the revenue and profit before tax for the three months ended 30 September 2010 were mainly due to improved sales and higher selling prices

The increase in the revenue and profit before tax for the nine months ended 30 September 2010 were mainly due to:-

- (i) Improved sales and higher selling prices; and
- (ii) Gain on disposal of a factory land and building of approximately RM2 million.

16. Material Change in Profit Before Tax

The comparison of the Group revenue and profit before tax for the current quarter and preceding quarter are summarised as follows:-

	Quarter ended 30 September 2010 RM'000	Quarter ended 30 June 2010 RM'000	Variance	
			RM'000	%
Profit before tax	500	2,583	(2,083)	(80.6%)

The Group's profit before tax decreased by 80.6% to RM0.5 million as compared to preceding quarter was due to non operating income of approximately RM2 million derived from the gain on disposal of a factory land and building.

17. Commentary of Prospects

The management is optimistic that the remaining period of the current financial year will continue to be profitable. The Group's strategy is to continue focusing on its export market, product and service quality, stricter cost control and savings.

18. Profit Forecast or Profit Guarantee

Not applicable as no profit forecast or guarantee was published.

19. Taxation

The Group's tax charge comprises:

	Quarter ended 30 September RM'000	Year to date ended 30 September RM'000
Profit before taxation	500	3,215
Tax at the statutory income tax rate of 25%	125	804
Add/(Less):		
- Effect of expenses with double deduction	(2)	(5)
- Effect of utilization of previously unrecognized Capital Allowance	(78)	(188)
- Effects of other income not subject to tax	(15)	(545)
Income tax expense	<u>30</u>	<u>66</u>
Effective tax rate	<u>6.0%</u>	<u>2.1%</u>

The effective tax rate of the Group for the current quarter and financial year to date is lower than the statutory tax rate primarily due to non-taxable income and availability of the tax incentive being available for use to offset against the statutory income of the Group.

20. Unquoted Investments and Properties

There was no purchase or sale of unquoted investments and properties in the current quarter under review. However, during the financial year, the Group has disposed a property with a gain of approximately RM2 million.

21. Quoted Securities

There was no purchase or sale of quoted securities during the current quarter under review.

22. Corporate Proposals

There were no corporate proposals announced in the current quarter under review and up to the date of this interim report.

23. Borrowings

All the borrowings are denominated in Ringgit Malaysia and recognized in profit or loss in the year in which they are incurred.

Particulars of the Group's borrowings as at 30 September 2010 are as follows: -

	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
<u>Unsecured Borrowings</u>		
Bank Overdraft	35	-
Banker's Acceptance	6,365	9,448
	6,400	9,448

24. Derivatives Financial Instruments

The Group has not entered into any derivatives financial instruments in the current quarter under review.

25. Material Litigation

The Group has not engaged in any litigation which has a material effect on the financial position of the Group for the quarter under review and financial year to date.

26. Earnings Per Share

Basic earnings per ordinary share are calculated based on the Group's net profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the current quarter and the financial year to date.

Diluted earnings per ordinary share is the same as the basic earnings per ordinary share as the effect of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per ordinary share in accordance with FRS 133 on Earnings per Share.

	Quarter ended 30 September RM'000	Year to date ended 30 September RM'000
Basic		
Profit attributable to the owner of the company	470	3,149
Weighted average number of ordinary shares in issue	45,780	45,780
Basic earnings per ordinary share (sen)	1.03	6.88
Diluted		
Diluted earnings per ordinary share (sen)	<u>1.03</u>	<u>6.88</u>

27. Authorisation for Issue

The interim financial statements and the accompanying notes were authorized for issue by the Board of Directors in accordance with a resolution of the directors passed on 22 November 2010.

By order of the Board,
Central Industrial Corporation Berhad

Fong Phoi Shan
Company Secretary

Date: 23 November, 2010