

DAIBOCHI PLASTIC AND PACKAGING INDUSTRY BHD (12994 - W)
UNAUDITED QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE FINANCIAL
QUARTER ENDED MARCH 31, 2014

NOTES TO THE QUARTERLY FINANCIAL REPORT

A1 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 Bursa Malaysia Securities Berhad's Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended December 31, 2013. 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 financial year ended December 31, 2013.

The significant accounting policies and presentation adopted by the Group for the interim financial statements are consistent with those of the Group's consolidated audited financial statements for the financial year ended December 31, 2013 except for the adoption of the following:

Amendments to FRSs		Effective date
Amendments to FRS 10, FRS 12 and FRS 127	Investment Entities	January 1, 2014
Amendments to FRS 132	Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Amendments to FRS 136	Recoverable Amount Disclosure for Non-Financial Assets	January 1, 2014
Amendments to FRS 139	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014

The adoption of the amendments to FRSs does not have significant financial impact on the financial statements of the Group and of the Company.

Malaysian Financial Reporting Standards ("MFRSs")

On November 19, 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the MFRS Framework.

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual financial periods beginning on or after January 1, 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and IC Interpretation 15 Agreements for Construction of Real Estate, including its parent, significant investor and venturer (herein called 'Transitioning Entities').

Transitioning Entities will be allowed to defer adoption of the new MFRS Framework for an additional one year. Consequently, adoption of the MFRS Framework by Transitioning Entities will be mandatory for annual financial periods beginning on or after January 1, 2013. On July 4, 2012, the MASB has decided to allow Transitioning Entities to defer the adoption of the MFRS Framework for another year. The MFRS Framework will therefore be mandated for all companies for annual financial periods beginning on or after January 1, 2014. On August 7, 2013, the MASB has decided to extend the transitional period for another year, i.e. the adoption of the MFRS Framework by all entities for annual financial periods beginning on or after January 1, 2015.

A subsidiary and an associate of the Group fall within the scope of definition of Transitioning Entities and have opted to defer the adoption of the new MFRS Framework and accordingly, the Group will be required to prepare its first set of financial statements using the MFRS Framework for the financial year ending December 31, 2015.

The three subsidiaries which are not Transitioning Entities had adopted MFRS on January 1, 2012.

A2 Audit report

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

A3 Seasonal or cyclical factors

The operations of the Group during the financial period under review have not been materially affected by any seasonal or cyclical factors.

A4 Unusual items

There were no items during this quarter affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.

A5 Changes in estimates

The same estimates reported in the previous financial year were used in preparing the financial statements for the period under review.

A6 Debt and Equity Securities

During the current quarter, the Company repurchased 106,100 units of its own shares through purchases on Bursa Malaysia Securities Berhad. The total amount paid for acquisition of the shares was RM427,004 including transaction costs and has been deducted from equity. The repurchased transactions were financed by internally generated funds and the average price paid for the shares was RM4.02. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

During the current quarter, the Company had disposed of 100,000 treasury shares valued at RM4.15 for a total net consideration of RM415,424 in the open market, resulting in a surplus of RM31,262 which has been credited to the share premium account.

A7 Dividend Paid

	3 months ended	
	31.3.2014	31.3.2013
	RM'000	RM'000
Fourth interim single tier dividend paid for the financial year 2013: 4.00 sen per ordinary share paid on March 28, 2014.	4,552	-
	=====	=====

A8 Related party transactions

There were no significant related party transactions for the period under review.

A9 Contingent liabilities

As of March 31, 2014, the Company has issued a corporate guarantee for RM500,000 in respect of credit facility granted by a licensed bank to its subsidiary. Accordingly, the Company is contingently liable to the extent of the amount of the credit facility utilised by the subsidiary.

Segmental analysis

Segment information is presented in respect of the Group's business segments, which reflect the Group's internal reporting structure that are regularly reviewed by the Group's chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance.

For management purposes, the Group is organised into the following operating divisions:

- Packaging - manufacture and marketing of flexible packaging materials
- Property development - development of land into residential and commercial building properties

Segment Revenue and Results

Segment information for the three months ended March 31, 2014 was as follows:

	<u>Packaging</u> RM'000	<u>Property development</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
2014				
Revenue	89,851	542	-	90,393
	=====	=====	=====	=====
Results				
Segment results	9,310	74	-	9,384
Unallocated costs				(112)

Profit from operations				9,272
Finance costs	(423)	-	-	(423)
Share of results of an associate	-	41	-	41

Profit before tax				8,890
				=====

Segment information for the three months ended March 31, 2013 was as follows:

	<u>Packaging</u> RM'000	<u>Property development</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
2013				
Revenue	71,640	1,746	-	73,386
	=====	=====	=====	=====
Results				
Segment results	9,486	165	-	9,651
Unallocated costs				(94)

Profit from operations				9,557
Finance costs	(214)	-	-	(214)
Share of results of an associate	-	159	-	159

Profit before tax				9,502
				=====

Unallocated costs represent common costs and expenses incurred in dormant subsidiaries.

Segment Assets and Liabilities

Segment assets and liabilities for the three months ended March 31, 2014 were as follows:

	<u>Packaging</u> RM'000	<u>Property</u> <u>development</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
<u>2014</u>				
Assets				
Segment assets	281,387	4,268	(24,759)	260,896
Investment in an associate	-	23,797	-	23,797
Unallocated assets				104

Consolidated total assets				284,797
				=====
Liabilities				
Segment liabilities	119,188	15,288	(24,759)	109,717
Unallocated liabilities				10,786

Consolidated total liabilities				120,503
				=====

Segment assets and liabilities for the three months ended March 31, 2013 were as follows:

	<u>Packaging</u> RM'000	<u>Property</u> <u>development</u> RM'000	<u>Eliminations</u> RM'000	<u>Group</u> RM'000
<u>2013</u>				
Assets				
Segment assets	230,135	11,066	(27,024)	214,177
Investment in an associate	-	23,495	-	23,495
Unallocated assets				398

Consolidated total assets				238,070
				=====
Liabilities				
Segment liabilities	77,737	23,023	(27,024)	73,736
Unallocated liabilities				10,353

Consolidated total liabilities				84,089
				=====

Segment assets consist primarily of property, plant and equipment, land held for development, inventories, operating receivables and cash, and exclude investment, tax recoverable, deferred tax assets and cash and bank balances for dormant subsidiaries. Segment liabilities comprise operating liabilities and exclude items such as tax payable, deferred tax liabilities and accrued expenses for dormant subsidiaries.

Geographical Information

The Group operates in two principal geographical areas - Malaysia (country of domicile) and Australia.

The Group's revenue from continuing operations from external customers and information about its non-current assets* by geographical location information for the three months ended are as follows:

	Group	
	31.3.2014	31.3.2013
	RM'000	RM'000
Revenue		
Malaysia	78,863	63,313
Australia	11,530	10,073
	<u>90,393</u>	<u>73,386</u>
Non-current assets *		
Malaysia	113,080	86,370
Australia	159	252
	<u>113,239</u>	<u>86,622</u>

* Non-current assets excluding investment in an associate and deferred tax assets.

A10 Capital Commitments

Capital commitments not provided for in the financial statements as of March 31, 2014 were as follows: -

	RM'000
Property, plant and equipment	
- Authorised and contracted for	7,109
	<u>=====</u>

A11 Subsequent events

There were no material events subsequent to March 31, 2014 and up to the date of the issuance of this quarterly report that have not been reflected in this quarterly report.

A12 Changes in the Composition of the Group

On March 28, 2014, the Company incorporated a wholly-owned subsidiary in New Zealand, namely Daibochi New Zealand Limited with a paid up capital of New Zealand Dollar ("NZD") 1 comprising 1 ordinary share of NZD1.00 each.

There were no other changes in the composition of the Group including business combinations, acquisitions or disposals of subsidiaries and long term investments, restructuring and discontinuing operations as at March 31, 2014.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1 Review of Performance

The Group's performance for the quarter under review compared with the corresponding quarter of the previous financial year is as tabled below:

	Packaging			Property			Total		
	1Q14 RM'000	1Q13 RM'000	% Change	1Q14 RM'000	1Q13 RM'000	% Change	1Q14 RM'000	1Q13 RM'000	% Change
Revenue	89,851	71,640	+25	542	1,746	-69	90,393	73,386	+23
PBT	8,775	9,178	-4	115	324	-65	8,890	9,502	-6

The Group's performance is primarily derived from the packaging segment as the property segment is being phased out. Thus, the review of the results will be focussed on the packaging segment.

The **packaging segment** recorded revenue of RM89.85 million for the quarter ended March 31, 2014, representing 25% growth as compared to RM71.64 million for the corresponding period in the previous year. The higher revenue achieved was primarily attributed to the expansion in export revenue from new MNC customers in South East Asia and Australia particularly in the second half of 2013.

Despite the higher revenue, there was a decline in PBT mainly due to the impact of higher raw material prices since the second half of 2013, particularly polyethylene and polypropylene resins and films. The segment's product mix, effects of the electricity tariff hike in early 2014 and increased operating expenses due to higher wages also contributed towards the dampened PBT for the quarter.

There were no other material factors affecting the earnings and/or revenue of the Group for the current period.

B2 Material Changes in Profit Before Tax for the Quarter Reported On As Compared with the Immediate Preceding Quarter

The Group's current quarter performance as compared to that of the preceding quarter is as tabled below:

	Packaging			Property			Total		
	1Q14 RM'000	4Q13 RM'000	% Change	1Q14 RM'000	4Q13 RM'000	% Change	1Q14 RM'000	4Q13 RM'000	% Change
Revenue	89,851	79,731	+13	542	430	+26	90,393	80,161	+13
PBT	8,775	8,334	+5	115	386	-70	8,890	8,720	+2

In comparison with the preceding quarter, the packaging segment revenue in the current quarter has increased by 13%. The higher revenue recorded was primarily attributed to the expansion in export revenue, particularly from a MNC customer in South East Asia. This has resulted in a 6% increase in exports i.e. from 47% in the previous quarter to 53% in the current quarter.

During the current quarter, the **packaging segment** recorded an increase of 5% in PBT as compared to the preceding quarter. However, there is a slight compression in profit margin for the current quarter mainly due to the further increase of raw material prices, especially in polyethylene and polypropylene resins and films in the current quarter. The time lag in the cost pass-through mechanism also contributed to the reduction in profit margin. Furthermore, the profit margin has been affected by the product mix and the increase in operating expenses mainly due to the hike in electricity tariff as well as wages in early 2014.

The Group's energy saving plan which is expected to be completed by the end of the year, is targeted to help the Group absorb a substantial portion of the electricity tariff hike, while reducing electricity-usage per production unit in the long run.

B3 Prospects

The new film making machine and the new metalliser have commenced commercial operations in April 2014 and May 2014 respectively. The new machines are expected to double the current film making and metallising capacity when fully operational by the second half of the year. Thus, Daibochi will be ready to support the rising production demand from our existing and new clients.

The Group has been successful in securing orders from a new major local food and beverage customer, which sells its products both domestically and to overseas markets. The delivery for the initial orders commenced in April 2014.

In 2014, the Group is optimistic of the strong growth in revenue from new business opportunities with several MNC customers. We are currently at various stages of qualification and Daibochi is hopeful of securing a major portion of these businesses.

In addition, our Avanti film has shown encouraging results from recent trials carried out with a MNC. Our Avanti film, is an innovative product that is able to accommodate high speed heat sealable applications, thereby significantly improving productivity levels in high volume production environments. At the recent trials, our film was able to achieve an operating speed of more than 100 metre per minute. Further trials of the high speed film at 150 metre per minute are underway.

We have been successful in capturing the opportunities presented from the increasing trend of MNCs sourcing for flexible packaging from the South East Asian region as well as being able to provide solutions to MNCs quest for high speed processing. In view of such positive and encouraging outlook, the Board is optimistic of achieving another record year in turnover for 2014. However, the Board cautions that there could be an erosion in profit margin due to the adverse impact from any further increases in prices of major raw materials.

B4 Profit Forecast or Profit Guarantee

No profit forecast or profit guarantee was provided.

B5 Profit Before Tax

Profit before tax is arrived at after (crediting)/charging:

	3 months ended	
	31.3.2014	31.3.2013
	RM'000	RM'000
Interest income	(21)	(32)
Other operating income	(485)	(565)
Gain on disposal of property, plant and equipment	-	(16)
Interest expense	423	214
Depreciation of property, plant and equipment	2,493	2,341
(Reversal of inventories write-down)/Inventories write-down -net	(30)	151
Foreign exchange gain	(496)	(131)
Foreign exchange loss on derivatives	151	19

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

B6 Income Tax Expense

	3 months ended	
	31.3.2014	31.3.2013
	RM'000	RM'000
Current:		
- Malaysian Tax	1,441	1,804
- Foreign Tax	141	173
	<u>1,582</u>	<u>1,977</u>
Deferred tax:		
- Current	704	413
	<u>2,286</u>	<u>2,390</u>

B7 Status of Corporate Proposals

There were no corporate proposals announced as of the date of this quarterly report.

B8 Group Borrowings

Details of the Group's borrowings as of March 31, 2014 were as follows:-

	Current	Non-Current
	RM'000	RM'000
Unsecured - Ringgit Malaysia	34,059	11,081
Unsecured - United States Dollar	15,929	-
Secured - Ringgit Malaysia	282	146
	<u>50,270</u>	<u>11,227</u>

B9 Financial instruments

The Group enters into foreign currency forward contracts in the normal course of business to manage its exposure against foreign currency fluctuations on trade transactions.

As of March 31, 2014, the Group has the following outstanding derivatives:-

	Principal or		
	Notional	Fair Value	Net Loss
	Amount	RM'000	RM'000
	RM'000		
Foreign currency forward contracts:-			
Less than 1 year	11,876	12,022	<u>146</u>

There is no change to the Group's financial risk management policies in managing these derivatives, its related accounting policies and the market risk associated with these derivatives since the last financial year.

B10 Material litigation

There was no pending material litigation as of the date of this quarterly report.

B11 Dividends

The Board is pleased to declare a first interim single tier dividend of 3.50 sen for the financial year ending December 31, 2014 and the said dividend will be paid on June 26, 2014 (2013: 4.00 sen tax exempt) to shareholders whose names appear on the Company's Record of Depositors on June 4, 2014.

B12 Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the financial period under review attributable to owners of the Company by the weighted average number of ordinary shares in issue during the said financial period, adjusted by the number of ordinary shares repurchased and disposed during the financial period under review.

	3 Months ended	
	31.3.2014	31.3.2013
Profit attributable to owners of the Company (RM'000)	<u>6,604</u>	<u>7,112</u>
Weighted average number of ordinary shares in issue ('000):		
Issued ordinary shares as of January 1	113,853	113,853
Effect of treasury shares held	<u>(86)</u>	<u>(440)</u>
Weighted average number of ordinary shares as of March 31	<u>113,767</u>	<u>113,413</u>
Basic earnings per share (sen)	<u>5.80</u>	<u>6.27</u>

Diluted earnings per ordinary share are not presented as there are no dilutive potential ordinary shares outstanding during the financial periods.

B13 Disclosure of realised and unrealised earnings

The breakdown of retained earnings of the Group as of the reporting date, into realised and unrealised profits or losses, pursuant to Paragraphs 2.06 and 2.23 of the Bursa Malaysia Main Market Listing Requirements, are as follows:

	31.3.2014	31.12.2013
	RM'000	RM'000
Total retained earnings of the Group:-		
- Realised	59,952	57,709
- Unrealised	<u>(9,217)</u>	<u>(8,913)</u>
	50,735	48,796
Total share of retained earnings from an associate:-		
- Realised	1,238	1,184
- Unrealised	<u>(9)</u>	<u>4</u>
	51,964	49,984
Less: Consolidation adjustments	<u>(4,234)</u>	<u>(4,306)</u>
Total Group retained earnings	<u>47,730</u>	<u>45,678</u>

By Order of the Board

Ms TAN GAIK HONG, MIA 4621
Secretary
Melaka

Dated: May 12, 2014
c.c. Securities Commission