

YOKOHAMA INDUSTRIES BERHAD (292788-U)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE THREE-MONTH PERIOD ENDED 31 DECEMBER 2012

A1. Corporate information

Yokohama Industries Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 February 2013.

A2. First-time adoption of Malaysian Financial Reporting Standards (“MFRS”)

These condensed consolidated interim financial statements, for the year ended 31 December 2012, have been prepared in accordance with MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34: Interim Financial Reporting issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Financial Reporting Standards (“FRS”).

The consolidated financial statements of the Group for the year ended 31 December 2011 which were prepared under FRS are available upon request from the Company’s registered office at Suite 13.03, 13th floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur.

These condensed consolidated interim financial statements are the Group’s first MFRS condensed consolidated interim financial statements for part of the period covered by the Group’s first MFRS annual financial statements for the year ended 31 December 2012. MFRS 1: First Time Adoption of Malaysian Financial Reporting Standards (“MFRS 1”) has been applied.

The explanatory notes attached to these condensed consolidated 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 2011.

In preparing its opening MFRS Statement of Financial Position as at 1 January 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Group’s financial position, financial performance and cash flows is set out in Note A3(c) below. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statement of cash flows.

A3. Significant accounting policies and application of MFRS 1

The audited financial statements of the Group for the year ended 31 December 2011 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011 except as discussed below:

(a) Business combination

MFRS 1 provides the option to apply MFRS 3: Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combination prior to the date of transition.

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A3. Significant accounting policies and application of MFRS 1 (contd.)

(a) Business combination (contd.)

Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition:

- (i) The classification of former business combinations under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
- (iii) The carrying amount of goodwill recognized under FRS is not adjusted.

(b) Foreign currency translation reserve

Under FRS, the Group recognized translation differences on foreign operations in a separate component of equity. Cumulative foreign currency translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS. Accordingly, at date of transition to MFRS, the cumulative foreign currency translation differences of RM127,777 (31 December 2011: RM127,777) were adjusted to retained earnings.

(c) Estimates

The estimates at 1 January 2011 and at 31 December 2011 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 January 2011, the date of transition to MFRS and as of 31 December 2011.

The reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

(i) Reconciliation of equity as at 31 December 2011

	FRS as at 31 December 2011 RM'000	Adjustments Note A3(b) RM'000	MFRS as at 31 December 2011 RM'000
Assets			
Non-current assets	89,245		89,245
Current assets	81,707		81,707
Total assets	170,952		170,952
Equity and liabilities			
Equity			
Share capital	43,560		43,560
Share premium	2,168		2,168
Treasury shares	(7)		(7)
Translation reserve	(128)	128	-
Merger reserve	1,518		1,518
Retained earnings	44,004	(128)	43,876
	91,115		91,115
Non-current liabilities	13,333		13,333
Current liabilities	66,504		66,504
Total liabilities	79,837		79,837
Total equity and liabilities	170,952		170,952

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A3. Significant accounting policies and application of MFRS 1 (contd.)

(ii) Reconciliations of total comprehensive income for the quarter ended 31 December 2011 and for the 12 months ended 31 December 2011

There is no impact on the total comprehensive income for the quarter ended 31 December 2011 and for the 12 months ended 31 December 2011, and thus no reconciliation is required.

A4. Change in estimates

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

A5. Changes in composition of the Group

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

A6. Segment information

	Batteries		Reclamation		Others		Total		Eliminations and adjustments		Per condensed consolidated financial statements	
	Cumulative quarter 12 months ended 31 December											
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue												
External	163,156	151,052	31,046	13,209	3,463	1,731	197,665	165,992	-	-	197,665	165,992
Inter-segment	12,736	13,351	74,242	75,295	5,100	3,702	92,078	92,348	(92,078)	(92,348)	-	-
Total revenue	175,891	164,403	105,288	88,503	8,563	5,433	289,742	258,340	(92,078)	(92,348)	197,665	165,992
Segment profit/(loss)	12,119	5,678	2,870	4,889	(2,173)	(1,617)	12,816	8,950	(182)	94	12,634	9,044

	Cumulative quarter 12 months ended 31 December	
	2012 RM'000	2011 RM'000
	Segment profit	12,816
Share of loss of associates	(20)	(4)
Share of loss of joint venture	(200)	-
Profit from inter-segment sales	38	98
Profit before tax	12,634	9,044

The Group is organized into business units based on their products and services, and has three reportable operating segments as follows:

- Batteries- manufacturing and marketing of batteries;
- Reclamation- material recovery in production of secondary lead and plastic reclamation from scrap batteries and other related rejects; and
- Others- investment holding, battery charging services, trading of industrial batteries and battery related equipment, transportation services and dormant companies.

There has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

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A7. Seasonality of operations

The operations of the Group are not seasonal in nature.

A8. Profit before tax

Included in the profit before tax are the following items:

	Current quarter		Cummulative quarter	
	3 months ended		12 months ended	
	31 December		31 December	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Interest income	1	0	4	14
Finance cost	607	774	2,949	2,907
Depreciation of property, plant and equipment and investment properties	1,676	1,607	6,544	6,124
Reversal of/(allowance for) impairment loss on financial assets:				
- trade receivables	(1)	(29)	(1)	(29)
- other receivables	-	-	-	-
Bad debts written off	1	37	11	37
Inventories written off	(3)	179	1,361	1,085
Inventories written down	118	969	483	1,334
Gain/(loss) on disposal of:				
- property, plant and equipment	(21)	106	90	1,200
- investment properties	16	-	16	69
- investment in subsidiaries	-	-	-	-
Impairment of property, plant and equipment	-	-	-	-
Foreign exchange gain/(loss)				
- realised	196	(16)	180	(234)
- unrealised	9	30	(116)	172
- arising from translation of foreign operation	-	-	-	-
Gain or loss on derivatives	-	-	-	-
Property, plant and equipment written off	66	150	193	220

A9. Income tax expense

	Current quarter		Cummulative quarter	
	3 months ended		12 months ended	
	31 December		31 December	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Income tax expense/(benefit)	2,453	(368)	3,984	1,584
Deferred tax expense	(115)	276	521	262
Income tax expense/(benefit)	2,338	(92)	4,505	1,846

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A9. Income tax expense (contd.)

The Group's effective tax rate in current quarter and current cumulative quarter was substantially higher than the statutory tax rate principally due to losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

The Group's effective tax rate for the corresponding quarter and corresponding cumulative quarter was lower than the statutory tax rate mainly due to utilization of reinvestment allowance during the period under review.

A10. Earnings per share

Basic earnings per share are calculated by dividing profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares held by the Company.

The Company has no potential ordinary shares in issue as at 31 December 2012. As such, the fully diluted earnings per share of the Company are equivalent to the basic earnings per share.

	Current quarter		Cumulative quarter	
	3 months ended		12 months ended	
	31 December		31 December	
	2012	2011	2012	2011
Profit/(loss) attributable to owners of the parent (RM'000)	4,711	(110)	8,129	7,198
Weighted average number of ordinary share in issuance ('000)	87,110	87,114	87,110	87,114
Basic earnings/(loss) per share (sen)	5.41	(0.13)	9.33	8.26

A11. Property, plant and equipment

Acquisitions

During the three months ended 31 December 2012, the Group acquired assets at a cost of RM1,637,000 (31 December 2011: RM3,838,000). Included in the total assets acquired is an amount of capital expenditure in progress of RM249,000 (31 December 2011: RM182,000).

Disposals

Assets with a carrying amount of RM100,000 (31 December 2011: RM 823,000) were disposed of by the Group during the three months ended 31 December 2012, resulting in a loss on disposal of RM6,000 (31 December 2011 : Gain on disposal RM106,000), recognized and included in other income in the statement of comprehensive income.

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A12. Share capital, share premium and treasury shares

During 18th Annual General Meeting (“AGM”) held on 17 May 2012, the shareholders of the Company have approved the renewal of the authority for the Company to purchase its own shares, where the maximum number of shares purchased shall not exceed ten per centum (10%) of the issued and paid-up share capital of the Company at any point of time. The said approval shall, in accordance with the Listing Requirements, expire at the forthcoming AGM unless renewed by an ordinary resolution passed by the shareholders.

The Company has bought back 10,000 ordinary shares of RM0.50 each at an average price of RM0.73 per share from the open market in year 2011. The total consideration including transaction cost for the said shares bought back was RM7,361 and was financed by internally generated fund. The shares bought back are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

During the three months ended 31 December 2012, there were no movement in share capital, share premium and treasury shares.

A13. Loans and borrowings

	31 December 2012 RM'000	31 December 2011 RM'000
Current		
Secured	35,866	52,336
Non-current		
Secured	7,922	7,552
Total	43,788	59,888

The Group’s loans and borrowings are secured by a corporate guarantee by the Company, except for RM1,012,300 (31 December 2011: RM1,466,200) of the Group's loans and borrowings which are secured by a corporate guarantee by the ultimate holding company. In addition, the term loans and bank overdrafts are secured over the property, plant and equipment and investment properties, including a debenture against its future movable and immovable assets.

A14. Dividends

The final dividend of 1.25 sen per share less 25% tax for the financial year ended 31 December 2011 (31 December 2010: 4.86 sen per share less 25% tax) totaling RM0.8 million was paid on 31 May 2012.

No interim dividend has been declared for the financial year 31 December 2012. In corresponding financial year ended 31 December 2011, an interim dividend of 2.05 sen per share less 25% tax totaling RM1.3 million was declared for the financial year 2011 and paid on 8 September 2011.

The Board of Directors is recommending for shareholders’ approval at the forthcoming Annual General Meeting, a final dividend of 3.73 sen per share less 25% tax for the financial year ended 31 December 2012, totaling RM2.4 million.

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A15. Commitments

	31 December 2012 RM'000	31 December 2011 RM'000
Property, plant and equipment:		
- approved and contracted for	1,779	311
- approved but not contracted for	13,961	6,627
Investment in joint venture		
- shareholder's loan	1,390	-
- share of capital expenditure commitments	165	-
	17,296	6,938

A16. Contingencies

The Group has provided the following guarantees at the reporting date:

- (a) Indemnities given to local authorities of RM850,666 (31 December 2011: RM816,124) in respect of bank guarantees.
- (b) Indemnities given to Borneo Technical Co. (M) Sdn. Bhd. of RM600,000 (31 December 2011: RM600,000) for employee benefit in the event of discontinuity of service.

The Company has provided corporate guarantees to banks amounting to RM42,776,068 (31 December 2011: RM58,422,359).

A17. Related party transactions

The following table provides information on the transactions which have been entered into with related parties during the following period:

	Current quarter 3 months ended		Cummulative quarter 12 months ended	
	31 December		31 December	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Borneo Technical Co. (M) Sdn. Bhd.	35,657	24,633	126,677	106,316
Borneo Technical (Thailand) Limited	1,605	380	3,741	2,737
Hup Soon Industrial Equipment Sdn.Bhd. ("HSIE") *	-	6	-	80
Hup Soon Global (M) Sdn. Bhd.	24	24	96	96
Yoko Bolder (M) Sdn.Bhd.	47	-	229	-

* HSIE was disposed of by Hup Soon Global Corporation Ltd with effect from 14 April 2011. The transaction value recorded was up to 13 April 2011.

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APPENDIX 9B, PART A
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B1. Performance review

Current quarter against corresponding quarter in prior year

	Batteries		Reclamation		Others		Total		Eliminations and adjustments		Per condensed consolidated financial statements	
	Quarter 3 months ended 31 December											
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue												
External	44,460	37,280	9,073	793	1,179	1,223	54,712	39,296	-	-	54,712	39,296
Inter-segment	3,026	2,046	22,300	19,018	1,479	1,130	26,805	22,194	(26,805)	(22,194)	-	-
Total revenue	47,486	39,326	31,373	19,810	2,658	2,353	81,517	61,490	(26,805)	(22,194)	54,712	39,296
Segment profit/(loss)	6,091	1,555	1,940	(2,411)	(600)	7	7,431	(849)	(382)	647	7,049	(202)

Batteries

Despite lower selling price pegged to lower LME's lead price in current quarter, revenue increased by RM8.2 million due to a substantial increase of 25% in sales volume of automotive batteries.

This segment recorded a profit before tax of RM6.1 million, which was significantly higher than that of the corresponding quarter in 2011 of RM1.6 million. The increase in profit before tax was mainly contributed by the growth in sales volume of automotive batteries, and increase of RM1.0 million in profit sharing from distributor.

Reclamation

Revenue from this segment increased from RM19.8 million in the corresponding quarter in 2011 to RM31.4 million in current quarter, mainly due to a significant increase of 68% in tonnage sold in current quarter.

Reclamation segment recorded a profit before tax of RM1.9 million in current quarter as compared to a loss of RM2.4 million in corresponding quarter, mainly due to the decrease in cost of raw materials, but slightly offset by the lower throughput yield from tilting rotary furnaces.

Others

This segment registered a minimal increase of RM0.3 million in revenue in current quarter, which was derived from sales of industrial batteries and battery related equipment and charging services.

This segment recorded a loss of RM0.6 million in current quarter, mainly due to reversal of impairment loss of intercompany debts and waiver of intercompany debts in corresponding quarter in 2011.

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B2. Performance review (contd.)

Current year to date against corresponding year to date

	Batteries		Reclamation		Others		Total		Eliminations and adjustments		Per condensed consolidated financial statements	
	Cumulative quarter 12 months ended 31 December						2012	2011	2012	2011	2012	2011
	2012	2011	2012	2011	2012	2011						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue												
External	163,156	151,052	31,046	13,209	3,463	1,731	197,665	165,992	-	-	197,665	165,992
Inter-segment	12,736	13,351	74,242	75,295	5,100	3,702	92,078	92,348	(92,078)	(92,348)	-	-
Total revenue	175,891	164,403	105,288	88,503	8,563	5,433	289,742	258,340	(92,078)	(92,348)	197,665	165,992
Segment profit/(loss)	12,119	5,678	2,870	4,889	(2,173)	(1,617)	12,816	8,950	(182)	94	12,634	9,044

Batteries

The increase of RM11.5 million in revenue was primarily due to a growth of 22% in sales volume offset by the lower selling price pegged to the lower LME's lead price in current year.

The profit before tax for the year was at RM12.1 million compared to the amount of RM5.7 million in previous year, mainly due to the growth in sales volume, and cost saving as a result of the increase in production volume of automotive batteries.

Reclamation

Reclamation segment recorded an increase of RM16.8 million in revenue mainly due to increase in tonnage sold, offset by lower selling price pegged to lower LME's lead price in current year.

Despite the increase in tonnage sold and the lowering of production costs with introduction of tilting rotary furnaces, profit before tax decreased from RM4.9 million in previous year to RM2.9 million in current year. The decrease in profit before tax was mainly due to lower throughput yield from tilting rotary furnaces, increase in selling and distribution expenses for higher export sales, and increase in depreciation for additional capital expenditure incurred during the year.

Others

Revenue of this segment registered a growth. The revenue increased from RM5.4 million in the previous year to RM8.6 million in the current year.

As initial development costs has to be incurred to support the growth in business, a loss of RM2.1 million was incurred.

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B3. Comment on material change in current quarter against preceding quarter

	Batteries		Reclamation		Others		Total		Eliminations and adjustments		Per condensed consolidated financial statements	
	Quarter 3 months ended		Quarter 3 months ended		Quarter 3 months ended		Quarter 3 months ended		Quarter 3 months ended		Quarter 3 months ended	
	31 Dec 2012	30 Sept 2012	31 Dec 2012	30 Sept 2012	31 Dec 2012	30 Sept 2012	31 Dec 2012	30 Sept 2012	31 Dec 2012	30 Sept 2012	31 Dec 2012	30 Sept 2012
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue												
External	44,460	42,101	9,073	12,777	1,179	936	54,712	55,814	-	-	54,712	55,814
Inter-segment	3,026	3,446	22,300	20,743	1,479	1,370	26,805	25,559	(26,805)	(25,559)	-	-
Total revenue	47,486	45,547	31,373	33,520	2,658	2,306	81,517	81,373	(26,805)	(25,559)	54,712	55,814
Segment profit/(loss)	6,091	4,550	1,940	1,759	(600)	(585)	7,431	5,724	(382)	(30)	7,049	5,694

Batteries

Revenue increased from RM45.5 million in preceding quarter to RM47.5 million in current quarter, primarily due to an increase of 3% in sales volume in current quarter.

Profit before tax of this segment increased from RM4.6 million in preceding quarter to RM6.1 million in current quarter, mainly contributed by an increase in share of distribution profits from a related company and a decrease in advertisement and promotion expense in current quarter.

Reclamation

Reclamation segment recorded a decrease of RM2.1 million in revenue, mainly due to lower tonnage sold, mitigated by higher selling price pegged to higher LME's lead price in current quarter.

As a result of the abovementioned factors, there was no major fluctuation in profit before tax of this segment.

Others

This segment registered a minor growth of RM0.3 million in revenue in current quarter, which was derived from sales of industrial batteries and battery related equipment and charging services.

No significant fluctuation in loss before tax from this segment as the additional profit derived from the additional revenue has been offset by increase in staff costs in current quarter.

B4. Commentary on prospects

With self sufficiency of lead and continuous effort in cost optimization and barring adverse movement in lead price, we expect to remain profitable in the coming financial year.

B5. Profit forecast or profit guarantee

The Group did not issue any profit forecast or profit guarantee for the current interim period.

B6. Corporate proposals

The corporate proposals announced by the Group but not completed as at the date of this announcement are listed below:

- (a) During 18th Annual General Meeting (“AGM”) held on 17 May 2012, the shareholders of the Company have approved the renewal of the authority for the Company to purchase its own shares, where the maximum number of shares purchased shall not exceed ten per centum (10%) of the issued and paid-up share capital of the Company at any point of time. The said approval shall, in accordance with the Listing Requirements, expire at the forthcoming AGM unless renewed by an ordinary resolution passed by the shareholders.

In prior year 2011, the Company has bought back 10,000 ordinary shares of RM0.50 each at an average price of RM0.73 per share from the open market. The total consideration including transaction cost for the said shares bought back was RM7,361 and was financed by internally generated fund. The shares bought back are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

There was no share buy-back during the three months ended 31 December 2012 and up to the date of this report.

- (b) On 13 May 2011, the Company announced that Yokohama Ventures Sdn. Bhd. (“Yokohama Ventures”), a wholly owned subsidiary of the Company, had on even date entered into a Call Option Agreement (“Agreement”) with Mehran Cycle Industries (Pvt.) Ltd. (“Mehran Cycle”), wherein Mehran Cycle has agreed to grant to Yokohama Ventures an option to purchase up to forty nine per centum (49%) of the ordinary issued and paid up share capital of Mehran Yokohama Batteries (Pvt.) Limited in Pakistan.

As of the date of this report, Yokohama Ventures has not exercised the option. .

B7. Changes in material litigation

There was no material litigation against the Group.

B8. Dividend

Please refer to A14 for details.

B9. Disclosure of nature of outstanding derivatives

There were no outstanding derivatives as at the end of the reporting period.

B10. Rationale for entering into derivatives

The Group did not enter into any derivatives during the year ended 31 December 2012 or the previous financial year ended 31 December 2011.

B11. Risks and policies of derivatives

The Group did not enter into any derivatives during the year ended 31 December 2012 or the previous financial year ended 31 December 2011.

B12. Disclosures of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measures at fair value through profit or loss as at 31 December 2012 and 31 December 2011.

B13. Breakdown of realised and unrealised profits or losses

The breakdown of the retained profits of the Group as at 31 December 2012 and 31 December 2011 into realised and unrealised profits is presented in accordance with the directives issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and 20 December 2010, prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	31 December 2012 RM'000	31 December 2011 RM'000
Total retained earnings of the Company and its subsidiaries:		
- Realised	45,494	37,163
- Unrealised	6,053	6,797
	51,547	43,960
Total share of accumulated losses from associates		
- Realised	(20)	(4)
- Unrealised	-	-
Total share of accumulated losses from joint venture		
- Realised	(200)	-
- Unrealised	-	-
	51,327	43,956
Less: Consolidation adjustments	(139)	(80)
Retained earnings as per financial statements	51,188	43,876

B14. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2011 was not qualified.