



A: EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134

1. Basis of Preparation

The interim financial statements have been prepared under historical cost convention.

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 Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 30 September 2010.

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 Pelangi Publishing Group Bhd. (“PPGB” or “Company”) and its subsidiary companies (hereinafter referred to as the “Group”) since the financial year ended 30 September 2010.

2. Changes on Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 30 September 2010, except for the adoption of the following new Financial Reporting Standards (FRSs), Amendments to FRSs, Interpretations and Technical Release with effect from 1 October 2010.

On 1 October 2010, the Group adopted the following FRSs:-

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (Revised 2009)
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 1	First-time Adoption of Financial Reporting Standards
Amendment to FRS 7	Financial Instruments: Disclosures
Amendment to FRS 8	Operating Segments
Amendment to FRS 107	Statement of Cash Flows
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 110	Events after the Reporting Period
Amendment to FRS 116	Property, Plant and Equipment
Amendment to FRS 117	Leases
Amendment to FRS 118	Revenue
Amendment to FRS 119	Employee Benefits
Amendment to FRS 123	Borrowing Costs
Amendment to FRS 127	Consolidated and Separate Financial Statements
Amendment to FRS 128	Investments in Associates
Amendment to FRS 132	Financial Instruments: Presentation
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 136	Impairment of Assets
Amendment to FRS 138	Intangible Assets
Amendment to FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 140	Investment Property
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 - Group and Treasury Share Transactions

Other than the principal effects as discussed below, the adoption of the above FRSs, Amendments and Interpretations do not have any significant financial impact on the Group's result.

2. Changes on Accounting Policies (cont'd)

(a) FRS 101 : Presentation of Financial Statements

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

Upon 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 statement of comprehensive income consists of profit or loss for the period and other comprehensive income. All non-owner changes in equity previously presented in the consolidated statement of changes in equity are now presented in the statement of comprehensive income as components in other comprehensive income. The consolidated statement of changes in equity will now include only details of transactions with owners.

(b) FRS 117 : Leases

Prior to the adoption of the Amendments to FRS 117, leasehold land that normally had an indefinite economic life and where title is not expected to pass to the lessee by the end of the lease term is treated as operating lease. The payments made on acquiring the leasehold land are classified as prepaid lease payments and amortised on a straight-line basis over the lease term.

The Amendments to FRS 117 clarifies that the classification of leasehold land as a finance lease or an operating lease shall be based on the extent to which risks and rewards incidental to ownership lie. As such, the Group has reassessed the classification of the leasehold land and concluded that all leasehold land of the Group are in substance is a finance lease. Accordingly, the Group has changed the classification of the leasehold land from operating lease to finance lease and has reclassified its leasehold land from prepaid lease payments to property, plant and equipment.

The comparative balances as at 30 September 2010 have been restated as follows:

	Consolidated Balance Sheet (Previously Stated)	Effects on Adoption of FRS 117	Consolidated Statements of Financial Position (Restated)
	RM'000	RM'000	RM'000
Property, plant and equipment	22,366	8,749	31,115
Prepaid lease payments	8,749	(8,749)	-

(c) FRS 127 : Consolidated and Separate Financial Statements (revised in 2010)

FRS 127 (revised in 2010), which supersedes FRS 127 : Consolidated and Separate Financial Statements (revised in 2005), requires that an entity should attribute the total comprehensive income applicable to non-controlling interests into the account of non-controlling interest, even if this results in the non-controlling interests having a deficit balance. The revised standard also requires the changes in a parent's ownership interest in a subsidiary that do not result in a loss of control to be accounted for as equity transactions. The Group has applied this revised standard prospectively in accordance with the transitional provision of FRS 127 (revised in 2010).

(d) FRS 139 : Financial Instruments : Recognition and Measurement

FRS 139 establishes principles for recognition and measurement of financial instruments. A financial asset or financial liability shall be recognised in its statements of financial position when the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is recorded at fair value upon initial recognition.

Financial assets

Subsequent to initial recognition, financial assets are classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables', 'available for sale financial assets' or 'derivative designated as hedging instruments', as appropriate.

'Loans and receivables' prior to the adoption of FRS 139 were stated at cost less allowance for doubtful debts. Under FRS 139, financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest methods. Gains or losses arising from amortisation process, impairment, or derecognition of loans and receivables are recognised in profit or loss.

Financial liabilities

After initial recognition, financial liabilities are classified as 'fair value through profit or loss', 'loans and borrowings' or 'derivatives designated as hedging instruments', as appropriate.

3. Auditors' Report on preceding Annual Financial Statements

The auditors' report on the financial statements for the year ended 30 September 2010 was not subject to qualification.

4. Comments about Seasonal or Cyclical Factors

The Group is basically involved in the production and distribution of books. In relation to our academic books, school terms will have impact on revenue and margin.

The bulk of turnover of the Group will come from 4th quarter of the calendar year (1st quarter of our financial year) before school term reopens. The turnover cycle will drop in the 1st and 2nd quarter of the following calendar year (2nd and 3rd quarter of our financial year). These are periods of heavy returns.

The 3rd quarter of the calendar year (4th quarter of our financial year) is the period of heavy production and promotion. However, the turnover starts picking up towards the end of the 3rd quarter and the momentum is well carried forward to the 4th quarter of the calendar year (1st quarter of our financial year) before school term reopens.

5. Unusual Items due to their Nature, Size and Incidence

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

6. Changes in Estimates

There were no changes to the estimates that have a material effect in the current quarter under review.

7. Debts and Equity Securities

Treasury Shares

The Company has not repurchased any ordinary shares of RM0.50 each from the open market during the current quarter ended 30 June 2011.

As at 30 June 2011, a total of 3,271,100 ordinary shares of RM0.50 each are held as treasury shares by the Company. These treasury shares are held at a total carrying amount of RM1,407,602.

The buy back transactions were financed by internally generated funds. The shares purchased are held as treasury shares in accordance with Section 67A of the Companies Act 1965. None of the treasury shares held are resold or cancelled during the period ended 30 June 2011.

Other than as mentioned above, there are no issuance, cancellation, repurchase, resale or repayment of debts and equity securities for the current quarter.

8. Dividends

A final dividend of 4% less 25% tax per ordinary share of RM0.50 each amounting to RM1,450,933 in respect of the financial year ended 30 September 2010 was paid on 29 April 2011.

No dividend has been proposed or declared during the quarter under review.

9. Segmental Information

	Quarter ended		Financial period ended	
	30.6.2011 RM'000	30.6.2010 RM'000	30.6.2011 RM'000	30.6.2010 RM'000
Segment Revenue				
<u>Revenue</u>				
Publishing	10,178	9,124	40,248	38,256
Printing	3,242	2,946	10,496	9,586
Education	321	231	1,201	812
Others	274	259	6,156	792
Total revenue including inter segment sales	14,015	12,560	58,101	49,446
Elimination of inter-segment sales	(1,577)	(2,390)	(11,157)	(5,597)
Total revenue	<u>12,438</u>	<u>10,170</u>	<u>46,944</u>	<u>43,849</u>
<u>Segment Results</u>				
Publishing	1,041	872	9,776	7,006
Printing	(118)	68	(695)	48
Education	(265)	(119)	(599)	(118)
Others	(119)	(56)	(385)	107
Total operating profit	<u>539</u>	<u>765</u>	<u>8,097</u>	<u>7,043</u>

10. Valuation of Property, Plant and Equipment

There were no revaluation of property, plant and equipment during the quarter under review.

11. Subsequent Events

There is no material subsequent event from the end of the period to 12 August 2011.

12. Change in the Composition of the Group

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

13. Changes in Contingent Liabilities or Contingent Assets

There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet as at 30 September 2010.

14. Capital Commitments

There were no capital commitments for the purchase of property, plant and equipment for the quarter ended 30 June 2011.

15. Performance Review (YTD Q3 2011 vs YTD Q3 2010)

The Group reported a consolidated turnover of RM46.9 million for the current period ended 30 June 2011 as compared to RM43.8 million for the preceding period ended 30 June 2010. The consolidated turnover showed an increase of RM3.1 million or an improvement of 7.1% for the period under review.

The Group reported a profit after tax of RM5.7 million for the current period ended 30 June 2011 as compared to RM5.0 million for the preceding period ended 30 June 2010. The consolidated profit after tax showed an improvement of RM700,000 for the period under review.

Included in the profit after tax of RM5.7 million for the current period under review is a gain on disposal of factory units of a subsidiary amounted to RM985,000. After exclusion of the non-operation income (other income) for both current and comparative periods, the Group's profit after tax recorded a slight improvement of RM101,000. This improvement was mainly due to the higher sales generated from the publishing sector.

16. Comparison with Preceding Quarter Results (Q3 2011 vs Q2 2011)

The Group reported a lower profit before taxation for the current quarter ended 30 June 2011 of RM404,000 as compared to the preceding quarter ended 31 March 2011 of RM3.145 million. The decrease is mainly due to the lower turnover cycle in this quarter as explained in Note 4.

17. Commentary of Prospects

Barring unforeseen circumstances, the Board is confident of achieving satisfactory results for the financial year ending 2011 in light of robust economic growth in our country and the effect due arising from the recent launching of Economic Transformation Program by our prime minister.

18. Profit Forecast & Profit Guarantee

The Group has not issued any profit forecast or profit guarantee during the current quarter under review.

19. Taxation

	Current Quarter 30.6.2011 RM'000	Cumulative Quarter 30.6.2011 RM'000
Income tax:		
Malaysian	140	(1,829)
Overseas	(176)	(176)
Deferred tax:		
Malaysian	(265)	(61)
Overseas	-	-
Total	<u>(301)</u>	<u>(2,066)</u>

The effective tax rate of the Group for the financial period is higher than the statutory tax rate principally due to certain non-qualified expenses incurred during the period which are not deductible for tax purposes.

20. Sale of Unquoted Investments and / or Properties

There were no sale of unquoted investments and / or properties for the current quarter under review.

21 Sale / Purchase of Quoted Securities

The Group did not sell or purchase any quoted securities during the quarter under review.

22. Corporate Proposals

There were no corporate proposals announced or not completed as at the date of this report.

23. Borrowings and Debt Securities

Group borrowings	As at 30.6.2011		Total RM'000
	Secured RM'000	Unsecured RM'000	
Short term	2,161	-	2,161
Long term	6,226	-	6,226
	<u>8,387</u>	<u>-</u>	<u>8,387</u>

All borrowings are denominated in Ringgit Malaysia.

24. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at the date of this report.

25. Changes in Material Litigation

As at the date of this report, there are no material litigations that have material effect to the Group as at 12 August 2011.

26. Earnings per share

a) Basic

The basic earnings per share for the quarter and cumulative period to date are computed as follows:

	Quarter ended		Financial period ended	
	30.6.2011	30.6.2010	30.6.2011	30.6.2010
Net profit for the period (RM'000)	<u>29</u>	<u>421</u>	<u>5,649</u>	<u>4,955</u>
Weighted average number of ordinary shares in issue ('000)	<u>97,807</u>	<u>100,000</u>	<u>98,962</u>	<u>100,000</u>
Earnings Per Share (sen)	<u>0.03</u>	<u>0.42</u>	<u>5.71</u>	<u>4.96</u>

b) Diluted

There are no dilutive securities issued by the Company and hence, diluted earnings per share are no computed.

27. Realised and Unrealised Profit / Losses

The retained earnings as at reporting date are analysed as follows :

	As at 30.6.2011 RM'000	As at 30.9.2010 RM'000 (Audited)
Holding Company & its Subsidiaries		
Realised	59,729	56,361
Unrealised	17	(385)
	<u>59,746</u>	<u>55,976</u>
Associated Companies		
Realised	(275)	(202)
Unrealised	-	-
	<u>59,471</u>	<u>55,774</u>
Consolidation adjustments	(24,598)	(25,099)
	<u>34,873</u>	<u>30,675</u>

28. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 19 August 2011.