

KOTRA INDUSTRIES BERHAD (497632-P)
 QUARTERLY REPORT ON CONSOLIDATED RESULTS
 FOR THE FIRST FINANCIAL QUARTER ENDED 30 SEPTEMBER 2018
 (The figures have not been audited)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 AND OTHER COMPREHENSIVE INCOME**

	Individual Quarter		Cumulative Quarter	
	Current Quarter Ended 30-09-18 RM'000	Corresponding Quarter Ended 30-09-17 RM'000	3 Months Cumulative To Date 30-09-18 RM'000	3 Months Cumulative To Date 30-09-17 RM'000
Revenue	47,013	43,177	47,013	43,177
Operating expenses	(41,825)	(39,983)	(41,825)	(39,983)
Other operating income	1,134	380	1,134	380
Profit from operations	6,322	3,574	6,322	3,574
Finance cost	(626)	(1,273)	(626)	(1,273)
Profit before tax	5,696	2,301	5,696	2,301
Tax expense	(23)	-	(23)	-
Profit after tax, representing total comprehensive income for the period	<u>5,673</u>	<u>2,301</u>	<u>5,673</u>	<u>2,301</u>
Profit per share (sen)				
(a) Basic	4.25	1.73	4.25	1.73
(b) Diluted	4.00	1.63	4.00	1.63

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with
 the Audited Financial Statements for the year ended 30 June 2018 and the accompanying
 explanatory notes attached to this interim financial report)

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(The figures have not been audited)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30.09.2018 RM '000	Audited As at 30.06.2018 (restated) RM '000
ASSETS			
Non-Current Assets			
Property, plant and equipment		141,933	144,489
Investment properties		1,435	1,441
		143,368	145,930
Current Assets			
Inventories		34,001	35,717
Trade receivables		37,607	36,218
Other receivables, deposits and prepayments		5,467	2,671
Fixed deposit with licensed bank		13,570	12,800
Cash and bank balances		10,731	8,076
		101,376	95,482
TOTAL ASSETS		244,744	241,412
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		69,266	68,660
Share option reserve		6,331	6,572
Retained earnings		82,281	76,608
		157,878	151,840
Non-Current Liabilities			
Long term borrowings	(B8)	41,238	45,893
Deferred Income		2,224	2,297
		43,462	48,190
Current Liabilities			
Trade payables		19,885	19,529
Other payables and accruals		10,646	10,015
Current tax liabilities		14	29
Short term borrowings	(B8)	12,859	11,809
		43,404	41,382
Total Liabilities		86,866	89,572
TOTAL EQUITY AND LIABILITIES		244,744	241,412
Net assets per share attributable to ordinary equity holders of the parent (RM)		1.18	1.14

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 30 June 2018 and the accompanying explanatory notes attached to this interim financial report)

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	3 Months Ended 30-09-18 RM '000	3 Months Ended 30-09-17 RM '000
Cash Flows From Operating Activities		
Profit before taxation	5,696	2,301
Adjustment for:		
Impairment loss on trade receivables	-	50
Reversal of impairment loss on trade receivables	(153)	-
Bad debts written off	(1)	-
Depreciation and amortisation	3,390	3,468
Grant received	(163)	-
Unrealised gain on foreign exchange	(127)	(189)
Amortisation of deferred income	(73)	(65)
Gain on disposal of property, plant and equipment	(1)	-
Interest expense	626	1,273
Interest income	(91)	(52)
Rental income from investment properties	(22)	(22)
Share based payment under ESOS	9	150
Operating profit before working capital changes	9,090	6,914
Decrease in inventories	1,716	4,843
(Increase) / Decrease in receivables	(3,954)	916
Increase / (Decrease) in payables	987	(5,748)
Cash generated from operations	7,839	6,925
Interest paid	(33)	(49)
Tax paid	(38)	(29)
Net cash from operating activities	7,768	6,847
Cash Flows For Investing Activities		
Interest received	91	52
Purchase of property, plant and equipment	(828)	(1,089)
Rental received	22	22
Proceed from disposal of property, plant and equipment	1	-
Net cash for investing activities	(714)	(1,015)

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (continued)

	3 Months	3 Months
	Ended	Ended
	30-09-18	30-09-17
	RM '000	RM '000
Cash Flows For Financing Activities		
Repayment of hire purchase payables	(174)	(142)
Repayment of term loans	(3,144)	(2,195)
Repayment of other short term borrowings	(287)	(3,589)
Proceeds from issuance of shares	356	141
Grant received	163	-
Interest paid	(593)	(1,224)
Net cash for financing activities	(3,679)	(7,009)
Net Increase / (Decrease) in Cash & Cash Equivalents	3,375	(1,177)
Effect of Exchange Rate Changes on Cash & Cash Equivalents	50	(42)
Cash & Cash Equivalents at beginning of the financial period	20,876	16,898
Cash & Cash Equivalents at end of financial period	24,301	15,679

(The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the Audited Financial Statements for the year ended 30 June 2018 and the accompanying explanatory notes attached to this interim financial report)

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital RM '000	Non - distributable Share Option Reserve RM '000	Distributable Retained Profits RM '000	Total RM '000
As at 30 September 2018				
Balance as 30 June 2018, as previously reported	68,660	6,572	78,022	153,254
Effect of MRFS 9 adoption (Note A1.1)	-	-	(1,414)	(1,414)
As at 1 July 2018 (Restated)	68,660	6,572	76,608	151,840
Profit after tax, representing total comprehensive income for the year	-	-	5,673	5,673
Share options exercised	606	(250)	-	356
Share based payment transactions	-	9	-	9
Balance at 30 September 2018	69,266	6,331	82,281	157,878
As at 30 September 2017				
Balance at 1 July 2017	68,293	6,173	67,617	142,083
Profit after tax, representing total comprehensive expense for the year	-	-	2,301	2,301
Share options exercised	240	(99)	-	141
Share based payment transactions	-	150	-	150
Balance at 30 September 2017	68,533	6,224	69,918	144,675

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 30 June 2018 and the accompanying explanatory notes attached to this interim financial report)

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A. Explanatory Notes pursuant to MFRS 134 Interim Financial Reporting

A1. Accounting Policies and Methods of Computation

The interim financial statements have been prepared in accordance with MFRS 134, Interim Financial Reporting and paragraph 9.22 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements. The figures for the cumulative period in the current quarter to 30 September 2018 have not been audited. The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2018.

The significant accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the annual audited financial statements for the financial year ended 30 June 2018.

A1.1 During the current financial period, the Group has adopted the following new Malaysian Financial Reporting Standards and interpretations (including the consequential amendments, if any) :-

- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)
- MFRS 15 Revenue from Contracts with Customers
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 2: Classification and Measurement of share based payment transactions
- Amendments to MFRS 15: Effective Date of MFRS 15
- Amendments to MFRS 15: Clarifications to MFRS 15 'Revenue from Contracts with Customers
- Amendments to MFRS 140 - Transfers of Investment Property
- Annual Improvements to MFRS Standards 2014 - 2016 Cycles:
 - Amendments to MFRS 1: Deletion of Short-Term Exemption for First-Time Adoptions

The initial application of the above new Malaysian Financial Reporting Standards and interpretations (including the consequential amendments, if any) did not have any material impact to the Group's and the Company's financial statements, except as mentioned below :

MFRS 9 Financial Instruments

MFRS 9 introduces a new classification and measurement requirements for financial assets that reflects the business model in which the financial assets are managed and their cash flow characteristics. MFRS 9 contains 3 principal classification categories for financial assets, i.e. measured at amortised cost, fair value through profit or loss, fair value through other comprehensive income and eliminates the previous categories of held to maturity, loans and receivables and available-for-sale financial assets.

In addition, MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an 'expected credit loss' ("ECL") model. This new impairment model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The Group applies the simplified approach prescribed by MFRS 9, which requires expected lifetime losses to be recognised on the receivables.

In accordance with the transition requirements under MFRS 9, the Group elects not to restate the comparatives. Financial impact arising from the initial application of the new impairment model has been recognised in the opening balance of the retained earnings and the carrying amount of the financial assets as at 1 July 2018 as disclosed below:

	MFRS 139 Carrying amount as at 30 June 2018 RM '000	Remeasurement RM'000	MFRS 9 Carrying amount as 1 July 2018 RM'000
Trade Receivables	37,632	(1,414)	36,218
Retained profits	<u>(78,022)</u>	<u>1,414</u>	<u>(76,608)</u>

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A1.2 The Group has not applied in advance the following Malaysian Financial Reporting Standards and interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial period:

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 16 Leases	01-Jan-19
MFRS 17 Insurance Contracts	01-Jan-21
IC Interpretation 23 Uncertainty Over Income Tax Treatments	01-Jan-19
Amendments to MFRS 9: Prepayment Features with Negative Compensation	01-Jan-19
Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
MFRS 119 : Plan Amendment, Curtailment or Settlement	01-Jan-19
Amendments to References to the Conceptual Framework in MFRS Standards	01-Jan-20
Annual Improvements to MFRS Standards 2015 - 2017 Cycles:	01-Jan-19

The adoption of the above-mentioned Malaysian Financial Reporting Standards and interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Group upon their initial application.

A2. Seasonal or Cyclical Factors

The business operation of the Group was not materially affected by any seasonal or cyclical factors.

A3. Unusual items affecting Assets, Liabilities, Equity, Net Income or Cash Flows

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

A4. Changes in Estimates

There are no changes in estimates reported in prior interim periods of the current financial year or prior financial years which have a material effect in the current interim period.

A5. Issues, Repurchases and Repayments of Debt and Equity Securities

There were no issues, repurchases or repayments of debt and equity securities, for the period ended 30 September 2018 except for the issuance of 548,480 ordinary shares pursuant to the Company's Employee Share Option Scheme at the exercise price of RM0.65 each.

A6. Dividend Paid

There was no payment of dividend in the current quarter.

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A7. Segmental Information

The segment information in respect of the Group's operating segments for the period ended 30 September 2018 is as follows:

	Current Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Local	26,567	24,778	26,567	24,778
Export	20,446	18,399	20,446	18,399
External revenue	<u>47,013</u>	<u>43,177</u>	<u>47,013</u>	<u>43,177</u>
Local	6,044	2,556	6,044	2,556
Export	1,861	2,723	1,861	2,723
Profit from operations	<u>7,905</u>	<u>5,279</u>	<u>7,905</u>	<u>5,279</u>

A reconciliation of total profit from operations to total consolidated profit before tax is provided as follows:

	Current Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Profit from operations for reportable segments	7,905	5,279	7,905	5,279
Expenses managed on a central basis	(2,717)	(2,085)	(2,717)	(2,085)
Other operating income	1,134	380	1,134	380
Consolidated profit from operations	<u>6,322</u>	<u>3,574</u>	<u>6,322</u>	<u>3,574</u>
Finance cost	(626)	(1,273)	(626)	(1,273)
Consolidated Profit before tax	<u>5,696</u>	<u>2,301</u>	<u>5,696</u>	<u>2,301</u>

A8. Events After the Interim Period

There were no material events after the interim period which have not been reflected in the financial statements for the interim period.

A9. Effect of Changes in the Composition of the Group

There were no changes in the composition of the Group, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings and discontinuing operations during the interim period under review.

A10. Changes in Contingent Liabilities or Contingent Assets

There were no contingent liabilities or contingent assets at the end of this reporting period and end of last financial year.

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A11. Capital Commitments

The amounts committed for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 September 2018 are as follows:

	RM'000
Approved but not contracted for	3,941
Contracted but not provided for	11,073
	15,014

A12 Significant Related Party Transactions

The Group's significant related party transactions in the current financial period ended 30 September 2018 are as follows:

	Current Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Companies in which certain key management personnel have significant financial interests:				
- Rental of premises paid/payable	263	262	263	262
- Royalty paid/payable	3	4	3	4
A company in which a close member of the family of certain key management personnel has significant financial interests:				
- Rental of premises paid/payable	2	2	2	2
- Rental of premises received/receivable	(14)	(14)	(14)	(14)
- Sales of goods	(162)	(151)	(162)	(151)
	(162)	(151)	(162)	(151)

B. Explanatory Notes pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1. Review of the Performance of the Group

	3 Months		Changes %
	Ended 30 Sept		
	2018	2017	
	RM'000	RM'000	
Turnover	47,013	43,177	8.88%
Profit from operations	6,322	3,574	76.89%
Profit before tax	5,696	2,301	147.54%
Profit after tax (PAT)	5,673	2,301	146.54%
Net PAT margin	12.07%	5.33%	

The Group recorded an increase in turnover of 8.88% for the current period ended 30 September 2018 as compared to the corresponding 3 months ended 30 September 2017. This was mainly due to higher sales derived from both the local and export markets for health supplements products.

The Group recorded a profit before tax of RM 5.67 million for the 3 months ended 30 September 2018 as compared to a profit of RM 2.30 million for the 3 months ended 30 September in the preceding year. The increase was mainly due to higher sales achieved, rationalisation of selling and administration expenses and lower finance cost incurred in current period.

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B2. Comparison with Preceding Quarter's Results

	Quarter Ended		Changes %
	30 Sept 2018	30 Jun 2018	
	RM'000	RM'000	
Turnover	47,013	44,298	6.13%
Profit from operations	6,322	6,719	-5.91%
Profit before tax	5,696	5,653	0.76%
Profit after tax (PAT)	5,673	5,574	1.78%
Net PAT margin	<u>12.07%</u>	<u>12.58%</u>	

For the quarter ended 30 September 2018, the Group recorded an increase in revenue of 6.13% to RM47.01 million as compared to RM 44.29 million in the preceding quarter. This was mainly due to higher sales from export markets for health supplement products in current quarter, offset by lower sales of pharmaceutical products to local markets.

The Group recorded a profit before tax of RM5.6 million in the current quarter as compared to the profit before tax of RM 5.57 million in the preceding quarter. Increase in net profit margin in current quarter as compared to preceding quarter was mainly due to higher sales from export markets, lower finance cost incurred in current quarter, offset by higher advertisement and promotional expenses for export markets.

B3. Commentary on Prospects

As the current economic conditions remain challenging, going into the new financial year, the Group will continue to strive to increase its revenue in both the local and export markets. It will also seek to secure new tenders and contract manufacturing to utilise its available production capacity while leveraging the R&D activities for new products.

The Board is of the view that the Group will remain profitable for the rest of the financial year ending 30 June 2019 on the assumption that the economic conditions remain relatively unchanged.

B4. Variance of Actual Profit from Forecast Profit or Profit Guarantee

The Group did not issue any profit forecast or profit guarantee in the current quarter or in the prior financial period.

B5. Statement by Directors

The Group did not disclose or announce any profit forecast or projection in a public document in the current quarter or prior financial period.

B6. Breakdown of Tax Charges

	Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- Current tax expense	23	-	23	-
Total tax expenses	<u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>

The effective tax rate of the Group is lower than the statutory rate due to the utilisation of double deduction tax incentives for the eligible expenses provided under the Promotion of Investments Act 1986. Deferred tax assets have not been recognised in respect of the tax loss carry-forward and other deductible temporary differences, due to uncertainty of their recoverability in view of the expected availability of additional tax incentives.

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B7. Status of Corporate Proposals

There were no corporate proposals announced by the Company as at the date of the issue of this quarterly report.

B8. Details of Group Borrowings and Debt Securities

The Group's borrowings as at the end of this financial period were as follows:

	As at 30-09-18 RM'000	As at 30-09-17 RM'000
(a) Short Term Borrowings		
<u>Secured</u>		
Bills and other trade financing liabilities		
- Denominated in Ringgit Malaysia	-	1,479
- Denominated in Euros	-	1,897
HP Creditors	157	590
Term loan	12,702	8,582
	12,859	12,548
(b) Long Term Borrowings		
<u>Secured</u>		
HP Creditors	121	56
Term loan	41,117	55,215
	41,238	55,271

B9. Derivative Financial Instruments

(a) Derivative financial instruments are categorised as fair value through profit or loss and measured at their fair value with the changes in fair value recognised in the income statement at each reporting date. Financial instruments are viewed as risk management tools by the Group and are not used for trading or speculative purposes.

There was no outstanding Forward Foreign Exchange Contract as at 30 September 2018.

(b) There have been no changes since the end of the previous financial year in respect of the following:

- the types of derivative financial contracts entered into and the rationale for entering into such contracts, as well as the expected benefits accruing from these contracts;
- the risk management policies in place for mitigating and controlling the risks associated with these financial derivative contracts; and
- the related accounting policies.

B10. Material Litigation

There was no material litigation since the last financial period ended 30 September 2018 and up to 15 November 2018.

B11. Dividend Declared

The shareholders had on 22 November 2018, at the Company's 19th Annual General Meeting, approved the final dividend of 3 sen per ordinary share in respect of the financial year ended 30 June 2018. The entitlement date and payment has been fixed on 3 December 2018 and 18 December 2018, respectively.

No dividend has been proposed in respect of the current financial period ended 30 September 2018.

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B12. Profit before tax

	Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at after (crediting)/charging:				
Interest income	(91)	(52)	(91)	(52)
Other income	(124)	(69)	(124)	(69)
Depreciation and amortisation	3,390	3,468	3,390	3,468
Amortisation of deferred income	(73)	(65)	(73)	(65)
Bad debts written off	(1)	-	(1)	-
Rental income from investment properties	(22)	(22)	(22)	(22)
Reversal of impairment loss on trade receivables	(153)	-	(153)	-
Impairment loss on trade receivables	-	50	-	50
Gain on disposal of property, plant and equipment	(1)	-	(1)	-
Foreign exchange (gain) / loss				
- realised	(400)	346	(400)	346
- unrealised	(127)	(189)	(127)	(189)

There was no gain or loss on disposal of quoted or unquoted investment or properties nor any exceptional items for the current quarter and financial period ended 30 September 2018.

B13. Profit Per Share

	Quarter		3 Months	
	Ended 30 Sept		Ended 30 Sept	
	2018	2017	2018	2017
(a) Basic Profit Per Share				
Net Profit attributable to shareholders (RM'000)	5,673	2,301	5,673	2,301
Weighted average number of ordinary shares ('000)	133,438	132,871	133,438	132,871
Basic Profit per share (sen)	4.25	1.73	4.25	1.73
(b) Diluted Profit Per Share				
Net Profit attributable to shareholders (RM'000)	5,673	2,301	5,673	2,301
Weighted average number of ordinary shares ('000)	133,438	132,871	133,438	132,871
Adjustment for ESOS ('000)	8,495	8,059	8,495	8,059
	141,933	140,930	141,933	140,930
Diluted Profit per share (sen)	4.00	1.63	4.00	1.63

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B14. Audit Report

The auditors' report of the Group's annual financial statements for the year ended 30 June 2018 did not contain any qualification.

BY ORDER OF THE BOARD

CHUA SIEW CHUAN

Secretary

Date : 22 November 2018