# KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 1ST QUARTER ENDED 31 MARCH 2013

Explanatory notes to the Interim Financial Statements

## Accounting Policies and Basis of Preparation

This interim financial statements has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting and Rule 9.22 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2012.

1. **Significant Accounting Policies**

The significant accounting policies adopted by KIB and its subsidiaries (“Group”) in this interim financial statements are consistent with those adopted in the financial statements for the financial year ended 31 December 2012 except for the newly-issued Malaysian Accounting Standards Board approved accounting framework - MFRS and IC Interpretations (“IC Int.”) to be applied by all Entities Other Than Private Entities for the financial period beginning on 1 January 2013, which are as follows:

|  |  |
| --- | --- |
| Amendments to MFRS 101 | Presentation of Items of Other Comprehensive Income |
| MFRS 3 | Business Combinations |
| MFRS 10 | Consolidated Financial Statements |
| MFRS 11 | Joint Arrangements |
| MFRS 12 | Disclosure of Interests in Other Entities |
| MFRS 13 | Fair Value Measurement |
| MFRS 119 | Employee Benefits |
| MFRS 127 | Separate Financial Statements |
| MFRS 128 | Investments in Associates and Joint Ventures |
| Amendments to MFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities |
| Amendments to MFRS 10, MFRS 11 and MFRS 12) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| Annual Improvements 2009-2011 cycle issued in July 2012 |

At the date of authorisation of these interim financial statements, the following MFRSs and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

|  |  |
| --- | --- |
| **MFRSs and Amendments to FRSs issued but not yet effective** | **Effective for annual periods beginning on or after** |
| Amendments to MFRS 10, MFRS 12 and MFRS 127 | Investment Entities  | 1 January 2014 |
| Amendments to MFRS 132 | Offsetting Financial Assets and Financial Liabilities  | 1 January 2014 |
| MFRS 9 | Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010) | 1 January 2015 |

**3. Audit Report of the Preceding Audited Financial Statements**

The auditors’ report of the preceding annual financial statements of the Group was not subject to any qualification.

**4. Seasonal or Cyclical Factors**

There were no seasonal or cyclical factors affecting the results of the Group for the current financial quarter under review.

**5. Unusual Items**

There were no items or events that arose, which is unusual because of its nature, size, or incidence that has affected the assets, liabilities, equity, net income or cash flows of the Group for the current financial quarter under review.

**6. Material Changes in Estimates**

There were no material changes in estimates of amounts reported in prior financial years that have material effect on the current financial quarter under review.

**7. Changes in Debts and Equity Securities**

There were no issuance and repayment of debt and equity securities, share buy-backs and share cancellation, for the current financial quarter under review.

**8. Dividend Declared/Paid**

There was no dividend declared/paid during the current financial quarter under review.

1. **Segmental Reporting**

The segmental result of the Group for the current financial quarter under review is set out below:

**3 months ended 31 March 2013**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** |  |  |  |  |
| Sales (Gross) | 650 | 31,853 | 4,740 | 37,243 |
| Inter-segment sales | (625) | (2,446) | - | (3,071) |
| External | 25 | 29,407 | 4,740 | 34,172 |
|  |  |  |  |  |
| **RESULT** |  |  |  |  |
| Segment result | (297) | 3,394 | 351 | 3,448 |
| Finance costs  | - | (30) | (7) | (37) |
| Share of profit in a jointly controlled entity | 107 | - | - | 107 |
| (Loss)/Profit before tax  | (190) | 3,364 | 344 | 3,518 |
| Tax expense | (30) |  (690) | (72) |  (792) |
| (Loss)/Profit after tax | (220) | 2,674 | 272 | 2,726 |
|  |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 6,723 | 74,453 | 10,656 | 91,832 |
| Segment liabilities | 549 | 15,485 | 1,269 | 17,303 |

1. **Segmental Reporting**

**3 months ended 31 March 2012**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** |  |  |  |  |
| Sales (Gross) | 529 | 26,022 | 4,857 | 31,408 |
| Inter-segment sales |  (522) | (2,261) | - | (2,783) |
| External | 7 | 23,761 | 4,857 | 28,625 |
|  |  |  |  |  |
| **RESULT** |  |  |  |  |
| Segment result | (513) | 2,321 | 209 | 2,017 |
| Finance costs  | - | (44) | (12) |  (56) |
| Share of profit in a jointly controlled entity | 51 | - | - | 51 |
| (Loss)/Profit before tax  | (462) | 2,277 | 197 | 2,012 |
| Tax expense | - | (454) | (32) |  (486) |
| (Loss)/Profit after tax | (462) | 1,823 | 165 | 1,526 |
|  |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 9,482 | 60,736 | 9,947 | 80,165 |
| Segment liabilities | 556 | 14,251 | 1,471 | 16,278 |

**10. Valuation of Property, Plant and Equipment**

The Group did not revalue any of its property, plant and equipment during the current financial quarter under review. Therefore, the valuation of property, plant and equipment has been brought forward without amendment from the previous annual financial statements.

**11. Material Events Subsequent to the End of the Current Financial Quarter**

There were no material events occurred from 1 April 2013 to the date of announcement.

## 12. Changes in the Composition of the Group

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

**13. Contingent Liabilities and Contingent Assets**

1. **Contingent liabilities**

The amount of contingent liabilities as at 31 March 2013 are as follows:

|  |  |
| --- | --- |
|  | RM |
| Guarantees to banks for trade facilities granted | 23,050,000 |
| Guarantees to suppliers  |  3,000,000 |

**(b) Contingent assets**

There were no contingent assets as at the end of current financial quarter under review.

**14. Capital Commitment**

Capital commitment as at 31 March 2013 is as follows:

|  |  |
| --- | --- |
| Capital expenditure: | RM |
| Approved but not contracted for | 620,693 |

**15. Performance Review**

 **Current Financial Quarter as compared with Previous Year Corresponding Quarter**

|  |  |  |
| --- | --- | --- |
|  | **3 Months Ended** | **Variance** |
|  | **31.03.2013** | **31.03.2012** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 34,172 | 28,625 | 5,547 | 19.38 |
| Profit before tax  | 3,518 | 2,012 | 1,506 | 74.85 |

For the quarter ended 31 March 2013, the Group recorded revenue of RM34.172 million, an increase of RM5.547 million or 19.38% as compared to revenue of RM28.625 million recorded for the corresponding quarter ended 31 March 2012. The higher revenue was due mainly to the growth in sales volume coupled with higher selling price for polymeric products.

The Group’s profit before tax for the quarter ended 31 March 2013 had correspondingly increased to RM3.518 million or an increase of 74.85% as compared to the profit before tax of RM2.012 million recorded in the preceding financial year corresponding period due to the increase in revenue and improvement in gross profit margin. There was a gain on disposal of investment in an associate of RM0.300 million, which was previously written off in the previous year corresponding quarter.

Performance of the respective operating business segments for the current financial quarter as compared to the previous year corresponding quarter is analysed as follows:

Polymeric division

The revenue of polymeric division had increased by RM5.646 million, which was contributed mainly by the increase in sales volume by 1,373 metric tonnes, coupled with higher profit margin for the products sold. Similarly, the profit before tax has also increased by RM1.087 million due principally to the increase in revenue and profit margin.

Oleochemical division

The revenue of oleochemical division had decreased slightly by RM0.117 million due mainly to the decrease in selling price despite the increase in sales volume by 134 metric tonnes.

However, the profit before tax had increased by RM0.147 million due mainly to the improvement in gross profit margin for oleochemical products.

Investment holding

The loss before tax had decreased by RM0.272 million due mainly to the gain on disposal of investment in an associate which was previously written off.

 **16. Material Changes in Profit Before Tax as Compared with the Immediate Preceding Quarter**

|  |  |  |
| --- | --- | --- |
|  | **3 Months Ended** | **Deviation** |
|  | **31.03.2012** | **31.12.2012** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 34,172 | 32,833 | 1,339 | 4.08 |
| Profit before tax  | 3,518 | 2,875 | 643 | 22.37 |

The Group’s profit before tax of RM3.518 million for the first quarter ended 31 March 2013 shows an increase of RM0.643 million or 22.37% as compared to the profit before tax of RM2.875 million for the preceding quarter ended 31 December 2012.

The improvement in profit before tax was due mainly to the increase in sales volume of polymeric products. The gain on disposal of investment in an associate which was previously written off and the increase in the share of profit in a jointly controlled entity had further contributed to the increase in profit before tax.

## 17. Future Prospects

Moving forward to the remaining financial quarters of 2013, the Group expects to deliver another year of satisfactory and stable performance based on the following:

1. leveraging on the sound financial background of the Group;
2. continue to expand its market share in overseas and local markets;
3. improve its operational efficiencies; and
4. good business network.

## 18. Variance of Profit Forecast and Shortfall in Profit Guarantee

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

## 19. Tax Expense

 The tax expense charged for the current financial quarter under review is as follow:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Current Quarter/Financial Year-To-Date****31.03.2013** |  |  |
|  |  | **RM’000** |  |  |
|  |  |  |  |  |
|  | Estimated current tax expense | 791 |  |  |

## The Group’s effective tax rate was lower than the statutory tax rate of 25% due mainly to the inclusion of gain on disposal of investment in an associate which was previously written off and share of profit in a jointly controlled entity which are not subject to Malaysian tax.

**20. Status of Corporate Proposals**

On 27 May 2013, Public Investment Bank Berhad had, on behalf of the Board of Directors of KIB, announced that the Company proposes to undertake the following:

(i) Proposed transfer of the listing of and quotation for the entire issued and paid-up share capital of KIB from the ACE Market of Bursa Securities to the Main Market of Bursa Securities (“Proposed Transfer Listing); and

(ii) Proposed amendments to the Articles of Association of KIB to facilitate the implementation of the Proposed Transfer Listing (“Proposed Amendments”).

The applications to the relevant authorities on the Proposed Transfer Listing are expected to be made within two (2) months from the date of the announcement.

**21. Group Borrowings and Debt Securities**

 The Group’s borrowings, which are all denominated in Ringgit Malaysia, as at 31 March 2013 are shown below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Secured****RM’000** |  | **Unsecured****RM’000** |  | **Total****RM’000** |
| **Long Term Borrowings** |  |  |  |  |  |
| Term loans | 293 |  | - |  | 293 |
|  | **293** |  | **-** |  | **293** |
| **Short Term Borrowings** |  |  |  |  |  |
| Term loans | 273 |  | - |  | 273 |
|  | **273** |  | **-** |  | **273** |
|  |  |  |  |  |  |
| **Total** | **566** |  | **-** |  | **566** |

**22. Realised and Unrealised Retained Profits**

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 31/03/2013** | **Preceding quarter ended 31/12/2012** |
|  | **RM’000** | **RM’000** |
| Total retained profits of KIB and its subsidiaries: |  |  |
| * + Realised
 | 27,487 | 24,998 |
| * + Unrealised
 | (1,522) | (1,522) |
|  | 25,965 | 23,476 |
| Total share of retained profits from jointly controlled entity: |  |  |
| * + Realised
 | 698 | 591 |
|  |  |  |
| Total Group retained profits  | **26,663** | **24,067** |

**23. Material Litigation**

1. Writ of Summons and Statement of Claim By Hsing Lung Sdn Bhd (“HLSB”), a wholly-owned subsidiary of Karyon Industries Berhad (“KIB”) against Mahabuilders Sdn Bhd

HLSB, a wholly-owned subsidiary of KIB, had on 6 June 2008 through its solicitors served the sealed Writ of Summons and Statement of Claim on Mahabuilders Sdn Bhd for loss and damage in tort and contract in connection with the acquisition of a piece of land held under HS(D) 212275 PTD 111374 in the Mukim of Plentong, District of Johor Bahru, Johor Darul Takzim.

The Writ of Summons and Statement of Claim (No.22-329-2008(4)) was filed with and a sealed copy thereof extracted from the Johor Bahru High Court on 13 May 2008 and 28 May 2008 respectively.

The Court has dismissed HLSB claim against Mahabuilders Sdn Bhd on 16 December 2011. Further thereto, a Notice of Appeal against the decision made by the Court was filed by HLSB’s solicitor to the Court of Appeal on 9 January 2012.

The Court of Appeal, Putrajaya has fixed the above matter for case management on 12 June 2013.

1. Writ of Summons and Statement of Claim By Allbright Industries (M) Sdn Bhd (“AISB”), a wholly-owned subsidiary of Karyon Industries Berhad (“KIB”) against JTTY Enterprise

AISB, had on 11 May 2013 through its solicitors served the sealed Writ of Summons and Statement of Claim on JTTY Enterprise (“JTTY” or “Defendant”) for a claim of RM53,000.00 together with interest and cost being monies due and owing by JTTY to AISB for goods supplied and delivered, which was outstanding since July 2012.

The claim was instituted as the Defendant had failed to settle the said amount after a letter of demand was issued to the Defendant on 25 January 2013. Thereafter, the Writ of Summons and Statement of Claim was filed with and a sealed copy thereof extracted from the Johor Bahru Magistrate’s Court on 3 April 2013 for the recovery of the said amount.

The matter has been fixed for case management on 20 May 2013 at the Johor Bahru Magistrate’s Court.

The case management has been adjourned to 30 May 2013 pending the filling of Judgment in Default in the event of failure by the Defendant to enter appearance in the Court within 14 days from the date of service of the Writ.

**24. Dividend**

No dividend was declared or paid during the current financial quarter under review.

**25. Notes to the Condensed Consolidated Statement of Comprehensive Income**

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

|  |  |  |
| --- | --- | --- |
|  | **1st Quarter Ended** | **3 Months Ended** |
|  | **31.03.2013** | **31.03.2012** | **31.03.2013** | **31.03.2012** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 2 | 2 | 2 | 2 |
| Bad debts written off | 53 | 30 | 53 | 30 |
| Bad debts recovery | - | (8) | - | (8) |
| Depreciation of property, plant and equipment | 198 | 186 | 198 | 186 |
| Net foreign exchange loss/(gain) | 17 | (181) | 17 | (181) |
| Loss/(Gain) on disposal of property, plant and equipment | 29 | (31) | 29 | (31) |
| Interest income | (51) | (63) | (51) | (63) |
| Other income | (49) | (21) | (49) | (21) |
| Interest expenses | 8 | 24 | 8 | 24 |
| Gain on disposal of an associated company | (300) | - | (300) | - |

Save as disclosed above, the other items required under Section 16, Appendix 9B of the ACE Market Listing Requirement of Bursa Securities are not applicable.

**26. Earnings Per Share (“EPS”)**

 **Basic**

The calculation of the basic EPS is based on the net profit for the current financial quarter and the three (3) months financial period, divided by the weighted average number of ordinary shares of RM0.10 each in issue during the current financial quarter and the three (3) months financial period.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **1st Quarter Ended** |  | **3 Months Ended** |
|  |  | **31.03.2013** | **31.03.2012** |  | **31.03.2013** | **31.03.2012** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 2,726 | 1,526 |  | 2,726 | 1,526 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 380,374 | 288,995 |  | 380,374 | 288,995 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.72 | 0.53 |  | 0.72 | 0.53 |

**26. Earnings Per Share (“EPS”) (cont’d)**

 **Diluted**

The calculation of the diluted EPS is based on the net profit for the current financial quarter and the three (3) months financial period, divided by the adjusted weighted average number of ordinary shares of RM0.10 each in issue and issuable under the exercise of share options granted under the ESOS exercise.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **1st Quarter Ended** |  | **3 Months Ended** |
|  |  | **31.03.2013** | **31.03.2012** |  | **31.03.2013** | **31.03.2012** |
| Weighted average number of ordinary shares in issue (’000) |  | 380,374 | 288,995 |  | 380,374 | 288,995 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | 446 | 13,653 |  | 446 | 13,653 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000)  |  | 380,820 | 302,648 |  | 380,820 | 302,648 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.72 | 0.50 |  | 0.72 | 0.50 |