# KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 2ND QUARTER ENDED 30 JUNE 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 | |

The adoption of the abovementioned MFRS, Amendments to MFRS and Interpretations will have no material impact on the financial statements of the Group upon their initial application.

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**

The dividend declared/paid during the current financial quarter and cumulative financial year-to-date is as follows:

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **2013** | **2012** |
| Final dividend: | **RM** | **RM** |
| Final single tier dividend of 4.00% or RM0.0040 per ordinary share of RM0.10 each in respect of the financial year ended 31 December 2012, which was declared on 24 April 2013 and paid on 19 July 2013 | 1,521,495 |  |
| Final dividend: |  |  |
| Final tax exempt dividend of 6.50% or RM0.0065 per ordinary share of RM0.10 each in respect of the financial year ended 31 December 2011, which was declared on 24 April 2012 and paid on 18 July 2012 |  | 2,472,431 |

1. **Segmental Reporting**

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

**3 months ended 30 June 2013**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 2,128 | 32,459 | 3,961 | 38,548 |
| Inter-segment sales | | (2,120) | (2,968) | - | (5,088) |
| External | | 8 | 29,491 | 3,961 | 33,460 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (479) | 2,912 | 223 | 2,656 |
| Finance costs | | - | (25) | (6) | (31) |
| Share of loss in a jointly controlled entity | | (3) | - | - | (3) |
| (Loss)/Profit before tax | | (482) | 2,887 | 217 | 2,622 |
| Tax expense | | (161) | (628) | (35) | (824) |
| (Loss)/Profit after tax | | (643) | 2,259 | 182 | 1,798 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  | |
| Segment assets | 7,667 | 74,548 | 9,841 | 92,056 | |
| Segment liabilities | 303 | 14,556 | 692 | 15,551 | |

**3 months ended 30 June 2012**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 2,923 | 28,078 | 4,609 | 35,610 |
| Inter-segment sales | | (2,859) | (2,325) | - | (5,184) |
| External | | 64 | 25,753 | 4,609 | 30,426 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (312) | 2,217 | 284 | 2,189 |
| Finance costs | | - | (33) | (6) | (39) |
| Share of profit in a jointly controlled entity | | 61 | - | - | 61 |
| (Loss)/Profit before tax | | (251) | 2,184 | 278 | 2,211 |
| Tax expense | | (205) | (509) | (64) | (778) |
| (Loss)/Profit after tax | | (456) | 1,675 | 214 | 1,433 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  | |
| Segment assets | 17,277 | 61,992 | 9,161 | 88,430 | |
| Segment liabilities | 272 | 14,197 | 1,011 | 15,480 | |

1. **Segmental Reporting (cont’d)**

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

**6 months ended 30 June 2013**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 2,778 | 64,312 | 8,701 | 75,791 |
| Inter-segment sales | | (2,745) | (5,414) | - | (8,159) |
| External | | 33 | 58,898 | 8,701 | 67,632 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (776) | 6,306 | 574 | 6,104 |
| Finance costs | | - | (55) | (13) | (68) |
| Share of profit in a jointly controlled entity | | 104 | - | - | 104 |
| (Loss)/Profit before tax | | (672) | 6,251 | 561 | 6,140 |
| Tax expense | | (191) | (1,318) | (107) | (1,616) |
| (Loss)/Profit after tax | | (863) | 4,933 | 454 | 4,524 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  | |
| Segment assets | 7,667 | 74,548 | 9,841 | 92,056 | |
| Segment liabilities | 303 | 14,556 | 692 | 15,551 | |

**6 months ended 30 June 2012**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric product | Manufacturing of Oleochemical product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 3,452 | 54,100 | 9,466 | 67,018 |
| Inter-segment sales | | (3,381) | (4,586) | - | (7,967) |
| External | | 71 | 49,514 | 9,466 | 59,051 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (825) | 4,538 | 493 | 4,206 |
| Finance costs | | - | (77) | (18) | (95) |
| Share of profit in a jointly controlled entity | | 112 | - | - | 112 |
| (Loss)/Profit before tax | | (713) | 4,461 | 475 | 4,223 |
| Tax expense | | (205) | (963) | (96) | (1,264) |
| (Loss)/Profit after tax | | (918) | 3,498 | 379 | 2,959 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  | |
| Segment assets | 17,277 | 61,992 | 9,161 | 88,430 | |
| Segment liabilities | 272 | 14,197 | 1,011 | 15,480 | |

**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 July 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 30 June 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 30 June 2013 is as follows:

|  |  |
| --- | --- |
| Capital expenditure: | RM |
| Approved but not contracted for | 558,624 |

**15. Performance Review**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3 Months Ended** | | **Variance** | |
|  | **30.06.2013** | **30.06.2012** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 33,460 | 30,426 | 3,034 | 9.97 |
| Profit before tax | 2,622 | 2,211 | 411 | 18.59 |

For the second quarter ended 30 June 2013, the Group recorded revenue of RM33.460 million, an increase of RM3.034 million or 9.97% as compared to revenue of RM30.426 million recorded for the corresponding quarter ended 30 June 2012. The higher revenue was due mainly to the increase in sales volume during the current financial quarter despite the decrease in selling price for polymeric products.

The Group’s profit before tax for the quarter ended 30 June 2013 had correspondingly increased to RM2.622 million or an increase of 18.59% as compared to the profit before tax of RM2.211 million recorded in the preceding financial year corresponding period. This was due to the increase in revenue and slight improvement in gross profit margin.

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 RM3.738 million, which was contributed mainly by the increase in sales volume of polymeric products by 1,100 metric tonnes. Similarly, the profit before tax has also increased by RM0.703 million due principally to the increase in revenue.

Oleochemical division

The revenue and profit before tax of oleochemical division had decreased slightly by RM0.648 million and RM0.061 million respectively due mainly to the decrease in selling price of oleochemical products.

Investment holding

The loss before tax had increased by RM0.231 million due mainly to the increase in staff costs.

**15. Performance Review (cont’d)**

**Current Financial Period compared with Previous Year Corresponding Period**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **6 Months Ended** | | **Variance** | |
|  | **30.06.2013** | **30.06.2012** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 67,632 | 59,051 | 8,581 | 14.53 |
| Profit before tax | 6,140 | 4,223 | 1,917 | 45.39 |

The Group’s revenue for the cumulative financial quarter ended 30 June 2013 has shown an increase of 14.53% from RM59.051 million to RM67.632 million as compared to the corresponding period in the preceding financial year. The increase in the Group’s revenue of RM8.581 million was attributed mainly to higher sales volume generated by polymeric division.

Similarly, the profit before tax had also increased by RM1.917 million, from RM4.223 million for the period ended 30 June 2012 to RM6.140 million for the current financial period. This was due mainly to higher sales generated coupled with the improvement in gross profit margin. However, the increase in profit before tax was mitigated by the increase in freight charges and staff costs.

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

Polymeric division

Sales performance of the polymeric division has improved by RM9.384 million, from RM49.514 million to RM58.898 million. This was due mainly to the higher sales volume (2,481 metric tonnes) coupled with a slight increase in gross profit margin by 0.50%.

Oleochemical division

The revenue of oleochemical division had decreased by RM0.765 million, from RM9.466 million to RM8.701 million. This was due mainly to the reduction in average selling price by 14% despite the increase in quantity sold by 136 metric tonnes for the current financial period under review.

Investment holding

No significant changes.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3 Months Ended** | | **Deviation** | |
|  | **30.06.2013** | **31.03.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 33,460 | 34,172 | (712) | (2.08) |
| Profit before tax | 2,622 | 3,518 | (896) | (25.47) |

The Group’s profit before tax of RM2.622 million for the second quarter ended 30 June 2013 shows a decrease of RM0.896 million or 25.47% as compared to the profit before tax of RM3.518 million for the preceding quarter ended 31 March 2013.

The decrease in profit before tax was due mainly to the decrease in sales volume and average selling price of oleochemical products. In addition, there was no gain on disposal of investment in an associate for the current financial quarter under review.

## 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 and financial year-to-date includes the followings:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Current Quarter 30.06.2013** |  | **Financial Year-To-Date**  **30.06.2013** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
|  | Estimated current tax expense | 824 |  | 1,616 |
|  |  |  |  |  |

## The Group’s effective tax rate was higher than the statutory tax rate of 25% due mainly to certain expenses which are not deductible for tax purpose.

**20. Status of Corporate Proposals**

On 27 May 2013, Public Investment Bank Berhad (“PIVB”) had, on behalf of the Board of Directors of KIB (“Board”), 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 shareholders of KIB had on 26 June 2013 approved the Proposed Amendments. Subject to relevant approvals being obtained for the Proposed Transfer Listing, the Proposed Amendments will be effected prior to the Proposed Transfer Listing.

On 26 July 2013, PIVB, on behalf of the Board further announced that KIB is still in the midst of preparing the documents for the applications to the relevant authorities in relation to the Proposed Transfer Listing.

The applications to the relevant authorities on the Proposed Transfer Listing are expected to be made within two (2) months from 26 July 2013.

**21. Group Borrowings and Debt Securities**

The Group’s borrowings, which are all denominated in Ringgit Malaysia, as at 30 June 2013 are shown below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at 30.06.2013**  **RM’000** |  | **As at 30.06.2012**  **RM’000** |  |
| **Long Term Borrowing- secured** |  |  |  |  |
| Hire purchase creditors | - |  | 339 |  |
| Term loans | 225 |  | 497 |  |
|  | **225** |  | **836** |  |
| **Short Term Borrowings- secured** |  |  |  |  |
| Hire purchase creditors | - |  | 98 |  |
| Bankers’ acceptances | 354 |  | - |  |
| Term loans | 272 |  | 272 |  |
|  | **626** |  | **370** |  |
|  |  |  |  |  |
| **Total** | **851** |  | **1,206** |  |

**22. Realised and Unrealised Retained Profits**

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 30.06.2013** | **Preceding quarter ended 31.03.2013** |
|  | **RM’000** | **RM’000** |
| Total retained profits of KIB and its subsidiaries: |  |  |
| * + Realised | 29,288 | 27,487 |
| * + Unrealised | (1,522) | (1,522) |
|  | 27,766 | 25,965 |
| Total share of retained profits from jointly controlled entity: |  |  |
| * + Realised | 695 | 698 |
|  |  |  |
| Total Group retained profits | **28,461** | **26,663** |

**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 had 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 had adjourned the above matter for case management on a date to be fixed later.

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 Tan Tuan Yang and Hing Siew Chan T/A JTTY Enterprise (“Defendants”)

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

The claim was instituted as the Defendants had failed to settle the said amount after a letter of demand was issued to the Defendants 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.

AISB had further filed the Bankruptcy Notice on 29 July 2013 and a sealed copy thereof was extracted from the Johor Bahru High Court on 31 July 2013. The Bankruptcy Notice had been served on the Defendants on 19 August 2013 and the creditor petition against the Defendants shall be filed in the Johor Bahru High Court.

**24. Dividend Payable**

No dividend was declared or paid for the current financial year under review.

The total dividend paid in respect of the financial year ended 31 December 2012 was 14% or RM5,325,239.

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2nd Quarter Ended** | | **6 Months Ended** | |
|  | **30.06.2013** | **30.06.2012** | **30.06.2013** | **30.06.2012** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 2 | 2 | 4 | 4 |
| Bad debts written off | - | - | 53 | - |
| Bad debts recovery | - | (12) | - | (20) |
| Depreciation of property, plant and equipment | 202 | 190 | 400 | 376 |
| Net foreign exchange loss/(gain) | 4 | 180 | 21 | (1) |
| Loss/(Gain) on disposal of property, plant and equipment | 29 | (35) | 58 | (66) |
| Interest income | (51) | (59) | (102) | (122) |
| Other income | (59) | (40) | (108) | (61) |
| Interest expenses | 10 | 34 | 18 | 58 |
| Property, plant and equipment written off | 17 | - | 17 | - |
| Gain on disposal of investment in an associated company | - | - | (300) | - |

Save as disclosed above, the other items required under Section 16, Appendix 9B of the ACE Market Listing Requirements 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 six (6) 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 six (6) months financial period.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2nd Quarter Ended** | |  | **6 Months Ended** | |
|  |  | **30.06.2013** | **30.06.2012** |  | **30.06.2013** | **30.06.2012** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 1,798 | 1,433 |  | 4,524 | 2,959 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 380,374 | 358,850 |  | 380,374 | 334,165 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.47 | 0.40 |  | 1.19 | 0.89 |

**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 six (6) 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.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **2nd Quarter Ended** | |  | **6 Months Ended** | |
|  |  | **30.06.2013** | **30.06.2012** |  | **30.06.2013** | **30.06.2012** |
| Weighted average number of ordinary shares in issue (’000) |  | 380,374 | 358,850 |  | 380,374 | 334,165 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | 532 | 512 |  | 532 | 512 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000) |  | 380,906 | 359,362 |  | 380,906 | 334,677 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.47 | 0.40 |  | 1.19 | 0.88 |