#  KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 1ST QUARTER ENDED 31 MARCH 2014

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 Paragraph 9.22 of the Main 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 2013.

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 2013 except for the newly-issued Malaysian Accounting Standards Board approved accounting framework - MFRS and IC Interpretations to be applied by all Entities Other Than Private Entities for the financial period beginning on 1 January 2014, which are as follows:

|  |  |
| --- | --- |
| Amendments to MFRS 10, MFRS 12 and MFRS 127 | Investment Entities  |
| Amendments to MFRS 132 | Offsetting Financial Assets and Financial Liabilities  |
| Amendments to MFRS 136 | Recoverable Amount- Disclosure for Non-Financial Assets  |
| Amendments to MFRS 139 | Novation of Derivatives and Continuation of Hedge Accounting |
| IC Interpretation 21 | Levies |

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 MFRS 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 2 | Share-Based-Payment  | 1 July 2014 |
| Amendments to MFRS 3 | Business Combinations | 1 July 2014 |
| Amendments to MFRS 8 | Operating Segments | 1 July 2014 |
| Amendments to MFRS 13 | Fair Value Measurement | 1 July 2014 |
| Amendments to MFRS 116 | Property, Plant and Equipment | 1 July 2014 |
| Amendments to MFRS 119 | Defined Benefit Plans: Employee Contributions  | 1 July 2014 |
| Amendments to MFRS 124 | Related Party Disclosures | 1 July 2014 |
| Amendments to MFRS 138 | Intangible Assets | 1 July 2014 |
| Amendments to MFRS 140 | Investment Property | 1 July 2014 |
| MFRS 9 | Financial Instruments (IFRS 9 issued by IASB in November 2009 and October 2010) | Deferred |

**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. Dividends 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 2014**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** |  |  |  |  |
| Sales (Gross) | 867 | 30,733 | 2,413 | 34,013 |
| Inter-segment sales | (835) | (2,136) | (13) | (2,984) |
| External | 32 | 28,597 | 2,400 | 31,029 |
|  |  |  |  |  |
| **RESULT** |  |  |  |  |
| Segment result | (801) | 2,591 | 139 | 1,929 |
| Finance costs  | - | (5) | - | (5) |
| Share of loss of a joint venture | (105) | - | - | (105) |
| (Loss)/Profit before tax  | (906) | 2,586 | 139 | 1,819 |
| Tax expense | (118) | (437) | (14) | (569) |
| (Loss)/Profit after tax | (1,024) | 2,149 | 125 | 1,250 |
|  |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 10,527 | 73,121 | 9,363 | 93,011 |
| Segment liabilities | 525 | 12,820 | 873 | 14,218 |

**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 of a joint venture | 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 |
|  |  |  |  |  |

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

The Group’s property, plant and equipment is carried at cost and have been brought forward without amendment from the latest audited annual financial statements.

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

There were no material events that have occurred from 1 April 2014 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 31March 2014 are as follows:

|  |  |
| --- | --- |
|  | RM |
| Guarantees to banks for trade facilities granted | 26,050,000 |
| 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 2014 was as follows:

|  |  |
| --- | --- |
| Capital expenditure: | RM |
| Approved and contracted for | 558,624 |

**15. Performance Review**

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

|  |  |  |
| --- | --- | --- |
|  | **3 Months Ended** | **Variance** |
|  | **31.03.2014** | **31.03.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 31,029 | 34,172 | (3,143) | (9.20) |
| Profit before tax  | 1,819 | 3,518 | (1,699) | (48.29) |

For the quarter ended 31 March 2014, the Group recorded revenue of RM31.029 million, a decrease of RM3.143 million or 9.20% as compared to revenue of RM34.172 million recorded for the corresponding quarter ended 31 March 2013. The lower revenue was due mainly to the decrease in sales volume of both polymeric and oleochemical products.

The Group’s profit before tax for the quarter ended 31 March 2014 had decreased to RM1.819 million or a decrease of 48.29% as compared to the profit before tax of RM3.518 million recorded in the preceding financial year corresponding period. This was due mainly to the reduction in sales volume coupled with the absence of gain on disposal of an associate previously written off and share of loss of a joint venture in the current financial quarter under review.

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 and profit before tax of polymeric division had decreased by RM0.810 million and RM0.778 million respectively, which was due mainly to the decrease in sales volume of polymeric products by 159 metric tonnes and a slight decrease in average selling price of polymeric products by approximately 0.48%.

Oleochemical division

The revenue and profit before tax of oleochemical division had decreased by RM2.340 million and RM0.205 million respectively due mainly to the decrease in sales volume by 686 metric tonnes.

Investment holding

The loss before tax had increased by RM0.716 million due mainly to the absence of gain on disposal of an associate previously written off and share of loss of a joint venture in the current financial quarter under review.

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

|  |  |  |
| --- | --- | --- |
|  | **3 Months Ended** | **Deviation** |
|  | **31.03.2014** | **31.12.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 31,029 | 30,866 | 163 | 0.53 |
| Profit before tax  | 1,819 | 2,940 | (1,121) | (38.13) |

Notwithstanding the slight increase in revenue of RM0.163 million or 0.53% as compared to preceding quarter ended 31 December 2013, the Group’s profit before tax of RM1.819 million for the first quarter ended 31 March 2014 had shown a decrease of RM1.121 million or 38.13% as compared to the profit before tax of RM2.940 million for the preceding quarter ended 31 December 2013.

The decrease in profit before tax was due mainly to the absence of one-off gain on disposal of a factory of approximately RM0.69 million for the current financial quarter as compared to the previous financial quarter coupled with the share of loss of a joint venture during the current financial quarter under review.

## 17. Future Prospects

Moving forward to the remaining financial quarters of 2014, 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 31.03.2014** |  | **Financial Year-To-Date** **31.03.2014** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
|  | Estimated current tax expense | 569 |  | 569 |
|  |  |  |  |  |

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

**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 Proposed Transfer Listing has been completed on 6 May 2014 following the 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 on the even date.

**21. Group Borrowings and Debt Securities**

 The Group’s borrowings, which are all denominated in Ringgit Malaysia, as at 31 March 2014 are shown below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at 31.03.2014****RM’000** |  | **As at 31.03.2013****RM’000** |  |
| **Long Term Borrowing - secured** |  |  |  |  |
| Term loan | 21 |  | 293 |  |
|  | **21** |  | **293** |  |
| **Short Term Borrowing - secured** |  |  |  |  |
| Term loan | 272 |  | 273 |  |
|  | **272** |  | **273** |  |
|  |  |  |  |  |
| **Total** | **293** |  | **566** |  |

**22. Realised and Unrealised Profits or Losses**

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 31.03.2014** | **Preceding quarter ended 31.12.2013** |
|  | **RM’000** | **RM’000** |
| Total retained earnings of KIB and its subsidiaries: |  |  |
| * + Realised
 | 31,355 | 30,000 |
| * + Unrealised
 | (1,611) | (1,611) |
|  | 29,744 | 28,389 |
| Total share of retained earnings from a joint venture: |  |  |
| * + Realised
 | 920 | 1,025 |
|  |  |  |
| Total Group retained earnings  | **30,664** | **29,414** |

**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.

On 7 May 2014, HLSB had through its solicitor, received the Notice of Discontinuance from the Court of Appeal, Putrajaya, which was filed on 14 April 2014 to withdraw the Notice of Appeal against the decision made by the Court on 16 December 2011.

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 has been filed on 26 September 2013, a sealed copy thereof was extracted from the court on 2 October 2013.

The Court had granted Receiving Order and Adjudication Order against the Defendants on 9 January 2014 and hence, the Defendants are adjudged bankrupt by the Court.

**24. Dividend Payable**

No dividend was declared or payable 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** |
|  | **31.03.2014** | **31.03.2013** | **31.03.2014** | **31.03.2013** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 2 | 2 | 2 | 2 |
| Bad debts written off | - | 53 | - | 53 |
| Depreciation on property, plant and equipment | 213 | 198 | 213 | 198 |
| Net foreign exchange (gain)/loss | (67) | 17 | (67) | 17 |
| Interest expenses | 5 | 8 | 5 | 8 |
| Loss on disposal of property, plant and equipment | - | 29 | - | 29 |
| Interest income | (73) | (51) | (73) | (51) |
| Gain on disposal of an associate previously written off | - | (300) | - | (300) |

Save as disclosed above, the other items required under Section 16, Part A of Appendix 9B of the Main 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 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** |
|  |  | **31.03.2014** | **31.03.2013** |  | **31.03.2014** | **31.03.2013** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 1,250 | 2,726 |  | 1,250 | 2,726 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 380,377 | 380,374 |  | 380,377 | 380,374 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.33 | 0.72 |  | 0.33 | 0.72 |

 **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** |
|  |  | **31.03.2014** | **31.03.2013** |  | **31.03.2014** | **31.03.2013** |
| Weighted average number of ordinary shares in issue (’000) |  | 380,377 | 380,374 |  | 380,377 | 380,374 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | 125 | 446 |  | 125 | 446 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000)  |  | 380,502 | 380,820 |  | 380,502 | 380,820 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.33 | 0.72 |  | 0.33 | 0.72 |