# KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 2ND QUARTER ENDED 30 JUNE 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 |
| Amendments to MFRS 11 | Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| MFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| 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**

|  |
| --- |
|  |

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

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **2014** | **2013** |
| Final dividend: | **RM** | **RM** |
| Final single tier dividend of 6.00% or RM0.0060 per ordinary share of RM0.10 each in respect of the financial year ended 31 December 2013, which was declared on 22 April 2014 and paid on 18 July 2014 | 2,282,702 |  |
| Final dividend: |  |  |
| 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 |

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 2014**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 3,666 | 34,085 | 2,791 | 40,542 |
| Inter-segment sales | | (3,641) | (2,378) | (5) | (6,024) |
| External | | 25 | 31,707 | 2,786 | 34,518 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (1,117) | 1,840 | (132) | 591 |
| Finance costs | | - | (3) | - | (3) |
| Share of profit of a joint venture | | 9 | - | - | 9 |
| (Loss)/Profit before tax | | (1,108) | 1,837 | (132) | 597 |
| Tax expense | | (265) | (154) | 14 | (405) |
| (Loss)/Profit after tax | | (1,373) | 1,683 | (118) | 192 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 8,572 | 74,492 | 10,226 | 93,290 |
| Segment liabilities | 492 | 12,945 | 939 | 14,376 |

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

**9. Segmental Reporting (cont’d)**

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

**6 months ended 30 June 2014**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 4,533 | 64,818 | 5,204 | 74,555 |
| Inter-segment sales | | (4,476) | (4,514) | (18) | (9,008) |
| External | | 57 | 60,304 | 5,186 | 65,547 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (1,918) | 4,431 | 7 | 2,520 |
| Finance costs | | - | (8) | - | (8) |
| Share of loss of a joint venture | | (96) | - | - | (96) |
| (Loss)/Profit before tax | | (2,014) | 4,423 | 7 | 2,416 |
| Tax expense | | (383) | (591) | - | (974) |
| (Loss)/Profit after tax | | (2,397) | 3,832 | 7 | 1,442 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 8,572 | 74,492 | 10,226 | 93,290 |
| Segment liabilities | 492 | 12,945 | 939 | 14,376 |

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

1. **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 July 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 30 June 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 30 June 2014 was as follows:

|  |  |
| --- | --- |
| Capital expenditure: | RM |
| Approved and contracted for | 734,862 |

**15. Performance Review**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3 Months Ended** | | **Variance** | |
|  | **30.06.2014** | **30.06.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 34,518 | 33,460 | 1,058 | 3.16 |
| Profit before tax | 597 | 2,622 | (2,025) | (77.23) |

For the quarter ended 30 June 2014, the Group recorded revenue of RM34.518 million, an increase of RM1.058 million or 3.16% as compared to revenue of RM33.460 million recorded for the corresponding quarter ended 30 June2013. The higher revenue was due mainly to the increase in sales volume of polymeric products despite the decrease in sales volume of oleochemical products.

The Group’s profit before tax for the quarter ended 30 June 2014 had decreased to RM0.597 million or a decrease of 77.23% as compared to the profit before tax of RM2.622 million recorded in the preceding financial year corresponding period. This was due mainly to the reduction in sales of oleochemical products, increase in cost of materials for polymeric division, increase in staff costs and one-off expenses incurred for transfer listing exercise.

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 RM2.216 million which was due mainly to the increase in sales volume of polymeric products by 382 metric tonnes with a slight increase in average selling price of polymeric products by approximately 1.73%. However, the profit before tax had decreased to RM1.837 million as compared to RM2.887 million recorded in the preceding financial year corresponding quarter. This was due to the increase in cost of materials.

Oleochemical division

The revenue and profit before tax of oleochemical division had decreased by RM1.175 million and RM0.349 million respectively due mainly to the decrease in sales volume of oleochemical products by 453 metric tonnes. This was attributed mainly to the intense market competition where the competitors are adopting an aggressive pricing policy.

Investment holding

The loss before tax had increased by RM0.626 million as compared to preceding financial year corresponding quarter due mainly to the increase in staff costs and one-off expenses incurred for transfer listing exercise.

**15. Performance Review (cont’d)**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **6 Months Ended** | | **Variance** | |
|  | **30.06.2014** | **30.06.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 65,547 | 67,632 | (2,085) | (3.08) |
| Profit before tax | 2,416 | 6,140 | (3,724) | (60.65) |

The Group’s revenue for the cumulative financial quarter ended 30 June 2014 has shown a decrease of 3.08% from RM67.632 million to RM65.547 million as compared to the corresponding period in the preceding financial year. The decrease in the Group’s revenue of RM2.085 million was attributed mainly to lower sales volume generated by oleochemical division.

Similarly, the profit before tax had also decreased by RM3.724 million, from RM6.140 million for the period ended 30 June 2013 to RM2.416 million for the current financial period. This was due mainly to lower sales generated from oleochemical products, increase in cost of materials for polymeric division, one-off expenses incurred for transfer listing exercise and share of loss of a joint venture.

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 RM1.406 million, from RM58.898 million to RM60.304 million. This was due mainly to increase in sales volume of polymeric products by 223 metric tonnes. However, the profit before tax had decreased by RM1.828 million due mainly to the increase in cost of materials.

Oleochemical division

The revenue of oleochemical division had decreased by RM3.515 million, from RM8.701 million to RM5.186 million. This was due mainly to the reduction in sales volume of oleochemical products by 1,139 metric tonnes despite an increase in average selling price by 22% as a result of intense market competition where the competitors are adopting an aggressive pricing policy. Similarly, the profit before tax had also decreased by RM0.554 million due mainly to the reduction in revenue.

Investment holding

The loss before tax had increased by RM1.342 million due mainly to the increase in staff costs, one-off expenses incurred for transfer listing exercise and share of loss of a joint venture in the current financial period under review.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3 Months Ended** | | **Deviation** | |
|  | **30.06.2014** | **31.03.2014** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 34,518 | 31,029 | 3,489 | 11.24 |
| Profit before tax | 597 | 1,819 | (1,222) | (67.18) |

Notwithstanding the increase in revenue of RM3.489 million or 11.24% as compared to preceding quarter ended 31 March 2014, the Group’s profit before tax of RM0.597 million for the current quarter ended 30 June 2014 had shown a decrease of RM1.222 million or 67.18% as compared to the profit before tax of RM1.819 million for the preceding quarter ended 31 March 2014.

The decrease in profit before tax was due mainly to the increase in costs of materials which resulted thinner margin. In addition, one-off expenses incurred for transfer listing exercise, increase in staff costs and freight charges had further reduced the Group’s profit before tax.

## 17. Future Prospects

The Board expects the Group current financial year performance to be profitable based on the following:

1. improve its production capacity;
2. continue to expand its market share in overseas and local markets;
3. increase sale volume of high margin products; 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 30.06.2014** |  | **Financial Year-To-Date**  **30.06.2014** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
|  | Estimated current tax expense | 405 |  | 974 |
|  |  |  |  |  |

## 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**

There was no corporate proposal announced but not completed as at the date of this report.

**21. Group Borrowings and Debt Securities**

The Group’s borrowings, which are all denominated in Ringgit Malaysia, as at 30 June 2014 are shown below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at 30.06.2014**  **RM’000** |  | **As at 30.06.2013**  **RM’000** |  |
| **Long Term Borrowing - secured** |  |  |  |  |
| Term loan | - |  | 225 |  |
|  | - |  | **225** |  |
| **Short Term Borrowing - secured**  Bankers’ acceptances | - |  | 354 |  |
| Term loan | 225 |  | 272 |  |
|  | **225** |  | **626** |  |
|  |  |  |  |  |
| **Total** | **225** |  | **851** |  |

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

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 30.06.2014** | **Preceding quarter ended 31.03.2014** |
|  | **RM’000** | **RM’000** |
| Total retained earnings of KIB and its subsidiaries: |  |  |
| * + Realised | 31,538 | 31,355 |
| * + Unrealised | (1,611) | (1,611) |
|  | 29,927 | 29,744 |
| Total share of retained earnings from a joint venture: |  |  |
| * + Realised | 929 | 920 |
|  |  |  |
| Total Group retained earnings | **30,856** | **30,664** |

**23. Material Litigation**

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 Profit or Loss and Other Comprehensive Income**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2nd Quarter Ended** | | **6 Months Ended** | |
|  | **30.06.2014** | **30.06.2013** | **30.06.2014** | **30.06.2013** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 1 | 2 | 3 | 4 |
| Bad debts written off | - | - | - | 53 |
| Depreciation on property, plant and equipment | 213 | 202 | 426 | 400 |
| Net foreign exchange (gain)/loss | (56) | 4 | (123) | 21 |
| Loss on disposal of property, plant and equipment | - | 29 | - | 58 |
| Interest income | (102) | (51) | (175) | (102) |
| Interest expenses | 3 | 10 | 8 | 18 |
| Property, plant and equipment written off | - | 17 | - | 17 |
| Gain on disposal of an associate previously written off | - | - | - | (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 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** | |
|  |  | **30.06.2014** | **30.06.2013** |  | **30.06.2014** | **30.06.2013** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 192 | 1,798 |  | 1,442 | 4,524 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 380,407 | 380,374 |  | 380,406 | 380,374 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.05 | 0.47 |  | 0.38 | 1.19 |

**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** | |
|  |  | **30.06.2014** | **30.06.2013** |  | **30.06.2014** | **30.06.2013** |
| Weighted average number of ordinary shares in issue (’000) |  | 380,407 | 380,374 |  | 380,406 | 380,374 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | 91 | 532 |  | 91 | 532 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000) |  | 380,498 | 380,906 |  | 380,497 | 380,906 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.05 | 0.47 |  | 0.38 | 1.19 |