# KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 3RD QUARTER ENDED 30 SEPTEMBER 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 119 | Defined Benefit Plans: Employee Contributions | 1 July 2014 |
| Amendments to MFRSs Annual Improvements to MFRSs 2010-2012 Cycle | | 1 July 2014 |
| Amendments to MFRSs Annual Improvements to MFRSs 2011-2013 Cycle | | 1 July 2014 |
| MFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| Amendments to MFRS 116 and MFRS 138 | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to MFRS 11 | Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 |
| Amendments to MFRS 127 | Equity Method in Separate Financial Statements | 1 January 2016 |
| Amendments to MFRS 10 and MFRS 128 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 |
| Amendments to MFRSs Annual Improvements to MFRSs 2012-2014 Cycle | | 1 January 2016 |
| MFRS 15 | Revenue from Contracts with Customers | 1 January 2017 |
| MFRS 9 | Financial Instruments | 1 January 2018 |

**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**

For the current financial quarter under review, 120,000 ordinary shares of RM0.10 each in KIB were issued under the Company’s existing employees’ share option scheme (“ESOS”).

For the cumulative financial year-to-date, a total of 196,200 ordinary shares of RM0.10 each in KIB were issued under the ESOS.

**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 |
| Interim dividend: |  |  |
| Interim tax exempt dividend of 5.00% or RM0.0050 per ordinary share of RM0.10 each in respect of the financial year ended 31 December 2013, which was declared on 30 September 2013 and paid on 28 October 2013 |  | 1,901,872 |

1. **Segmental Reporting**

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

**3 months ended 30 September 2014**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 3,009 | 33,091 | 2,259 | 38,359 |
| Inter-segment sales | | (3,001) | (2,478) | - | (5,479) |
| External | | 8 | 30,613 | 2,259 | 32,880 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (570) | 2,417 | (402) | 1,445 |
| Finance costs | | - | (3) | - | (3) |
| Share of profit of a joint venture | | 8 | - | - | 8 |
| (Loss)/Profit before tax | | (562) | 2,414 | (402) | 1,450 |
| Tax expense | | (116) | (421) | (3) | (540) |
| (Loss)/Profit after tax | | (678) | 1,993 | (405) | 910 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 9,055 | 73,673 | 9,739 | 92,467 |
| Segment liabilities | 589 | 13,468 | 691 | 14,748 |

**3 months ended 30 September 2013**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | | Manufacturing of Oleochemical Product | | Total |
|  | | RM’000 | RM’000 | | RM’000 | | RM’000 |
| **REVENUE** | |  |  | |  | |  |
| Sales (Gross) | | 2,355 | 31,942 | | 2,384 | | 36,681 |
| Inter-segment sales | | (2,346) | (2,206) | | - | | (4,552) |
| External | | 9 | 29,736 | | 2,384 | | 32,129 |
|  | |  |  | |  | |  |
| **RESULT** | |  |  | |  | |  |
| Segment result | | (443) | 3,193 | | 60 | | 2,810 |
| Finance costs | | - | (35) | | (4) | | (39) |
| Share of profit of a joint venture | | 128 | - | | - | | 128 |
| (Loss)/Profit before tax | | (315) | 3,158 | | 56 | | 2,899 |
| Tax expense | | (101) | (723) | | 12 | | (812) |
| (Loss)/Profit after tax | | (416) | 2,435 | | 68 | | 2,087 |
|  | |  |  | |  | |  |
| **Consolidated Statement of Financial Position** |  |  | |  | |  |
| Segment assets | 8,720 | 73,228 | | 10,256 | | 92,204 |
| Segment liabilities | 392 | 13,495 | | 1,099 | | 14,986 |
|  |  |  |  | |  | |
|  |  |  |  | |  | |

**9. Segmental Reporting (cont’d)**

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

**9 months ended 30 September 2014**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** | |  |  |  |  |
| Sales (Gross) | | 7,542 | 97,909 | 7,463 | 112,914 |
| Inter-segment sales | | (7,477) | (6,992) | (18) | (14,487) |
| External | | 65 | 90,917 | 7,445 | 98,427 |
|  | |  |  |  |  |
| **RESULT** | |  |  |  |  |
| Segment result | | (2,488) | 6,848 | (395) | 3,965 |
| Finance costs | | - | (11) | - | (11) |
| Share of loss of a joint venture | | (88) | - | - | (88) |
| (Loss)/Profit before tax | | (2,576) | 6,837 | (395) | 3,866 |
| Tax expense | | (499) | (1,012) | (3) | (1,514) |
| (Loss)/Profit after tax | | (3,075) | 5,825 | (398) | 2,352 |
|  | |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 9,055 | 73,673 | 9,739 | 92,467 |
| Segment liabilities | 589 | 13,468 | 691 | 14,748 |

**9 months ended 30 September 2013**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | Investment Holding | Manufacturing of Polymeric Product | | Manufacturing of Oleochemical Product | | Total |
|  | | RM’000 | RM’000 | | RM’000 | | RM’000 |
| **REVENUE** | |  |  | |  | |  |
| Sales (Gross) | | 5,133 | 96,254 | | 11,085 | | 112,472 |
| Inter-segment sales | | (5,091) | (7,620) | | - | | (12,711) |
| External | | 42 | 88,634 | | 11,085 | | 99,761 |
|  | |  |  | |  | |  |
| **RESULT** | |  |  | |  | |  |
| Segment result | | (1,219) | 9,499 | | 634 | | 8,914 |
| Finance costs | | - | (90) | | (17) | | (107) |
| Share of profit of a joint venture | | 232 | - | | - | | 232 |
| (Loss)/Profit before tax | | (987) | 9,409 | | 617 | | 9,039 |
| Tax expense | | (292) | (2,041) | | (95) | | (2,428) |
| (Loss)/Profit after tax | | (1,279) | 7,368 | | 522 | | 6,611 |
|  | |  |  | |  | |  |
| **Consolidated Statement of Financial Position** |  |  | |  | |  |
| Segment assets | 8,720 | 73,228 | | 10,256 | | 92,204 |
| Segment liabilities | 392 | 13,495 | | 1,099 | | 14,986 |
|  |  |  |  | |  | |
|  |  |  |  | |  | |

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 October 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 amounts of contingent liabilities as at 30 September 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 September 2014 was as follows:

|  |  |
| --- | --- |
| Capital expenditure: | RM |
| Approved and contracted for | 345,382 |

**15. Performance Review**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3 Months Ended** | | **Variance** | |
|  | **30.09.2014** | **30.09.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 32,880 | 32,129 | 751 | 2.34 |
| Profit before tax | 1,450 | 2,899 | (1,449) | (49.98) |

For the quarter ended 30 September 2014, the Group recorded revenue of RM32.880 million, an increase of RM0.751 million or 2.34% as compared to revenue of RM32.129 million recorded for the corresponding quarter ended 30 September 2013. The slight increase in revenue was due mainly to the increase in sales volume of polymeric products. However, the increase was mitigated by the decrease in sales volume of oleochemical products.

The Group’s profit before tax for the quarter ended 30 September 2014 had decreased to RM1.450 million or a decrease of 49.98% as compared to the profit before tax of RM2.899 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 and increase in staff costs.

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 RM0.877 million which was due mainly to the increase in sales volume of polymeric products by 145 metric tonnes with a slight increase in average selling price of polymeric products. However, the profit before tax had decreased to RM2.414 million as compared to RM3.158 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 RM0.125 million and RM0.458 million respectively due mainly to the decrease in sales volume of oleochemical products by 91 metric tonnes which was attributed mainly to the intense market competition.

Investment holding

The loss before tax had increased by RM0.247 million as compared to preceding financial year corresponding quarter due mainly to the increase in staff costs.

**15. Performance Review (cont’d)**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **9 Months Ended** | | **Variance** | |
|  | **30.09.2014** | **30.09.2013** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 98,427 | 99,761 | (1,334) | (1.34) |
| Profit before tax | 3,866 | 9,039 | (5,173) | (57.23) |

The Group’s revenue for the cumulative financial quarter ended 30 September 2014 has shown a decrease of 1.34% from RM99.761 million to RM98.427 million as compared to the corresponding period in the preceding financial year. The decrease in the Group’s revenue of RM1.334 million was attributed mainly to lower sales volume generated by oleochemical division.

Similarly, the profit before tax had also decreased by RM5.173 million, from RM9.039 million for the period ended 30 September 2013 to RM3.866 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, increase in staff costs and one-off expenses incurred for transfer listing exercise.

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 RM2.283 million, from RM88.634 million to RM90.917 million. This was due mainly to increase in sales volume of polymeric products by 369 metric tonnes. However, the profit before tax had decreased by RM2.572 million due mainly to the increase in cost of materials.

Oleochemical division

The revenue of oleochemical division had decreased by RM3.640 million, from RM11.085 million to RM7.445 million. This was due mainly to the reduction in sales volume of oleochemical products by 1,230 metric tonnes despite an increase in average selling price by 18.20% as a result of intense market competition. Similarly, the loss before tax had also increased by RM1.012 million due mainly to the reduction in revenue.

Investment holding

The loss before tax had increased by RM1.589 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** | |
|  | **30.09.2014** | **30.06.2014** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 32,880 | 34,518 | (1,638) | (4.75) |
| Profit before tax | 1,450 | 597 | 853 | 142.88 |

Notwithstanding the decrease in revenue of RM1.638 million or 4.75% as compared to preceding quarter ended 30 June 2014, the Group’s profit before tax of RM1.450 million for the current quarter ended 30 September 2014 had shown an increase of RM0.853 million or 142.88% as compared to the profit before tax of RM0.597 million for the preceding quarter ended 30 June 2014.

The increase in profit before tax was due mainly to the reduction in costs of materials and lesser expenses were incurred for transfer listing exercise for the current quarter under review as the exercise has been completed in the previous quarter.

## 17. Future Prospects

The financial performance of the Group for the current financial year will remain profitable.

The Board expects and plans to increase the revenue/profit of the Group by:

1. increase the production capacity;
2. continue to increase export sales to existing and potential customers by penetrate any new territories; and
3. continuation of new and higher value product development for both polymeric and oleochemical products.

## 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 30.09.2014** |  | **Financial Year-To-Date**  **30.09.2014** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
|  | Estimated current tax expense | 566 |  | 1,540 |
|  | Over provision of tax in prior year | (26) |  | (26) |
|  |  | 540 |  | 1,514 |
|  |  |  |  |  |

## 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**

|  |  |  |
| --- | --- | --- |
| **Date of announcement** | **Subject** | **Status** |
| 2 October 2014 | Proposed bonus issue of 95,142,651 new ordinary shares of RM0.10 each in KIB (“KIB Share(s)”) (“Bonus Share(s)”) to be credited as fully paid-up, on the basis of one (1) Bonus Share for every four (4) existing KIB Shares held (“Proposed Bonus Issue”). | * The resolution as set out in the notice of extraordinary general meeting (“EGM”) dated 27 October 2014 on the Proposed Bonus Issue was duly passed at the EGM held on 11 November 2014. * The book closure date for the Proposed Bonus Issue has been fixed on 27 November 2014 via the announcement dated 12 November 2014. * The Bonus Shares will be listed and quoted on the Main Market of Bursa Securities on 28 November 2014. |

**21. Group Borrowings and Debt Securities**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at 30.09.2014**  **RM’000** |  | **As at 30.09.2013**  **RM’000** |  |
| **Long Term Borrowing - secured** |  |  |  |  |
| Term loan | - |  | 157 |  |
|  | - |  | **157** |  |
| **Short Term Borrowing – secured** |  |  |  |  |
| Term loan | 157 |  | 272 |  |
|  | **157** |  | **272** |  |
|  |  |  |  |  |
| **Total** | **157** |  | **429** |  |

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

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 30.09.2014** | **Preceding quarter ended 30.06.2014** |
|  | **RM’000** | **RM’000** |
| Total retained earnings of KIB and its subsidiaries: |  |  |
| * + Realised | 30,158 | 31,538 |
| * + Unrealised | (1,611) | (1,611) |
|  | 28,547 | 29,927 |
| Total share of retained earnings from a joint venture: |  |  |
| * + Realised | 937 | 929 |
|  |  |  |
| Total Group retained earnings | **29,484** | **30,856** |

**23. Material Litigation**

There was no material litigation for the Group as at the date of this announcement.

**24. Dividend Payable**

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

The total dividend paid in respect of the financial year ended 31 December 2013 was 11.00% or RM4,184,574.

**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:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **3rd Quarter Ended** | | **9 Months Ended** | |
|  | **30.09.2014** | **30.09.2013** | **30.09.2014** | **30.09.2013** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 2 | 1 | 5 | 5 |
| Bad debts written off | 180 | - | 180 | 53 |
| Depreciation on property, plant and equipment | 214 | 189 | 640 | 589 |
| Net foreign exchange loss/(gain) | 26 | (101) | (97) | (80) |
| (Gain)/Loss on disposal of property, plant and equipment | - | (15) | - | 43 |
| Interest income | (100) | (95) | (275) | (197) |
| Interest expenses | 3 | 6 | 11 | 24 |
| Property, plant and equipment written off | - | - | - | 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 nine (9) 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 nine (9) months financial period.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **3rd Quarter Ended** | |  | **9 Months Ended** | |
|  |  | **30.09.2014** | **30.09.2013** |  | **30.09.2014** | **30.09.2013** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 910 | 2,087 |  | 2,352 | 6,611 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 380,516 | 380,374 |  | 380,458 | 380,374 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.24 | 0.55 |  | 0.62 | 1.74 |

**Diluted**

The calculation of the diluted EPS is based on the net profit for the current financial quarter and the nine (9) months financial period, divided by the adjusted weighted average number of ordinary shares of RM0.10 each in issue under the exercise of share options granted under the ESOS exercise.

The EPS was not diluted for the current financial quarter and the nine (9) months financial period as the ESOS had been fully exercised prior to the expiry of the ESOS on 22 August 2014.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **3rd Quarter Ended** | |  | **9 Months Ended** | |
|  |  | **30.09.2014** | **30.09.2013** |  | **30.09.2014** | **30.09.2013** |
| Weighted average number of ordinary shares in issue (’000) |  | 380,516 | 380,374 |  | 380,458 | 380,374 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | - | 669 |  | - | 669 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000) |  | 380,516 | 381,043 |  | 380,458 | 381,043 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.24 | 0.55 |  | 0.62 | 1.73 |