#  KARYON INDUSTRIES BERHAD (“KIB”)

(Company No: 612797-T)

(Incorporated in Malaysia)

# UNAUDITED QUARTERLY REPORT FOR THE 2ND QUARTER ENDED 30 JUNE 2015

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 2014.

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 2014 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 2015, which are as follows:

|  |  |
| --- | --- |
| Amendments to MFRS 119 | Defined Benefit Plans: Employee Contributions |
| Amendments to MFRSs Annual Improvements to MFRSs 2010-2012 Cycle |
| Amendments to MFRSs Annual Improvements to MFRSs 2011-2013 Cycle |

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** |
| MFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| MFRS 101 | Disclosure Initiative  | 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 MFRS 10, MFRS12 and MFRS 128 | Investment Entities: Applying the Consolidation Exception | 1 January 2016 |
| Amendments to MFRS 116 & MFRS 141 | Agriculture: Bearer Plants | 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 year 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:

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **2015** | **2014** |
| Interim dividend:  | **RM** | **RM** |
| Single tier interim dividend of 4.00% or RM0.0040 per ordinary share of RM0.10 each in respect of the financial year ended 31 December 2015, which was declared on 3 June 2015 and paid on 3 July 2015 | 1,902,853 |  |
| Final dividend:  |  |  |
| 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 |

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 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** |   |  |  |  |
| Sales (Gross) | 3,228 | 33,388 | 27 | 36,644 |
| Inter-segment sales | (3,215) | (2,177) | - | (5,393) |
| External | 13 | 31,211 | 27 | 31,251 |
|  |  |  |  |  |
| **RESULT** |  |  |  |  |
| Segment result | (552) | 2,645 | (181) | 1,912 |
| Finance costs  | - | (21) | - | (21) |
| Share of profit of a joint venture | 98 | - | - | 98 |
| (Loss)/Profit before tax  | (454) | 2,624 | (181) | 1,989 |
| Taxation | (122) | (501) | - | (623) |
| (Loss)/Profit after tax | (576) | 2,123 | (181) | 1,366 |
|  |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 10,925 | 82,260 | 6,691 | 99,876 |
| Segment liabilities | 539 | 18,572 | 36 | 19,147 |
|  |  |  |  |  |

**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 |
| Taxation | (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 |
|  |  |  |  |  |

1. **Segmental Reporting**

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

**6 months ended 30 June 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Investment Holding | Manufacturing of Polymeric Product | Manufacturing of Oleochemical Product | Total |
|  | RM’000 | RM’000 | RM’000 | RM’000 |
| **REVENUE** |   |  |  |  |
| Sales (Gross) | 3,812 | 65,976 | 3,210 | 72,999 |
| Inter-segment sales | (3,793) | (3,986) | (2) | (7,782) |
| External | 19 | 61,990 | 3,208 | 65,217 |
|  |  |  |  |  |
| **RESULT** |  |  |  |  |
| Segment result | (1,120) | 5,398 | (86) | 4,192 |
| Finance costs  | - | (24) | - | (24) |
| Share of profit of a joint venture | 38 | - | - | 38 |
| (Loss)/Profit before tax  | (1,082) | 5,374 | (86) | 4,206 |
| Taxation | (164) | (1,046) | - | (1,210) |
| (Loss)/Profit after tax | (1,246) | 4,328 | (86) | 2,996 |
|  |  |  |  |  |
| **Consolidated Statement of Financial Position** |  |  |  |  |
| Segment assets | 10,925 | 82,260 | 6,691 | 99,876 |
| Segment liabilities | 539 | 18,572 | 36 | 19,147 |

**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 |
| Taxation | (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 |

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 2015 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 June 2015 are as follows:

|  |  |
| --- | --- |
|  | RM |
| Guarantees to banks for trade facilities granted | 34,550,000 |
| 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 2015 is as follows:

|  |  |
| --- | --- |
| Property, plant and equipment: | RM |
| Approved and contracted for | 878,278 |

**15. Performance Review**

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

|  |  |  |
| --- | --- | --- |
|  | **3 Months Ended** | **Variance** |
|  | **30.06.2015** | **30.06.2014** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 31,251 | 34,518 | (3,267) | (9.46) |
| Profit before tax  | 1,989 | 597 | 1,392 | 233.17 |

For the quarter ended 30 June 2015, the Group recorded revenue of RM31.251 million, a decrease of RM3.267 million or 9.46% as compared to revenue of RM34.518 million recorded for the corresponding quarter ended 30 June 2014. The decrease in revenue was due mainly to the cessation of operation of the oleochemical division.

Notwithstanding the decrease in revenue, the Group’s profit before tax for the quarter ended 30 June 2015 had increased to RM1.989 million as compared to the profit before tax of RM0.597 million recorded in the corresponding period of the preceding financial year, which was due mainly to the decrease in cost of materials for the polymeric division. In addition, there was an expense incurred for transfer listing exercise in the preceding financial year corresponding quarter.

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

Polymeric division

The revenue of the polymeric division had decreased by RM0.496 million which was due mainly to the slight decrease in average selling price despite the increase in sales volume of polymeric products by 345 metric tonnes. However, the profit before tax had increased by RM0.787 million from RM1.837 million recorded in the corresponding quarter of the preceding financial year to RM2.624 million for the current financial period which was due mainly to the decrease in cost of materials.

Oleochemical division

The revenue of oleochemical division had decreased by RM2.759 million due to the cessation of operation.

Investment holding

The loss before tax had decreased by RM0.654 million due mainly to the non-occurrence of one-off expenses incurred for transfer listing exercise in the current financial period under review.

**15. Performance Review (cont’d)**

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

|  |  |  |
| --- | --- | --- |
|  | **6 Months Ended** | **Variance** |
|  | **30.06.2015** | **30.06.2014** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 65,217 | 65,547 | (330) | (0.50) |
| Profit before tax  | 4,206 | 2,416 | 1,790 | 74.09 |

The Group’s revenue for the cumulative financial quarter ended 30 June 2015 has shown a decrease of 0.50% from RM65.547 million to RM65.217 million as compared to the corresponding period in the preceding financial year. The decrease in the Group’s revenue of RM0.330 million was attributed mainly to the cessation of operation of the oleochemical division.

However, the profit before tax had increased by RM1.790 million, from RM2.416 million for the period ended 30 June 2014 to RM4.206 million for the current financial period. This was due mainly to the decrease in cost of materials and there was an expense incurred for transfer listing exercise in the preceding financial year.

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

Polymeric division

Sales performance of the polymeric division has improved by RM1.686 million, from RM60.304 million to RM61.990 million. This was due mainly to increase in sales volume of polymeric products by 1,233 metric tonnes. Similarly, the profit before tax had also increased by RM0.951 million due mainly to the decrease in cost of materials.

Oleochemical division

The revenue of oleochemical division had decreased by RM1.978 million, from RM5.186 million to RM3.208 million. This was due mainly to the cessation of operation of the oleochemical division.

Investment holding

The loss before tax had decreased by RM0.932 million due mainly to the non-occurrence of one-off expenses for transfer listing exercise 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** |
|  | **30.06.2015** | **31.03.2015** | **Amount** | **%** |
|  | **RM’000** | **RM’000** | **RM’000** |
| Revenue | 31,251 | 33,966 | (2,715) | (7.99) |
| Profit before tax  | 1,989 | 2,217 | (228) | (10.28) |

The Group’s revenue and profit before tax had decreased by RM2.715 million and RM0.228 million respectively due mainly to the cessation of operation of the oleochemical division.

## 17. Future Prospects

The financial performance of the Group for the financial year 2015 shall remain profitable.

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

1. increasing the production capacity;
2. increasing export sales to existing and potential customers by penetrating new territories; and
3. continuing new and higher value product development for polymeric 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****30.06.2015** |  | **Financial Year-To-Date** **30.06.2015** |
|  |  | **RM’000** |  | **RM’000** |
|  |  |  |  |  |
|  | Estimated current tax expense | 623 |  | 1,210 |
|  |  |  |  |  |

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

**20. Status of Corporate Proposal**

There was no outstanding corporate proposal for the current financial quarter under review.

**21. Group Borrowings and Debt Securities**

 The Group’s borrowings, which are all denominated in Ringgit Malaysia, as at 30 June 2015 are shown below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at 30.06.2015****RM’000** |  | **As at 30.06.2014****RM’000** |  |
| **Long Term Borrowing - secured** |  |  |  |  |
| Term loan | 5,480 |  | - |  |
|  | **5,480** |  | **-** |  |
| **Short Term Borrowing – secured** Banker acceptance | 1,128 |  | - |  |
| Term loan | 553 |  | 225 |  |
|  | **1,681** |  | **225** |  |
|  |  |  |   |  |
| **Total** | **7,161** |  | **225** |  |

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

|  |  |  |
| --- | --- | --- |
|  | **Current quarter ended 30.06.2015** | **Preceding quarter ended 31.03.2015** |
|  | **RM’000** | **RM’000** |
| Total retained earnings of KIB and its subsidiaries: |  |  |
| * + Realised
 | 32,579 | 31,268 |
| * + Unrealised
 | (1,670) | (1,628) |
|  | 30,909 | 29,640 |
| Total share of retained earnings from a joint venture: |
| * + Realised
 | 884 | 787 |
| Total Group retained earnings  | **31,793** | **30,427** |

**23. Material Litigation**

The Group does not have any material litigation which would materially affect the financial position of the Group.

**24. Dividend Payable**

Single tier interim dividend of 4.00% or RM0.0040 per ordinary share of RM0.10 each in respect of the financial year ending 31 December 2015, which was declared on 3 June 2015 and paid on 3 July 2015.

**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** |
|  | **30.06.2015** | **30.06.2014** | **30.06.2015** | **30.06.2014** |
|  | **RM’000** | **RM’000** | **RM’000** | **RM’000** |
| Amortisation of prepaid lease payments for land | 1 | 1 | 4 | 3 |
| Depreciation on property, plant and equipment | 241 | 213 | 477 | 426 |
| Net foreign exchange loss/(gain)- realised | 55 | (56) | 52 | (123) |
| Net foreign exchange loss- unrealised | 42 | - | 42 | - |
| Interest income | (112) | (102) | (221) | (175) |
| Interest expenses | 21 | 3 | 24 | 8 |

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** |
|  |  | **30.06.2015** | **30.06.2014** |  | **30.06.2015** | **30.06.2014** |
| Net profit for the period attributable to owners of the parent (RM’000) |  | 1,366 | 192 |  | 2,996 | 1,442 |
|  |  |  |  |  |  |  |
| Weighted average number of ordinary shares in issue (’000) |  | 475,713 | 380,407 |  | 475,713 | 380,406 |
|  |  |  |  |  |  |  |
| Basic EPS (sen) |  | 0.29 | 0.05 |  | 0.63 | 0.38 |

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

 **Diluted**

The EPS is not diluted for the current financial quarter and the six (6) months financial period.

The calculation of the diluted EPS for comparative quarter was based on the net profit for the comparative quarter and the six (6) months financial period, divided by the adjusted weighted average number of ordinary shares of RM0.10 each issued under the exercise of share options granted under the ESOS exercise.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2nd Quarter Ended** |  | **6 Months Ended** |
|  |  | **30.06.2015** | **30.06.2014** |  | **30.06.2015** | **30.06.2014** |
| Weighted average number of ordinary shares in issue (’000) |  | 475,713 | 380,407 |  | 475,713 | 380,406 |
|  |  |  |  |  |  |  |
| Effect of ESOS (’000) |  | - | 91 |  | - | 91 |
|  |  |  |  |  |  |  |
| Adjusted weighted average number of ordinary shares in issue and issuable (’000)  |  | 475,713 | 380,498 |  | 475,713 | 380,497 |
|  |  |  |  |  |  |  |
| Diluted EPS (sen) |  | 0.29 | 0.05 |  | 0.63 | 0.38 |