

RALCO CORPORATION BERHAD – (333101-V)

Unaudited Quarterly report on consolidated results for the 3rd Quarter ended 30 September 2015

A) Notes to the Interim Financial Report For the 3rd Quarter ended 30 September 2015: Explanatory Notes in compliance to MFRS 134 on Interim Financial Reporting

(1) Basis of Preparation

The interim financial statements have been prepared under the historical cost convention unless otherwise stated.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2014. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since financial year ended 31 December 2014.

These are the Group's condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS 1: First Time Adoption of Malaysia Financial Reporting Standards has been applied.

The transition to MFRS framework does not have any material financial impact to these interim financial statements.

(2) Summary of significant accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the FYE 31 December 2014, except for the adoption of the following MFRSs, amendments to MFRSs and IC Interpretations:

Adoption of New and Revised FRs, IC Interpretations and Amendments

Effective for financial periods beginning on or after 1 January 2015:

Amendments to MFRS 119, Employee Benefits – Defined Benefit Plans: Employee Contribution
Annual Improvements to MFRSs 2010 – 2012 Cycle
Annual Improvements to MFRSs 2011 – 2013 Cycle

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

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Standards issued but not yet effective

Effective for financial periods beginning on or after 1 January 2016:

MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 11	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 127	Consolidated and Separate Financial Statements – Equity Method in Separate Financial Statements
Amendments to MFRS 10	Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 128	Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to MFRS 116	Property, Plant and Equipment – Agriculture Bearer Plants
Amendments to MFRS 141	Agriculture: Bearer Plants
Amendments to MFRS 138	Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 12	Disclosure of interests in Other Entities – Applying the Consolidation Exception
Annual improvements to MFRSs 2012 – 2014 Cycle	

Effective for financial periods beginning on or after 1 January 2017:

MFRS 15	Revenue from Contracts with Customer
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Effective for financial periods beginning on or after 1 January 2018:

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)
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The Group intends to adopt the above MFRSs when they become effective.

The adoption of the abovementioned new and revised MFRSs, IC Interpretations and Amendments have no significant effect to the Group's consolidated financial statements of the current financial period under review or the comparative consolidated financial statements of the prior financial period.

(3) Audit Report

The Group's financial statements for the year ended 31 December 2014 were reported without any qualification.

(4) Seasonal or Cyclical Factors

The business operations of the Group were not significantly affected by seasonal or cyclical factors.

(5) Unusual Items Affecting Financial Statements

There were no unusual items affecting the financial statements of the Group during the quarterly financial period under review.

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(6) Changes in Accounting Estimates

There were no changes in accounting estimates for the financial period under review.

(7) Issuances, Cancellations, Repurchases, Resale and Repayments of Debt and Equity Securities

There were no issuances, cancellations, repurchase, resale and repayment of debts and equity securities in the current financial period under review.

(8) Dividend Paid

No interim dividend has been paid or declared in respect of the financial period under review.

(9) Segmental Reporting

	Plastic Product RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
9 Months Ended 30/9/2015				
REVENUE				
External Sales	70,955	1,470	-	72,425
Inter-segment sales	3,516	1,369	(4,885)	-
Total revenue	<u>74,471</u>	<u>2,839</u>	<u>(4,885)</u>	<u>72,425</u>
RESULT				
Segment operating profit/(loss)	<u>2,838</u>	<u>(210)</u>	<u>-</u>	<u>2,628</u>
Finance cost	<u>(423)</u>	<u>-</u>	<u>-</u>	<u>(423)</u>
Profit for the financial period				2,205
Tax expense				(34)
Net Profit for the financial period				<u>2,171</u>
9 Months Ended 30/9/2014				
REVENUE				
External Sales	60,791	11,460	-	72,251
Inter-segment sales	9,948	1,387	(11,335)	-
Total revenue	<u>70,739</u>	<u>12,847</u>	<u>(11,335)</u>	<u>72,251</u>
RESULT				
Segment operating profit/(loss)	<u>444</u>	<u>(260)</u>	<u>-</u>	<u>184</u>
Finance cost	<u>(571)</u>	<u>-</u>	<u>-</u>	<u>(571)</u>
Loss for the financial period				(387)
Tax expense				(67)
Net loss for the financial period				<u>(454)</u>

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(10) **Valuation of Property, Plant and Equipment**

There has been no revaluation of property, plant and equipment during the current quarter.

(11) **Material Subsequent Events**

There were no changes during the financial period under review.

(12) **Changes in Composition of the Group**

There were no changes during the financial period under review.

(13) **Contingent Liabilities or Contingent Assets**

Contingent liabilities as at the reporting date are as follows:

**Current
Financial
Period Ended
30.9.2015
RM'000**

Approved and contracted for:

- Acquisition of property, plant and equipment

535

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Notes to the interim Financial Reporting for the 3rd Quarter ended 30 September 2015: Explanatory Notes in compliance with Appendix 9B Part A of the BMSB Listing Requirements

(1) Performance Review

Performance for the FPE 30 September 2015 versus the corresponding quarter in the FPE 30 September 2014

	Current Quarter Period Ended 30 September		Cumulative Quarter Year Ended 30 September	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	25,043	25,925	72,425	72,251
Profit/(Loss) Before Taxation	721	461	2,205	(387)

The Group's revenue for the current quarter three (3) months ended 30 September 2015 ("3Q2015") decrease by RM0.88 million or 3.40% compared to the corresponding quarter ended 30 September 2014 ("3Q2014"). This adverse performance was mainly due to the slow demand in pail product. For nine month financial period ended (FPE) 30 September 2015, the Group's revenue was increased by RM0.17 million or 0.24% compare to the FPE 30 September 2014. The increase in revenue was mainly due to the increase in demand for jerry-can product particularly from central region.

The Group's profit before taxation increased by RM0.26 million or 56.40% from RM0.46 million reported in preceding corresponding period 3Q2014 to RM0.72 million for the 3Q2015. For nine month FPE 30 September 2015, the Group's profit increase by RM2.59 million or 583.72% to RM2.21 million as compared to RM0.39 million losses in FPE 30 September 2014. This improved performance was mainly due to the lower material cost and the Group consistently taking cautious action in cost control and operational efficiency improvement. Beside this, increase in gain from foreign exchange due to weakening in Malaysia's currency and reduction in finance cost due to better cash flow monitoring has also contributed to this improved performance.

(2) Material Changes In The Quarterly Results Compared to the Results of the Preceding Quarter

	Financial Quarter Ended		Variance RM'000
	30.9.2015 RM'000	30.6.2015 RM'000	
Revenue	25,043	24,626	417
Profit Before Tax	721	688	33

The Group's revenue and profit before taxation increased by RM0.42 million or 1.69% and RM0.03 million or 4.80% respectively from RM24.63 million and RM0.69 million in the preceding quarter to RM25.04 million and RM0.72 million for the current quarter under review. This improved performance mainly due to the increase in demand from existing and new customers and also increase in gain from foreign exchange due to weakening in Malaysia's currency.

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(3) Prospects for Year 2015

The volatility of crude oil price and also Ringgit Malaysia against US Dollar continue challenging the plastic manufacturing industry in Malaysia. Barring unforeseen circumstances, the Group is optimistic in achieving satisfactory results for year 2015.

(4) Variance from profit forecast

No profit forecast was issued during the financial period under review.

(5) Taxation

Tax comprises:

	Individual Quarter		Cumulative Quarter	
	Current quarter 30/9/2015 RM '000	Preceding year corresponding quarter 30/9/2014 RM '000	Current year to date 30/9/2015 RM '000	Preceding year corresponding period 30/9/2014 RM '000
Taxation	(7)	(22)	(34)	(67)
	<u>(7)</u>	<u>(22)</u>	<u>(34)</u>	<u>(67)</u>
	=====	=====	=====	=====

The Group's effective tax rate was lower than the statutory tax rate mainly due to the Group has unabsorbed tax losses and capital allowances which are available to set-off against future chargeable income.

(6) Status of Corporate Proposals and Utilisation of Proceeds

There were no corporate proposals whatsoever during the period under review.

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(7) Group Borrowings and Debts Securities

Total Group borrowings as at 30 September 2015 are as follows:

	Current Quarter Ended 30.9.2015 RM'000
Short term borrowings	
Secured:	
Bill payable	4,184
Hire purchases	930
Term loan	1,774
	<hr/> 6,888 <hr/>
Long term borrowings	
Secured:	
Hire purchases	1,014
Term loan	840
	<hr/> 1,854 <hr/>
Total borrowings	<hr/> 8,742 <hr/>

(8) Dividend

No interim dividend has been proposed in the current financial period.

(9) Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders of the Group for the financial period under review over the weighted average number of ordinary shares in issue.

Diluted Earnings Per Share

The diluted earnings per share is not disclosed as the potential ordinary shares arising from the full conversion of warrants have an anti-dilutive effect.

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(10) **Disclosure realised and unrealised profits/(losses)**

On 25 March 2010, Bursa Securities issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of the Bursa Securities Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Securities further issued guidance on the disclosure and the format required.

The breakdown of the retained earnings of the Group as at 30 September 2015, into realised and unrealised profits/(losses), pursuant to the directive, are as follows:

	As at 30.9.2015 RM'000	As at 30.9.2014 RM'000
Total retained earnings of the Group		
- Realised	(2,629)	(5,627)
- Unrealised	(1,601)	(1,640)
	<u>(4,230)</u>	<u>(7,267)</u>

The determination of realised and unrealised profits or losses is compiled based on Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

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(11) Profit/(Loss) Before Taxation

	Current Year Qtr 01/07/15- 30/09/15 (RM'000)	Current Year Qtr 01/07/14- 30/09/14 (RM'000)	Current Year Cumm 01/01/15- 30/09/15 (RM'000)	Current Year Cumm 01/01/14- 30/09/14 (RM'000)
Profit for the period is arrived at after crediting/(charging)				
Impairment loss on receivables	-	-	-	-
Reversal of impairment loss on receivables	-	-	-	-
Gain/(loss) on disposal of property, plant and equipment	7	15	17	20
Property, plant & equipment written off	-	-	-	-
Interest income	1	1	3	2
Rental income	-	69	23	207
Realised gain/(loss) on foreign exchange	209	(31)	418	(9)
Unrealised gain/(loss) on foreign exchange	-	(26)	-	(38)
Gain on disposal of unquoted investment	-	-	-	-
Depreciation	(882)	(856)	(2,615)	(2,588)
Amortisation of prepaid lease payments	(7)	(7)	(19)	(19)
Interest expense	(132)	(174)	(423)	(571)

Save as disclosed above, the other items as required under Appendix 9B, Part A (16) of the Bursa Listing Requirements are not applicable.