

## **RAPID SYNERGY BERHAD**

(Company No. 325935-U)

(Incorporated in Malaysia)

### **NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

#### **Selected explanatory notes pursuant to Malaysian Financial Reporting Standards ("MFRS") 134 Interim Financial Reporting**

**A1** Basis of preparation

These condensed consolidated interim financial reports, for the period ended 30 June 2014, have been prepared in accordance with MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited annual financial statements of the Group for the financial year ended 31 December 2013. The explanatory notes attached to the condensed consolidated 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 the year ended 31 December 2013.

**A2** Significant Accounting Policies

The significant accounting policies and methods of computation applied in the interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2013 except for the adoption of the following with effect from 1 January 2014:

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014**

- Amendments to MFRS 10, Consolidated Financial Statements
- Amendments to MFRS 12, Disclosure of Interests in Other Entities
- Amendments to MFRS 127, Separate Financial Statements
- Amendments to MFRS 132, Financial Instruments : Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets

The adoption of the above standards and amendments did not have any material financial impact to the Group's result.

At the date of authorization of this interim financial statement the following standards interpretations and amendments were issued but not yet effective and have not been applied by the Group.

#### **MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014**

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to FRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 124, Related Party disclosures (Annual Improvements 2010-2012 Cycle)

- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011-2013 Cycle)

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016**

- Amendments to MFRS 11, Accounting for Acquisitions on Interests in Joint Operations
- Amendments to MFRS 116 & MFRS 138, Clarification of Acceptable Methods of Depreciation and Amortisation

**MFRSs, Interpretations and amendments effective for a date yet to be confirmed**

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- MFRS 9, Financial Instruments – Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139
- Amendments to FRS 7, Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

A3 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the audited financial statements for the financial year ended 31 December 2013 was not qualified.

A4 Seasonal or cyclical factors

The Group's operations were not affected by any significant seasonal or cyclical factors in the current quarter.

A5 Unusual items Due to Their Nature, Size or Incidence

Other than disclosed in the financial statements there were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group in the current quarter ended 30 June 2014.

A6 Change in Estimates

There were no significant changes in estimates of amounts reported in prior financial years which have a material effect in the current quarter ended 30 June 2014.

A7 Debts and equity securities

Save as disclosed below, there were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter and financial year-to-date.

Issuance of Shares

For the current quarter ended 30 June 2014, the issued and paid up share capital has increased from 87,352,350 ordinary shares of RM1.00 each in Rapid Synergy Berhad to 87,358,500 shares by conversion of warrants to shares as follows:

<u>Number of shares Issued</u>	<u>Price per share (RM)</u>
6,150	1.00

A8 Dividend

There was no dividend payment made for the current quarter under review.

A9 Segmental Reporting

The segment information for business segments predominantly conducted in Malaysia for the financial period ended 30 June 2014 and 30 June 2013 is as follows:-

## Business Segment

<b>6 Months ended 30 June 2014</b>	<b>Manufacturing RM'000</b>	<b>Investment Holding RM'000</b>	<b>Restaurant RM'000</b>	<b>Consolidated RM'000</b>
Revenue	6,317	8,393	106	14,816
<b>Result</b>				
Segment results	(348)	13,927	(167)	13,412
Interest expense				(4,523)
Profit before taxation				8,889

<b>6 Months ended 30 June 2013</b>	<b>Manufacturing RM'000</b>	<b>Investment Holding RM'000 (Restated)</b>	<b>Restaurant RM'000</b>	<b>Consolidated RM'000 (Restated)</b>
Revenue	3,371	8,076	142	11,589
<b>Result</b>				
Segment results	(522)	7,194	(737)	5,935
Interest expense				(4,840)
Profit before taxation				1,095

A10

### Discontinued Operations

On 30<sup>th</sup> September 2013, the Company has entered into a Sale and Purchase Agreement with Triple-H Auto Parts Sdn Bhd for the disposal of 100% of the issued and paid-up ordinary share capital of Pasaraya Rapid Sdn Bhd for a cash consideration of RM1.0 million.

The profit/(loss) attributable to the discontinued operations is as follows:

	6 months ended	
	30.06.2014	30.06.2013
	RM'000	RM'000
Revenue	-	9,616
Cost of sales	-	(8,780)
<b>Gross profit</b>	-	836
Administrative expenses	-	(3,550)
Depreciation	-	(429)
Other expenses	-	(99)
Other income	-	263
<b>Operating loss</b>	-	(2,979)
Finance costs	-	-
<b>Loss before taxation</b>	-	(2,979)
Income tax expense	-	-
<b>Loss for the period</b>	-	(2,979)
Gain on sale of discontinued operations	-	-
<b>Loss for the year</b>	-	(2,979)

The following amounts have been included in arriving at profit/(loss) before tax of the discontinued operation:

	6 months ended	
	30.06.2014 RM'000	30.06.2013 RM'000
Interest income	-	3
Rental income	-	99
Staff cost	-	(1,387)
Depreciation of property, plant and Equipment	-	(429)

Cash flows from/(used in) discontinued operation

	6 months ended	
	30.06.2014 RM'000	30.06.2013 RM'000
Net cash used in operating activities	-	113
Net cash used in investing activities	-	(66)
Net cash from financing activities	-	-
Effect on cash flows	-	47

A11 Valuations of property, plant and equipment  
The valuations of property, plant and equipment have been brought forward without amendments from the financial statements for the year ended 31 December 2013.

A12 Material events subsequent to balance sheet date  
There were no material events subsequent to the end of the period under review to 19 Aug 2014.

A13 Changes in the composition of the Group  
There were no changes to the composition of the Group for the current quarter.

A14 Changes in contingent liabilities or contingent assets as at 30 June 2014

Unsecured:

Corporate guarantee issued to banks for credit facilities granted to subsidiary companies	RM'000 95,813
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A15 Property, plant and equipment  
There were no significant acquisitions for the current quarter ended 30 June 2014.

A16 Capital commitments  
There were no capital commitments during the current quarter ended 30 June 2014.

Additional information required by the Listing Requirements of Bursa Malaysia Securities Berhad

B1 Review of the performance of the company and its principal subsidiaries

Segment	3 months ended		6 months ended	
	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)
Manufacturing division				
Revenue	2,847	1,718	6,317	3,371
Loss before taxation	(446)	(616)	(501)	(780)
Investment holding division				
Revenue	4,262	3,706	8,393	8,076
Profit before taxation	5,029	250	9,557	2,612

Restaurant division				
Revenue	59	51	106	142
Loss before taxation	(43)	(257)	(167)	(737)
Total				
Revenue	7,168	5,475	14,816	11,589
Profit/(Loss) before taxation	4,540	(623)	8,889	1,095

For the current financial quarter, the group recorded a revenue of RM7.17 million, an increase of RM1.69 million as compared to RM5.48 million in the preceding year corresponding quarter. The Group recorded a profit before tax of RM4.54 million in the current quarter as compared to loss before tax of RM0.62 million in the previous year corresponding quarter. The contributory factors to the above performances are explained in the respective operating business segments as follows:

Manufacturing division recorded a revenue of RM2.85 million in the current financial quarter, an increase of RM1.13 million as compared to RM1.72 million recorded in the preceding year corresponding quarter. The pretax loss recorded in the current quarter was RM0.45 million compared to loss before tax of RM0.62 million in the preceding year corresponding quarter. The improvement in revenue and loss before tax was mainly due to increase in orders from our existing customers.

The investment holding division recorded a revenue of RM4.26 million in the current financial quarter, an increased of RM0.55 million as compared to RM3.71 million recorded in the preceding year corresponding quarter. The investment holding division recorded a profit before tax of RM5.03 million in the current financial quarter as compared to profit before tax of RM0.25 million in the preceding year corresponding quarter. The improved results in the revenue and profit before tax was mainly contributed by the additional rental received and gain of RM5.21 million on the disposal of investment properties respectively.

The restaurant division recorded a revenue of RM0.06 million in the current quarter compared to RM0.05 million in the preceding year corresponding quarter. As revenue improved, the division managed to reduce the loss before tax to RM0.04 million in the current quarter compared to loss before tax of RM0.26 million in preceding year corresponding quarter.

**B2** Material changes in profit before tax for the current quarter compared to immediate preceding quarter

For the current financial quarter the consolidated revenue and profit before tax recorded was RM7.20 million and RM4.54 million respectively. The revenue decreased by RM0.48 million compared to RM7.65 million achieved in the immediate preceding quarter. The lower revenue achieved was mainly contributed by lower sales from the manufacturing division. The profit before tax in the current quarter increased by RM0.19 million compared to RM4.54 million in the immediate preceding quarter. The increased in the profit before tax for was mainly due to the gain from disposal of properties. The contributory factors to the above performances are explained in the respective operating business segments as follows:

Segment	3 months ended	
	30.06.2014	31.03.2014
Manufacturing division		
Revenue	2,847	3,470
Profit/(Loss) before taxation	(446)	51
Investment holding division		
Revenue	4,262	4,130
Profit before taxation	5,029	4,427
Restaurant division		
Revenue	59	47
Loss before taxation	(43)	(128)

Total		
Revenue	7,168	7,647
Profit before taxation	4,540	4,350

Manufacturing division recorded a revenue RM2.85 million compared to RM3.47 million in the immediate preceding quarter. The division recorded loss before tax of RM0.45 million in the current quarter against profit before tax of RM0.05million in the immediate preceding quarter. The decrease in revenue and profit before tax compared to the immediate preceding quarter was mainly due to lower orders from customers.

The investment holding division recorded a revenue of RM4.26 million in the current quarter compared to RM4.13 million in the immediate preceding quarter. The increase in revenue during the current quarter was mainly due to the increase in rental income received. The profit before tax recorded in the current quarter was RM5.03 million compared to profit before tax of RM4.43 million in the immediate preceding quarter. The higher profit before tax in the current quarter was mainly due to gain from disposal of investment properties.

The restaurant division recorded a revenue RM0.06 million in the current quarter against RM0.05million in the immediate preceding quarter. As revenue increased by RM0.01 million, the division managed to reduce the loss before tax to RM0.04 million compared to loss before tax of RM0.13 million in the immediate preceding quarter.

B3 Prospects for the current year

The business environment remains challenging given the intensifying competition and prevailing global economic condition. The investment holding division is expected to continue to contribute positively to the group. Meanwhile the effort to contain costs will continue for the manufacturing division and its performance would be dependent on the expected gradual recovery of the global economy.

B4 Profit forecast  
Not applicable as no profit forecast was published.

B5 Profit/(Loss) before taxation

Profit/(Loss) before taxation is arrived at after crediting/ (charging) the following income/ (expenses):

	3 months ended		6 months ended	
	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)
(a) Profit on disposal of investment properties	5,206	333	9,961	2,370
(b) Interest expense	(2,186)	(2,374)	(4,523)	(4,840)
(c) Interest income	-	-	13	-
(d) Provision for write back/(off) of inventories	(150)	81	(300)	298
(e) (Loss)/Profit on foreign exchange-realised	15	2	8	4
-unrealised	(29)	12	(2)	50
(f) Depreciation and amortisation	(1,244)	(1,244)	(2,485)	(2,465)

B6 Tax expense

	3 months ended		6 months ended	
	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)	30.06.2014 RM'000	30.06.2013 RM'000 (Restated)
Income tax expense				
-Current	468	191	695	494
-Prior year	(30)	(72)	(30)	(89)
Deferred tax expense				
-Current	23	7	249	7
-Prior year				
	<u>461</u>	<u>126</u>	<u>914</u>	<u>412</u>

The effective tax rates for the current quarter is lower than the statutory tax rate mainly due to the availability of certain tax incentives granted to a subsidiary.

B7 Profits/ (Losses) on sale of unquoted investments and/or properties

There were no disposal of unquoted investment and/or properties for the current quarter ended 30 June 2014 except for the disposal of one unit of condominium for the amount of RM0.73 million and three units of shop for the amount of RM6.05 million.

B8 Marketable securities

There were no purchase or disposal of quoted securities for the current quarter ended 30 June 2014.

B9 Status of corporate proposals

There were no corporate proposals for the current quarter ended 30 June 2014.

B10 Borrowing and debts securities

	30 June 2014 RM'000
Current	
Overdraft	5,685
Term loan - secured	10,949
Non-current	
Term loan - secured	112,692

The above borrowings are denominated in Ringgit Malaysia.

B11 Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet risk as at 19 Aug 2014.

B12 Changes in material litigation

- (i) On 6 January 2003, Rapid Mall Sdn Bhd (RM) and Rapid Precision Technologies Sdn Bhd (RPT), both wholly owned subsidiaries of RSB had served summons on Nychem Technologies Sdn Bhd (Nychem) and two guarantors for the amount of RM450,000 and RM641,908 respectively in respect of outstanding amount due on the sale of equipment accessories goodwill, rent and lease of fixtures. As to the case between RPT and Nychem, bankruptcy proceedings have been instituted against the two guarantors. One of the guarantors has withdrawn their application for stay of the adjudicating and receiving order (AORO) and with cost to be taxed. The other guarantor will be served with a bankruptcy notice.

B13 Dividends

No dividend has been recommended for the quarter under review;

B14 Basis of calculation of earnings per share

The basic earnings per share for the current quarter and cumulative year to date are computed as follows:

	3 months ended		6 months ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Net profit/(loss) for the period attributable to owners of the Company (RM'000)				
- from continuing operations	4,079	(749)	7,975	683
- from discontinuing operations	-	(1,653)	-	(2,979)
	<u>4,079</u>	<u>(2,402)</u>	<u>7,975</u>	<u>(2,296)</u>
Weighted average number of ordinary shares in issue	87,337,598	87,334,350	87,353,330	87,334,350
Basic earnings/(loss) per share (sen)				
- from continuing operations	4.67	(0.86)	9.13	0.78
- from discontinuing operations	-	(1.89)	-	(3.41)
	<u>4.67</u>	<u>(2.75)</u>	<u>9.13</u>	<u>(2.63)</u>

The diluted earnings per share for the current quarter and cumulative year to date are computed as follows:

	3 months ended		6 months ended	
	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Net profit/(loss) for the period attributable to owners of the Company (RM'000)				
- from continuing operations	4,079	(749)	7,975	683
- from discontinued operations	-	(1,653)	-	(2,979)
	<u>4,079</u>	<u>(2,402)</u>	<u>7,975</u>	<u>(2,296)</u>
Weighted average number of ordinary shares in issue	87,337,598	87,334,350	87,353,330	87,334,350
Adjustments for warrants granted	<u>15,676,737</u>	<u>13,569,328</u>	<u>15,676,737</u>	<u>13,569,328</u>
Adjusted weighted average number of ordinary shares in issue	<u>103,014,335</u>	<u>100,903,678</u>	<u>103,030,067</u>	<u>100,903,678</u>
Diluted earnings/(loss) per share (sen)				
- from continuing operations	3.96	(0.74)	7.74	(0.68)
- from discontinued operations	-	(1.64)	-	(2.95)
	<u>3.96</u>	<u>(2.38)</u>	<u>7.74</u>	<u>(2.27)</u>

B15 Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors.

B16 Realised & Unrealised Profit/Losses Disclosure



The retained profits as at 30 June 2014 and 31 December 2013 is analysed as follows:

	30.06.2014 RM'000	31.12.2013 RM'000
The retained profits of RSB and its subsidiaries:		
- Realised	52,856	44,606
-Unrealised	74	348
	<hr/> 52,930	<hr/> 44,954
Less: Consolidation adjustments	(10,878)	(10,878)
	<hr/>	<hr/>
Total Group retained profits as per consolidated financial statements	<hr/> <u>42,052</u>	<hr/> <u>34,076</u>

By order of the Board  
LEE CHIEW HIANG  
Executive Director  
Penang  
Date : 26 August 2014