

## **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 31 December 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 2014. 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 2014.

**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 2014 except for the adoption of the following with effect from 1 January 2015:

##### **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 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 MFRS 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 119, Employee Benefits – Defined Benefit Plans: Employee Contributions
- 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 5, Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012-2014 Cycle)
- Amendments to MFRS 7, Financial Instruments; Disclosures (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements and 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 10, Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
- MFRS 14, Regulatory Deferral Accounts#
- Amendments MFRS 101, Presentation of Financial Statements: Disclosures Initiative
- Amendments to MFRS 116 and MFRS 138, Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 119, Employee Benefits (Annual Improvements 2012 – 2014 Cycle)
- Amendments to MFRS 127, Separate Financial Statements – Equity Method in Separate Financial Statements
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2012 – 2014 Cycle)

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017**

- Financial Instruments (IFRS 9 as issued by IASB in July 2014)
- MFRS 15, Revenue from Contracts with Customers

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018**

- MFRS 9, Financial Instruments (2014)

- A3 Auditors' Report on Preceding Annual Financial Statements  
The auditors' report on the audited financial statements for the financial year ended 31 December 2014 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 2015.
- 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 2015.
- A7 Debts and equity securities  
There were no issuances, cancellations, repurchase, resale and repayments of debt and equity securities during the current quarter.
- 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 2015 and 30 June 2014 is as follows:-

<b>Business Segment</b>				
<b>6 Months ended 30 Jun 2015</b>	<b>Manufacturing RM'000</b>	<b>Investment Holding RM'000</b>	<b>Restaurant RM'000</b>	<b>Consolidated RM'000</b>
Revenue	5,954	8,475	66	14,495
<b>Result</b>				
Segment results	52	(10,269)	(122)	(10,339)
Interest expense				(4,970)
(Loss) before taxation				(15,309)
<b>6 Months ended 30 Jun 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

A10 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 2014.

A11 Material events subsequent to balance sheet date

There were no material events subsequent to the end of the period under review to 21 August 2015.

A12 Changes in the composition of the Group

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

A13 Changes in contingent liabilities or contingent assets as at 30 June 2015

Unsecured:

Corporate guarantee issued to banks for credit facilities granted to subsidiary companies	RM'000 92,855
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A14 Property, plant and equipment

There were no significant acquisitions for the current quarter 30 June 2015

A15 Capital commitments

There were no capital commitments during the current quarter ended 30 June 2015.

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	
	30.06.2015 RM'000	30.06.2014 RM'000	30.06.2015 RM'000	30.06.2014 RM'000
Manufacturing division				
Revenue	2,903	2,847	5,954	6,317
(Loss) before taxation	(151)	(446)	(291)	(501)
Investment holding division				
Revenue	4,259	4,262	8,475	8,393
(Loss) / Profit before taxation	(13,493)	5,029	(14,896)	9,557
Restaurant division				
Revenue	33	59	66	106
(Loss) before taxation	(60)	(43)	(122)	(167)
Total				
Revenue	7,195	7,168	14,495	14,816
(Loss) / Profit before taxation	(13,704)	4,540	(15,309)	8,889

For the current financial quarter, the group recorded a revenue of RM7.20 million, an increase of RM0.03 million as compared to RM7.17 million in the preceding year corresponding quarter. The Group recorded loss before tax of RM13.7 million in the current quarter as compared to profit before tax of RM4.54 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 RM2.90 million in the current financial quarter, an increase of RM0.05 million as compared to RM2.85 million recorded in the preceding year corresponding quarter. The pretax loss recorded in the current quarter was RM0.15 million compared to loss before tax of RM0.45 million in the preceding year corresponding quarter. The improvement in revenue and loss before tax were mainly due to increase in orders from our existing customers and cost reduction in the manufacturing process.

The investment holding division recorded a revenue of RM4.26 million and loss before tax of RM13.49 million in the current financial quarter. The loss before tax in the current quarter as compared to profit before tax of RM5.03 million in preceding year corresponding quarter was mainly due to the impairment on investment in quoted securities, now suspended, based on independent valuation. The impairment shall be reviewed after upliftment of suspension of said securities.

The restaurant division recorded a revenue of RM0.03 million in the current quarter compared to RM0.06 million in the preceding year corresponding quarter. The pretax loss recorded in the current quarter was RM0.06 million compared to loss before tax RM0.04 million in the 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 loss before tax recorded was RM7.20 million and RM13.70 million respectively. The revenue decreased by RM0.1 million from RM7.30 million achieved in the immediate preceding quarter. The lower revenue achieved compared to the immediate preceding quarter was mainly contributed by lower sales from the manufacturing division. The higher loss before tax was due to impairment of quoted securities, now suspended, as reported earlier.

The contributory factors to the above performances are explained in the respective operating business segments as follows:

Segment	3 months ended	
	30.06.2015 RM '000	31.03.2015 RM '000
Manufacturing division		
Revenue	2,903	3,051
Loss before taxation	(151)	(141)
Investment holding division		
Revenue	4,259	4,215
Loss before taxation	(13,493)	(1,401)
Restaurant division		
Revenue	33	32
Loss before taxation	(60)	(63)
Total		
Revenue	7,195	7,298
Loss before taxation	(13,704)	(1,605)

Manufacturing division recorded a revenue RM2.90 million compared to RM3.05 million in the immediate preceding quarter. The division recorded loss before tax of RM0.15 million in the current quarter compared to loss before tax of RM0.14 million in the immediate preceding quarter. The lower revenue were mainly contributed by lower orders from customers.

The investment holding division recorded a revenue of RM4.26 million in the current quarter compared to RM4.21 million in the immediate preceding quarter. The higher revenue recorded in the current quarter compared to the immediate preceding quarter was mainly due to increase in rental received. The investment holding division recorded loss before tax of RM13.49 million compared to loss before tax of RM1.40 million in the immediate preceding quarter. The increase in loss before tax in the current quarter was mainly due to the impairment of investment in quoted securities.

The restaurant division recorded a revenue RM0.03 million in the current quarter and loss before tax of RM0.06 million.

### B3 Prospects for the year 2015

The business environment for 2015 remains challenging given the intensifying competition and prevailing global economic condition. The manufacturing division performance would be dependent on the orders from existing customers and the expected gradual recovery of the global economy. The investment holding division's performance is expected to be challenging due uncertain economic conditions.

### 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	
		30.06.2015	30.06.2014	30.06.2015	30.06.2014
		RM'000	RM'000	RM'000	RM'000
	(a) Profit on disposal of investment properties	3,103	5,206	8,548	9,961
	(b) Interest expense	(2,487)	(2,186)	(4,970)	(4,523)
	(c) Interest income	-	-	13	13
	(d) Allowance for write down/(back) of inventories	(150)	(150)	(360)	(300)
	(e) (Loss)/Profit on foreign exchange-realised	(9)	15	8	8
	-unrealised	68	(29)	(110)	(2)
	(f) Depreciation and amortisation	(1,265)	(1,244)	(2,550)	(2,485)
	(g) Impairment of other investment	(15,997)	-	(22,219)	-

B6	Tax expense				
		3 months ended		6 months ended	
		30.06.2015	30.06.2014	30.06.2015	30.06.2014
		RM'000	RM'000	RM'000	RM'000
	Income tax expense				
	-Current	458	468	656	695
	-Prior year	(62)	(30)	(62)	(30)
	Deferred tax expense				
	-Current	75	23	78	249
	-Prior year		-		-
		471	461	672	914
		471	461	672	914

The effective tax rates for the current quarter is higher than the statutory tax rate mainly due to unqualified expenses being disallowed for taxation purposes.

B7 Profits/ (Losses) on sale of unquoted investments and/or properties  
There were no profits/losses on sale of unquoted investment and/or properties in the current quarter ended 30 June 2015 except for the recognition of RM3.10 million profit from the completion of disposal of properties transacted in 2014.

B8 Marketable securities

Total acquisition and disposal of quoted shares for the current quarter and financial year to date ended 30 June 2015 are as follows:-

	Current Quarter	Year to date
	RM'000	RM'000
Total acquisition	Nil	18,148
Total disposal	(1,925)	(9,117)

Investments in quoted securities as at 30 June 2015 were as follows :

	RM'000
Shares quoted in Malaysia:-	
Balance at 1 January 2015	20,674
Acquisition	18,148
Disposal	(9,117)
Impairment loss	(22,219)
	7,486
Balance at 30 June 2015	7,486

B9 Status of corporate proposals  
There were no corporate proposals for the current quarter ended 30 June 2015.

B10	Borrowing and debts securities	30 June 2015 RM'000
	Current	
	Overdraft	14,712
	Term loan - secured	10,640
	Non-current	
	Term loan - secured	115,334

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 21 August 2015.

B12 Changes in material litigation

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. On 14 August 2014, RPT had entered into Deed of Settlement with one of the guarantors for the indebted sum of RM1.84 million to be settled in full by 12 instalments and the final instalment to be paid on or before 14 September 2015. The guarantor had paid RM919,000 part payment of the amount owing and had defaulted by failing to make the monthly payment of RM100,000 per month from 14 December 2014 onwards. Following which RPT has issued a notice of demand and shall continue the bankruptcy proceeding against the guarantor. The case management has been fixed by the Court on 12 October 2015.

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	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
Net profit/(loss) for the period attributable to owners of the Company (RM'000)	(14,175)	4,079	(15,981)	7,975
Weighted average number of ordinary shares in issue	87,433,687	87,337,598	87,433,687	87,353,330
Basic earnings/(loss) per share (sen)	(16.21)	4.67	(18.28)	9.13

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

	3 months ended		6 months ended	
	30.06.2015	30.06.2014	30.06.2015	30.06.2014
Net profit/(loss) for the period attributable to owners of the Company (RM'000)	(14,175)	4,079	(15,981)	7,975
Weighted average number of ordinary shares in issue	87,433,687	87,337,598	87,433,687	87,353,330
Adjustments for warrants granted	16,722,413	15,676,737	16,722,413	15,676,737
Adjusted weighted average number of ordinary shares in issue	104,156,100	103,014,335	104,156,100	103,030,067
Diluted earnings/(loss) per share (sen)	(13.61)	3.96	(15.34)	7.74

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 2015 and 31 December 2014 is analysed as follows:

	30.06.2015 RM'000	31.12.2014 RM'000
The retained profits of RSB and its subsidiaries:		
- Realised	38,816	54,757
-Unrealised	260	300
	<u>39,076</u>	<u>55,057</u>
Less: Consolidation adjustments	(9,644)	(9,644)
Total Group retained profits as per consolidated financial statements	<u>29,432</u>	<u>45,413</u>

By order of the Board  
LEE CHIEW HIANG  
Executive Director  
Penang  
Date : 28 August 2015