DENKO INDUSTRIAL CORPORATION BERHAD

(190155-M)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED
31 DECEMBER 2012

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

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DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

	INDIVIDUAL QUARTER 3 months ended 31 December		**CUMULATIVE QUARTERS 9 months ended 31 December**	
	2012 (Unaudited) RM'000	**2011 (Unaudited) RM'000**	**2012 (Unaudited) RM'000**	**2011 (Unaudited) RM'000**
Revenue	25,710	20,101	71,627	58,629
Cost Of Sales	(23,024)	(18,047)	(62,535)	(54,639)
Gross Profit	2,686	2,054	9,092	3,990
Other Income	5,471	405	6,181	1,099
Marketing and Distribution Costs	(932)	(833)	(2,705)	(2,215)
Administration Expenses	(1,929)	(1,721)	(4,997)	(5,680)
Other Operating Expenses	(1,754)	(147)	(2,047)	(2,838)
Profit/(Loss) From Operations	3,542	(242)	5,524	(5,644)
Finance Costs	(459)	(534)	(1,428)	(1,736)
Profit/(Loss) Before Tax	3,083	(776)	4,096	(7,380)
Taxation	71	-	158	(151)
Profit/ (Loss) net of tax for the period	3,154	(776)	4,254	(7,531)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income / (loss) attributable to equity holders of the parent	3,154	(776)	4, 254	(7,531)
Basic, profit/(loss) per ordinary share (sen)	3.02	(0.73)	4.07	(7.21)
Fully diluted profit/(loss) per ordinary share (sen)	-	-	-	-

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 March 2012 and the accompanying explanatory notes attached to the interim financial statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

	Note	As at 31.12.2012 (Unaudited) RM'000	As at 31.03.2012 (Audited) RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	49,864	55,122
Current assets			
Inventories		10,829	10,572
Trade and other receivables		20,081	15,869
Current tax asset		1,830	1,859
Cash and bank balances		4,816	2,112
		37,556	30,412
Asset held for sale	24	-	6,866
Total current assets		37,556	37,278
TOTAL ASSETS		87,420	92,400
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		41,788	104,469
Reserves		5,684	7,254
Accumulated losses		(8,253)	(76,758)
Total Equity		39,219	34,965
Non current liabilities			
Long term borrowings	25	4,038	6,324
Trade payables and Other payables		3,109	8,895
Deferred tax liabilities		4,898	4,944
Total non-current liabilities		12,045	20,163
Current Liabilities			
Trade and other payables		19,001	16,362
Current Tax Liabilities		190	110
Short term borrowings	25	16,965	16,841
		36,156	33,313
Liabilities directly associated with assets held for sale	25	-	3,959
Total current liabilities		36,156	37,272
Total liabilities		48,201	57,435
TOTAL EQUITY AND LIABILITIES		87,420	92,400
Net assets per share attributable to equity holders of the parents (RM)		0.3754	0.3347

The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 March 2012 and the accompanying explanatory notes attached to the interim financial statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

	Attributable to equity holders of the parent				
	----------------Non-distributable--------------------				
	Share Capital	Share Premium	Revaluation Reserves	Accumulated Losses	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 April 2012	104,469	3,136	4,118	(76,758)	34,965
Capital Reduction	(62,681)	(1,570)	-	64,251	-
Total comprehensive income for the period	-	-	-	4, 254	4,254
At 31 DECEMBER 2012	41,788	1,566	4,118	(8,253)	39,219
At 1 April 2011	104,469	3,136	4,118	(67,570)	44,153
Total comprehensive loss for the period	-	-	-	(7,531)	(7,531)
At 31 DECEMBER 2011	104,469	3,136	4,118	(75,101)	36,622

The Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2012 and the accompanying explanatory notes attached to the interim financial statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

		9 months to	
		31.12.2012	**31.12.2011**
	Note	**(Unaudited) RM'000**	**(Unaudited) RM'000**
1. Cash flow from operating activities			
Profit (loss) before tax		4,096	(7,380)
Adjustment for investing and financing items not involving movement of cash and cash equivalent			
Impairment for trade and other receivables		120	141
Bad debts written off		3	-
Amortisation of prepaid land lease payment		-	47
Depreciation of property, plant and equipment		5,115	5,787
Impairment losses on property plant and equipment		1,071	385
(Gain)/Loss on disposal of property, plant and equipment		(4,375)	1,147
Property, plant and equipment written off		74	3
Interest expenses		1,429	1,736
Interest income		(40)	(39)
Inventories written off		718	326
Unrealised (gain)/loss on foreign exchange		(612)	454
Operating profit before working capital changes		7,599	2,607
Net change in inventories		(976)	2,523
Net change in trade and other receivables		(4,695)	1,305
Net change in trade and other payables		(2,627)	(5,153)
Net change in amount due to directors		94	1,347
Cash generated from operations		(605)	2,629
Interest paid		(573)	(636)
Income tax paid		(117)	(150)
Income tax refund		698	-
Net cash (used in)/from operating activities		(597)	1,843

The Unaudited Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 March 2012 and the accompanying explanatory notes attached to the interim financial statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012 (continued)

	Note	9 months to 31.12.2012 (Unaudited) RM'000	9 months to 31.12.2011 (Unaudited) RM'000
2. Cash flow from investing activities			
Purchase of fixed assets		(1,057)	(385)
Decrease/(Increase) in pledged fixed deposit		399	(29)
Interest received		39	39
Proceeds from disposal of fixed assets		11,297	2,652
Net cash from investing activities		10,678	2,277
3. Cash flow from financing activities			
Increase in Short term borrowings		1,253	201
Repayment of term loans		(5,685)	(3,238)
Repayment of hire purchase creditors		(2,007)	(1,708)
Interest paid		(856)	(1,100)
Net cash used in financing activities		(7,295)	(5,845)
Net increase/(decrease) in cash and cash equivalents		2,786	(1,725)
Cash and cash equivalents as at beginning of financial period 1st April		500	1,669
Cash and cash equivalents as at end of financial period 31st December		3,286	(56)

**Cash and cash equivalents at the end of the financial period comprise the following:*

	Note	31.12.2012	31.12.2011
Fixed deposits with licensed banks		1,212	1,611
Cash and bank balances		3,604	433
		4,816	2,044
Bank overdrafts	25	(318)	(489)
		4,498	1,555
Less: Fixed deposits pledged to licensed banks		(1,212)	(1,611)
		3,286	(56)

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 March 2012 and the accompanying explanatory notes attached to the interim financial statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
Incorporated in Malaysia

PART A - SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134 - FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

(1) Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, Interim Financial Reporting in Malaysia and with IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements for the year ended 31 March 2012. These explanatory notes attached to the interim financial statements provides 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 March 2012.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2012 except for the adoption of the following Malaysia Financial Reporting Standards ("MFRS") effective for the financial period beginning 1 April 2012:

	Effective Date
MFRS 1 *SECOND-time Adoption of Malaysian Financial Reporting Standards*	1 January 2012
MFRS 2 *Share-based Payment*	1 January 2012
MFRS 3 *Business Combinations*	1 January 2012
MFRS 4 *Insurance Contracts*	1 January 2012
MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2012
MFRS 7 *Financial Instruments: Disclosures*	1 January 2012
MFRS 8 *Operating Segments*	1 January 2012
MFRS 101 *Presentation of Financial Statements*	1 January 2012
Amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income*	1 July 2012
MFRS 102 *Inventories*	1 January 2012
MFRS 107 *Statement of Cash Flows*	1 January 2012
MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*	1 January 2012
MFRS 110 *Events After the Reporting Period*	1 January 2012
MFRS 112 *Income Taxes*	1 January 2012
MFRS 116 *Property, Plant and Equipment*	1 January 2012
MFRS 117 *Leases*	1 January 2012
MFRS 118 *Revenue*	1 January 2012
MFRS 119 *Employee Benefits*	1 January 2012
MFRS 119 *Employee Benefits (revised)*	1 January 2012
MFRS 121 *The Effects of Changes in Foreign Exchange Rates*	1 January 2012
MFRS 123 *Borrowing Costs*	1 January 2012
MFRS 124 *Related Party Disclosures*	1 January 2012
MFRS 126 *Accounting and Reporting by Retirement Benefit Plans*	1 January 2012
MFRS 127 *Separate Financial Statements*	1 January 2012
MFRS 129 *Financial Reporting in Hyperinflationary Economies*	1 January 2012
MFRS 131 *Interest in Joint Ventures*	1 January 2012
MFRS 132 *Financial Instruments: Presentation*	1 January 2012
MFRS 133 *Earnings Per Share*	1 January 2012
MFRS 134 *Interim Financial Reporting*	1 January 2012
MFRS 136 *Impairment of Assets*	1 January 2012
MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2012
MFRS 138 *Intangible Assets*	1 January 2012
MFRS 139 *Financial Instruments: Recognition and Measurement*	1 January 2012
MFRS 140 *Investment Property*	1 January 2012
Improvements to MFRSs (2008)	1 January 2012
Improvements to MFRSs (2009)	1 January 2012
Improvements to MFRSs (2010)	1 January 2012

(1) Basis of Preparation (continued)

The MFRSs and IC Interpretations adopted are as follows (continued):

	Effective Date
IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	1 January 2012
IC Interpretation 4 *Determining Whether an Arrangement Contains a Lease*	1 January 2012
IC Interpretation 7 *Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyper inflationary Economies*	1 January 2012
IC Interpretation 10 *Interim Financial Reporting and Impairment*	1 January 2012
IC Interpretation 13 *Customer Loyalty Programmes*	1 January 2012
IC Interpretation 14 MFRS 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2012
IC Interpretation 18 *Transfers of Assets from Customers*	1 January 2012
IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 January 2012
IC Interpretation 113 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	1 January 2012
IC Interpretation 115 *Operating Leases - Incentives*	1 January 2012
IC Interpretation 125 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	1 January 2012
IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	1 January 2012
IC Interpretation 132 *Intangible Assets - Web Site Costs*	1 January 2012

The Group would adopt the following MFRS framework for the financial year ending 31 March 2013.

MFRS 9 Financial Instruments	1 January 2015
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 127 *Consolidated and Separate Financial Statements*	1 January 2013
Amendments to MFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Amendments to MFRS 132 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Mandatory Effective Date of MFRS 9 and Transition Disclosures	1 January 2015

The adoption of the above MFRSs and IC Interpretations did not have any significant effects on the financial statements of the Group.

(2) Changes in Accounting Policies

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted and disclosed in the audited financial statements for the year ended 31 March 2012 except as mentioned above.

(3) Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report on the financial statements for the year ended 31 March 2012 was not qualified.

(4) Segmental Reporting

The Group's operations comprise the following business segments:
Manufacturing
Trading (Consumer Goods) (previously known as Trading)
Management services
Investment holding

Refer Note 19 for Segment Revenue and Segment Results. There is no geographical segmental analysis as the operations of the Group are conducted within Malaysia. All inter segment transactions within the Group have been entered and established on terms and conditions that are not materially different from that entered with unrelated parties.

(5) Unusual nature and amounts of items affecting assets, liabilities, equity, net income or cash flows

There were no items of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows during the current quarter under review except for:

(i) The disposal of Land and Building by a subsidiary company; Denko IPC Sdn Bhd ("DIPC") for RM11 million. This disposal resulted in a RM4.1 million gain on disposal and generated RM7.2 million in net cash flow for the Group. (Refer Note (24)(ii)); and

(ii) RM1.1 million (Q3-FY12: RM385,000) impairment loss on plant and equipment and system software at the Manufacturing Division.

(6) Nature and Amount of Changes in Estimates

The Company has not issued any Estimates for the current quarter under review or in the prior financial year.

(7) Comments about Seasonal or Cyclical Factors

Other than the Trading (Consumer Goods) Division where sales peaks in the 3rd quarter of each financial year (October to December) as customers stock up for the traditional Christmas, Year End and Chinese New Year celebrations, the business operations of the Group's performance were not significantly affected by any seasonal and cyclical factors.

(8) Property, Plant and Equipment

	9 months ended 31 DECEMBER	
	2012	**2011**
	(Unaudited) RM'000	**(Unaudited) RM'000**
Balance at the beginning of period 1st April	55,122	73,579
Held for sale at the beginning of period 1st April	6,866	-
Additions	1,057	385
Impairment loss	(1,071)	(385)
Reversal of impairment loss	-	167
Disposals	(6,921)	(3,966)
Write-offs	(74)	(3)
Depreciation and Amortisation	(5,115)	(5,834)
Balance at the end of period 31 December	49,864	63,943

(8) Property, Plant and Equipment (Continued)

Acquisitions
The Manufacturing Division acquired plant and equipment totalling RM1.0 million in the current quarter. The purchase of a machinery for RM588,000 was financed by a 5 year Hire Purchase Agreement whilst the balance smaller ticket items were either supplier financed or cash purchased.

The additional depreciation charges for the current quarter was RM16,000.

Disposals
The asset held for sale at beginning of 1 April 2012 relates to DIPC's Land and Building which was disposed on 25 May 2012. This disposal was completed on 18 December 2012. (Refer Note (24)(ii)).

(9) Inventory Write Offs

The Group recorded inventory write offs totalling RM643,000 in the current quarter (Q3-FY12: RM289,000).

(10) Dividend Paid

No dividend was paid during the current quarter.

(11) Valuation of Property, Plant and Equipment

Land and buildings were brought forward, without amendment from the financial statements for the year ended 31 March 2012.

(12) Debt and Equity Securities

The Group did not undertake any other issuance and/or repayment of debt and equity securities, share cancellations, shares buy back and resale of treasury shares during the current quarter.

(13) Changes in the Composition of the Group

There were no changes in the composition of the Group during the current quarter.

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(14) Commitments

(a) Capital commitments

Details of capital expenditure in respect of purchase of property, plant and equipment are:

	As at 31.12.2012 (Unaudited) RM'000
- Authorised but not contracted	-
- Contracted but not provided	824

(b) Non-Cancellable Operating Lease Commitment

	As at 31.12.2012 (Unaudited) RM'000
Minimum operating lease commitment payable	
- not later than one year	3
- later than one year but not later than five years	-
	3

(15) Changes in Contingent Liabilities and Contingent Assets

	As at 31.12.2012 (Unaudited) RM'000
Contingent liability	
Corporate guarantees provided to financial institutions for credit facilities granted to subsidiaries	20,957
Corporate guarantees provided to subsidiaries' trade suppliers	400

(16) Material Subsequent Events

The material events subsequent to the end of the current quarter are:

(i) The Material Litigation update as disclosed in Note 26; and

(ii) The Minimum Wages Order 2012 was implemented with effect from 1 January 2013. The increased labour costs will have a significant adverse impact on the future performance of the Group. The financial impact is as yet uncertain as the Federal Government is still fine tuning some key aspects of the Order's implementation.

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PART A - SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134 - FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

(17) Significant Related Parties Transactions

	9 Months ended 31.12.2012 (Unaudited) RM'000
Revenue	
- Supply of plastic parts and tooling	373
Expenses	
- Sub contractor fees	854

The above transactions were entered in the ordinary course of business and established under negotiated and mutually agreed terms.

(18) Profit for the period

	INDIVIDUAL QUARTER 3 months ended 31 December		**CUMULATIVE QUARTERS 9 months ended 31 December**	
	2012 (Unaudited) RM'000	**2011 (Unaudited) RM'000**	**2012 (Unaudited) RM'000**	**2011 (Unaudited) RM'000**
Interest Income	5	17	40	39
Other income including investment income	1,234	382	1,902	1,047
Interest expenses	(459)	(534)	(1,429)	(1,736)
Depreciation and amortization	(1,680)	(1,808)	(5,115)	(5,834)
Provision for and write off of receivables	(72)	9	(123)	(141)
Provision for and write off of inventories	(643)	(289)	(718)	(326)
Gain/(loss) on disposal of quoted or unquoted investment or properties	4,244	5	4,375	(1,147)
Write off/Impairment of assets	(1,145)	(3)	(1,145)	(388)
Foreign exchange gain/(loss)	92	92	(192)	(665)

Other than the above items, there were no gains or losses on derivatives and exceptional items during the current quarter.

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(19) Review of Current Quarter Performance

	INDIVIDUAL QUARTER 3 months ended 31 December		CUMULATIVE QUARTERS 9 months ended 31 December	
	2012	**2011**	**2012**	**2011**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Segment Revenue	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Manufacturing	18,484	12,579	51,216	37,692
Trading (Consumer Goods)	7,274	7,508	20,534	21,001
Management services – **Note1**	386	342	1,126	1,226
Investment holding	4,915	-	4,915	-
Total revenue including inter-segment sales	31,059	20,429	77,791	59,919
Elimination of inter-segment sales	(5,349)	(328)	(6,164)	(1,290)
Total Revenue	25,710	20,101	71,627	58,629
Segment Results				
Manufacturing	3,150	(854)	3,938	(6,829)
Trading (Consumer Goods)	(14)	252	147	128
Management services	316	191	915	719
Investment holding	4,545	(365)	4,010	(1,398)
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	7,997	(776)	9,010	(7,380)
Eliminations	(4,914)	-	(4,914)	-
Profit/(Loss) Before Taxation	3,083	(776)	4,096	(7,380)

Note 1: *This Division only provides services for members of the Denko Group*

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PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE THIRD QUARTER ENDED 31 DECEMBER 2012

Year on Year 3 months Comparison

(aa) Revenue

The Group recorded a RM5.6 million increase (+28%) in Total Revenue for the current quarter to RM25.7 million (Q3-FY12: RM20.1 million). This strong revenue growth was solely due to the better performance at the Manufacturing Division.

(ab) Profit/(Loss) Before Taxation

The Group achieved a Profit before Taxation of RM3.2 million for the current quarter (Q3-FY12: **LOSS:** RM776,000). This represents a favourable RM4.0 million turnaround in the Group's performance.

TABLE 1

Reconciliation of Profit before Taxation			
	Q3-FY13	Q3-FY12	Variance
		RM'000	
Profit from Operations	646	(776)	1,422
Adjustment for One-Off Items			
Gain on Disposal of Property, Plant & Equipment	4,244	-	4,244
Supplier Incentives	181		181
Impairment of Plant & Equipment	(1,071)	-	(1,071)
Inventory Write offs	(530)	-	(530)
Unrealised Foreign Exchange Losses	(113)	-	(113)
Assets Write offs	(74)	-	(74)
Relocation costs	(200)	-	(200)
Profit Before Taxation	**3,083**	**(776)**	**3,859**

Notes:

(i) The main component of the Gain on Disposal is the RM4.1 million generated from the sale of DIPC's Land and Building. (Refer Notes 5 and 24(ii)).

(ii) The supplier incentives were booked by the Trading (Consumer Goods) Division being cash incentives granted by major suppliers for exceeding their set Sales Targets and Key Performance Indicators for the 12 months to 31 December 2012.

(iii) Plant and Equipment and system software at the Manufacturing Division were impaired at a loss of RM1.1 million.

(iv) A comprehensive review of the Group's inventory was carried out during the current quarter to write off obsolete and slow moving inventory. The Plastic Packaging sub-segment at DIPC undertook the review before relocating to its new smaller premises. The Plastic Parts sub-segment and the Trading (Consumer Goods) Division undertook the review during their respective December end stock takes. The RM530,000 one off inventory write offs relates to the Plastic Packaging sub-segment and the Trading (Consumer Goods) Division only.

(v) The Plastic Parts sub-segment has certain liabilities denominated in foreign currency. The foreign currency had strengthened against Ringgit Malaysia.

(ab) Profit/(Loss) Before Taxation (*continued*)

(vi) The Assets Write offs relates to obsolete fixed assets of the Plastic Packaging sub segment at DIPC.
(vii) The Relocation costs pertains to the relocation of the Plastic Packaging sub segment operations at DIPC to rented premises upon the disposal of its Land and Building (Refer Note 24(ii))

As can be seen from Table 1, the Group's Profit from Operations improved by RM1.4 million for the current quarter. This is mainly due to:

- The higher Revenue generated by the Manufacturing Division (+47% or RM5.9 million);
- Reduction in Interest Expense as the Group continues to reduce its Bank Borrowings (-14% or RM75,000); and
- Reduction in Depreciation and Amortisation charges (-7% or RM128,000)

The Performance of the Group by Division was as follows:

(i) Manufacturing Division

This Division achieved a RM5.9 million increase in Revenue and a Profit before Taxation of RM3.2 million (Q3-FY12: **LOSS** RM854,000) during the current quarter.

The RM4 million favourable profit turnaround is attributed to the following:

- Revenue at the Plastic Parts sub-segment increased by RM4.7 million (+51%) to RM13.9 million (Q3-FY12: RM 9.2million);
- Revenue at the higher margin Tool Fabrication sub-segment increased by RM900,000 (+41%) to RM3.1 million (Q3-FY12: RM2.2 million);
- Revenue at the Plastic Packaging sub-segment increased by RM200,000 (+15%) to RM1.5 million (Q3-FY13 : RM1.3million);
- The RM4.1 million gain on disposal of DIPC's Land and Building;
- Reduction in Interest Expenses, Depreciation and Amortisation charges totalling RM203,000; and

  However, the higher Revenue generated was partially offset by the impairment loss, provision for unrealised foreign exchange loss, inventory and assets write offs, relocation costs as shown in Table 1.

(ii) Trading (Consumer Goods) Division

This Division recorded a RM200,000 reduction (-3%) in Revenue for the current quarter to RM7.3 million (Q3-FY12: RM7.5 million) and a marginal **Loss** Before Taxation of RM14,000 (Q3-FY12: Profit RM252,000).

The primary reason for the reduction in Revenue is the timing difference due to the Chinese New Year being celebrated in February 2013 as compared to January in 2012. As a consequence, the December 2012 month's revenue is lower than that recorded in December 2011 as some customers delayed taking delivery of goods until January 2013.

(ii) Trading (Consumer Goods) Division (*continued*)

The RM181,000 Supplier Incentives were not sufficient to offset the combined effects of the Division's lower revenue and inventory write offs thereby leading to the marginal Loss Before Taxation.

(iii) Investment Holding Division

The significant improvement in this Division's Revenue in the current quarter is due to the receipt of a RM4.9 million dividend declared by a subsidiary.

(20) Comparison with Immediate Preceding Quarter's Results

	INDIVIDUAL QUARTER	
	3 months ended	
	31.12.2012	**30.09.2012**
	(Unaudited)	**(Unaudited)**
Segment Revenue	**RM'000**	**RM'000**
Manufacturing	18,484	16,820
Trading (Consumer Goods)	7,274	6,435
Management services – **Note 1**	386	399
Investment holding	4,915	-
Total revenue including inter-segment sales	31,059	23,654
Elimination of inter-segment sales	(5,349)	(439)
Total revenue	25,710	23,215
Segment Results		
Manufacturing	3,150	569
Trading (Consumer Goods) (previously known as Trading)	(14)	106
Management services	316	328
Investment holdings	4,545	(285)
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	7,997	718
Eliminations	(4,914)	-
Profit/(Loss) before taxation	3,083	718

Note 1: *This Division only provides services for members of the Denko Group*

(a) Revenue

The Group registered a RM2.5 million increase in Revenue to RM25.7 million (+11%) in the current quarter (Q2-FY13: RM23.2 million). The growth was mainly contributed by the Manufacturing Division (+RM1.7 million) and Trading (Consumer Goods) Division (+RM0.8 million).

(i) Manufacturing Division

The contributors to the RM1.7 million increase in this Division's revenue are:

- Revenue at the Plastic Parts sub-segment increased by RM1.4 million (+11%) to RM13.8 million (Q2-FY13: RM12.4 million).

- Revenue at the Tool Fabrication sub-segment increased by RM0.4 million (+16%) to RM2.9 million (Q2-FY13: RM2.5million

The above increases were offset by the revenue reduction at the Plastic Packaging sub-segment. This sub-segment's production was disrupted when DIPC relocated its premises from Penang Island to Penang Mainland following the disposal of its factory Land and Building (Refer Note 24(ii)).

(ii) Trading (Consumer Goods) Division

This Division posted a RM800,000 improvement (+13%) in Revenue to RM7.2 million (Q2-FY13: RM6.4 million) due to:

- Focus on sale of key products in December month to achieve key suppliers' Sales Targets and Key Performance Indicators to qualify for the Supplier Incentives; and

- Sales of its house brand products increasing by RM325,000 to RM1.2 million (Q2-FY13: RM975,000).

(b) Profit/(Loss) Before Taxation

The Group posted a RM2.4 million increase (+329%) in Profit before Taxation to RM3.1 million (Q2-FY13: RM718,000). This is mainly attributed to:

TABLE 2

Reconciliation of Profit before Taxation			
	Q3-FY13	Q2-FY13	Variance
	RM'000		
Profit from Operations	646	718	(72)
Adjustment for One-Off Items			
Gain on Disposal of Property, Plant & Equipment	4,244	-	4,244
Supplier Incentives	181		181
Impairment of Plant & Equipment	(1,071)	-	(1,071)
Inventory Write offs	(530)	-	(530)
Unrealised Foreign Exchange Losses	(113)	-	(113)
Assets Write offs	(74)	-	(74)
Relocation cost	(200)	-	(200)
Profit Before Taxation	**3,083**	**718**	**2,365**

Note:
*Refer Notes to **Table 1** for further explanation on the Adjustment for One-Off Items*

(i) <u>Manufacturing Division</u>
This Division recorded a RM2.6 million increase (+453%) in Profit before Taxation to RM3.2 million (Q2-FY13: RM569,000) due to the following:

- The RM4.1 million gain on disposal of DIPC's Land and Building; and

- Realised Foreign exchange gains of RM92,000 (Q2-FY13: **<u>Loss</u>** RM60,000).

The favourable contributing factors were partially offset by:

- The impairment loss, provision for unrealised foreign exchange loss and inventory write offs as shown in Table 2;

- Higher operating costs in the current quarter arising from:

  (a) A substantial increase in intake of direct foreign workers at the Plastic Parts sub-segment to displace the more expensive outsourced foreign workers. This exercise involves incurring substantial upfront costs including but not limited to agent's fees, work permit levy, medical examination fee, accommodation, transport costs and other related costs; and

  (b) Factory relocation costs incurred at the Plastic Packaging sub-segment (Refer Note 24(ii)).

(ii) <u>Trading (Consumer Goods) Division</u>
.
This Division recorded a RM120,000 decrease (-113%) in Profit Before Taxation to **<u>LOSS</u>** Before Taxation of RM14,000 (Q2-FY13: RM106,000). This was mainly due to:

- The RM181,000 Supplier Incentives were not sufficient to offset the Division's inventory write offs thereby leading to the marginal LOSS Before Taxation; and

- Increased personnel and logistics costs as the Division continues to increase sales beyond its traditional Northern States market to a Peninsular wide market.

(iii) <u>Investment Holding</u>
The significant improvement in this Division's Revenue in the current quarter is due to the receipt of a RM4.9 million dividend declared by a subsidiary.

(21) <u>Current Year Prospects</u>

Manufacturing Division

Our plan at the Manufacturing Division has been expanded to:

(i) Widen and deepen the relationship with our existing customers e.g. to become an accredited global supplier to our customers' related companies;

(ii) To work with established consultants in our pursuit of new clients in Europe and Americas; and

(iii) Recruiting experienced personnel to improve on our manufacturing processes and procedures to extract higher productivity and efficiencies to further reduce the cost of production.

Trading (Consumer Goods) Division

Our Trading Division's planned expansion to a Peninsular wide market coverage is tracking well. Sales to the new markets are on the increase. A refreshed and revitalised Sales Team has been formed to deepen the market penetration. The Division plans to launch and distribute a new range of products in 2013 second calendar quarter. The first direct distribution via the hypermarket channel has been activated to distribute homemade cookies for the 2013 Chinese New Year. This sets the ground work for the sale and distribution of future products which the Division intends to bring to the Malaysian market.

We believe the Group could directly benefit from this Division's enlarged market, mainly because the enlarged platform and increased customer base will give it a bigger market share. We expect better result from this Division in FY 2014 given the continuing aggressive effort in market development, expansion and product promotion.

In summary, the Group's corporate and profitability turnaround initiatives are tracking well and gaining momentum. After a disastrous FY12 when the Group reported a RM10 million loss, the Group commenced FY13 well recording modest profits for the first two Reporting Quarters. The momentum has continued into the current quarter with the Profit before Taxation for the nine months to 31 December 2012 reaching RM4.1 million (almost a RM12 million turnaround from the prior year corresponding period's **LOSS** of RM7.4 million).

As the Manufacturing Division is labour intensive, we expect our cost base to increase substantially following the Government's implementation of the RM900 a month minimum wage policy with effect from 1 January 2013. Even though the period to our financial year end on 31 March 2013 is a short three months, the increased labour costs will have a significant adverse impact on our full year FY13 performance.

While the Directors remain positive on the Group's prospects to grow its Revenue, the Group's continued profitability beyond FY13 remains uncertain. It is hoped that the Government will reconsider the implementation of key aspects of the Minimum Wages Order 2012 so as not to unduly burden our Group and the business community in Malaysia.

(22) Profit Forecast and Profit Guarantee

The profit forecast and guarantee is not applicable for the current quarter under review.

(23) Taxation

	INDIVIDUAL QUARTER 3 months ended 31 DECEMBER		CUMULATIVE QUARTERS 9 months ended 31 DECEMBER	
	2012 (Unaudited) RM'000	2011 (Unaudited) RM'000	2012 (Unaudited) RM'000	2011 (Unaudited) RM'000
Over provision in previous year				
In respect of current period	-	-	173	-
-Malaysian income tax	63	-	(61)	(314)
-Deferred tax	8	-	46	163
	71	-	158	(151)

(24) Status of Corporate Proposals

(i) CAPITAL REDUCTION

The Corporate Proposal to reduce the par value of Denko's Ordinary Share from RM1.00 to RM0.40 each was completed on 16 October 2012.

(ii) DISPOSAL OF LAND AND BUILDING

The disposal of land and building by Denko IPC Sdn. Bhd., ("DIPC") a wholly-owned subsidiary of the Company for a consideration of RM11 million was completed on 18 December 2012.

The operations of DIPC were relocated to rented premises at Plot 4, Jalan Jelawat, Seberang Jaya Industrial Park, Bandar Seberang Jaya, Penang on 1 October 2012.

Update on Utilisation of Proceeds

Utilisation of Proceeds	Proposed Utilisation RM'000	Actual Utilisation RM'000	Intended timeframe for utilisation	Variance RM'000	Explanation
Redemption Sum payable to SME Bank	3,562	3,520	3 months upon receipt of State consent	42	Rebate on Early settlement
Repayment of Group Borrowings and working capital for the Group	7,238	6,238	12 months	1,000	To be utilised over 12 months
Defray expenses in relation to the Proposed Disposal	200	200	1 month	-	
	11,000	9,958		1,042	

(25) Group Borrowings

Details of the unaudited Group borrowings as at 31 December 2012 are as follows:

Type of borrowing	Short term	Long term	Total
	Secured		
	RM'000		
Bank Overdraft	318	-	318
Bills Payable and Bankers Acceptance	11,007	-	11,007
Revolving Credit	2,000	-	2,000
Hire Purchase Creditors	1,257	110	1,367
Term Loans	2,383	3,928	6,311
TOTAL	16,965	4,038	21,003

Drawdown and repayment Schedule

	Bank Overdraft	Bills Payable and Bankers Acceptance	Revolving Credit	Hire Purchase Creditors	Term Loans	Liabilities directly associated with asset held for sale	Total
				RM'000			
As at beginning of period 1 April 2012	-	9,754	2,000	3,374	8,037	3,959	27,124
Increase	318	1,253	-	-	-		1,571
Repayment	-	-	-	(2,007)	(1,726)	(3,959)	(7,692)
As at end of period 31 December 2012	318	11,007	2,000	1,367	6,311	-	21,003

(26) Material Litigation

There were no new development or additional material litigation reported in this current quarter except for the following:

Kuala Lumpur High Court Civil Suit No.: 22NVC-970-08/2012

Plaintiffs: Ng Swee Yong
Ng Choy Wan
Lim Ngak Ee
Zainuddin Bin Yahya

Defendant: Denko Industrial Corporation Berhad

The Company had on 10 September 2012 received a Writ of Summons from the Plaintiffs claiming the sum of RM3,689,618.01 together with interest and incidental costs. Our solicitors have filed a Defence and Counterclaim for abuse of process.

Our solicitors had on 31 January 2013, complied with all the case management directions given by the High Court, except for the filing of the agreed Statement of Issues to be Tried (“ the Statement”).

The delay in filing the Statement is due to the lack of cooperation from the Plaintiffs’ solicitors. Our solicitors will be writing to the High Court to explain the situation in order to to protect our interests.

Subsequent Scheduled Chronology of Events set by the High Court

9 October 2013	Filing of the Company’s witness statements
16 October 2013	Final case management
27, 28 & 29 November 2013	Trial

(27) Dividend Payable

No interim dividend has been recommended for the current quarter.

(28) Basic Profit/(Loss) Per Ordinary Share

The basic profit/(loss) per ordinary share of the Group are calculated by dividing the net profit/(loss) for the current period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares in issue during the period.

	INDIVIDUAL QUARTER 3 months ended 31 DECEMBER		**CUMULATIVE QUARTERS 9 months ended 31 DECEMBER**	
	2012 (Unaudited)	**2011 (Unaudited)**	**2012 (Unaudited)**	**2011 (Unaudited)**
Profit/(Loss) attributable to ordinary equity holders of the parent ("000")	3,154	(776)	4,254	(7,531)
Weighted average number of ordinary shares in issue ("000")	104,469	104,469	104,469	104,469
Basic profit/(loss) per share for period (sen):	3.02	(0.73)	4.07	(7.21)

(29) Fully Diluted Profit/(Loss) Per Ordinary Share

Fully diluted profit/(loss) per ordinary share for the current period was not presented as the Company does not have any outstanding share options or other potentially dilutive financial instruments currently on issue.

(30) Disclosure on Retained Earnings Realised and Unrealised Profit and Losses

	As at 31.12.2012 (Unaudited) RM'000
Total accumulated losses of the Group	
- Realised	3,976
- Unrealised	4,277
Total Group accumulated losses as per consolidated financial statements	8,253

(31) Authorised for Issue

These interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution passed on 27 February 2013.

BY ORDER OF THE BOARD
Woo Min Fong (MAICSA 0532413)
Wong Chee Yin (MAICSA 7023530)
Tan Quok Eow (MIA 22571)
Company Secretaries