DENKO INDUSTRIAL CORPORATION BERHAD

(190155-M)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED
30 September 2013

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

INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

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DENKO INDUSTRIAL CORPORATION BERHAD (Company No.: 190155-M)
(Incorporated In Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

	INDIVIDUAL QUARTER 3 months ended 30-Sep		CUMULATIVE QUARTERS 6 months ended 30-Sep	
	2013	**2012**	**2013**	**2012**
	(Unaudited)		**(Unaudited)**	
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	18,911	23,215	40,268	45,917
Cost Of Sales	(16,904)	(20,154)	(35,889)	(39,510)
Gross Profit	2,007	3,061	4,379	6,407
Other Income	347	-	775	710
Marketing and Distribution Costs	(990)	(727)	(1,895)	(1,773)
Administration Expenses	(1,525)	(1,573)	(2,819)	(3,068)
Other Operating Gains/(Expenses)	(366)	397	(396)	(293)
Profit/(Loss) From Operations	(527)	1,158	44	1,983
Finance Costs	(95)	(440)	(375)	(969)
Loss on disposal of an subsidiary	(1,803)	-	(1,803)	-
Profit/(Loss) Before Tax	(2,425)	718	(2,135)	1,014
Taxation	36	(62)	(82)	87
Profit/ (Loss) Net of Tax for the period	(2,389)	656	(2,216)	1,101
Other comprehensive income for the period	-	-	-	-
Total comprehensive income / (loss) attributable to equity holders of the parent	(2,389)	656	(2,216)	1,101
Basic, profit/(loss) per ordinary share (sen)	(2.29)	0.63	(2.12)	1.05
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 2013 and the accompanying explanatory notes attached to this Interim Financial Statements.

DENKO INDUSTRIAL CORPORATION BERHAD (Company No.: 190155-M)
(Incorporated In Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

	Note	As at 30.09.2013 (Unaudited)	As at 31.03.2013 (Audited)
		RM'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	46,598	49,356
Current assets			
Inventories		11,279	10,970
Trade and other receivables		18,320	18,678
Current tax asset		1,545	1,525
Cash and bank balances		775	1,502
Total current assets		31,919	32,675
TOTAL ASSETS		78,517	82,031
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		41,788	41,788
Reserves		5,684	5,684
Accumulated losses		(10,349)	(8,133)
Total Equity		37,123	39,339
Non current liabilities			
Long term borrowings	25	4,397	4,614
Trade payables and Other payables		501	1,403
Deferred tax liabilities		5,139	5,281
Total non-current liabilities		10,037	11,300
Current Liabilities			
Trade and other payables		18,995	14,485
Current Tax Liabilities		164	713
Short term borrowings	25	12,198	16,195
Total current liabilities		31,357	31,393
TOTAL LIABILITIES		41,394	42,692
TOTAL EQUITY AND LIABILITIES		78,517	82,031
Net assets per share attributable to equity holders of the parents (RM)		0.3553	0.3766

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 March 2013 and the accompanying explanatory notes attached to this Interim Financial Statements.

DENKO INDUSTRIAL CORPORATION BERHAD (Company No.: 190155-M)
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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

	Attributable to equity holders of the parent				
	-------------------- Non-distributable -----------------------				
	Share Capital	**Share Premium**	**Revaluation Reserves**	**Accumulated Losses**	**Total**
	RM'000				
At 1 APRIL 2013	41,788	1,566	4,118	(8,133)	39,339
					-
Total comprehensive losses for the period	-	-	-	(2,216)	(2,216)
At 30 SEPTEMBER 2013	41,788	1,566	4,118	(10,349)	37,123

At 1 APRIL 2012	104,469	3,136	4,118	(76,758)	34,965
					-
Total comprehensive income for the period	-	-	-	1,101	1,101
At 30 SEPTEMBER 2012	104,469	3,136	4,118	(75,657)	36,066

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 March 2013 and the accompanying explanatory notes attached to this Interim Financial Statements.

DENKO INDUSTRIAL CORPORATION BERHAD (Company No.: 190155-M)
(Incorporated In Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

	Note	6 months to 30.09.2013 (Unaudited) RM'000	6 months to 30.09.2012 (Unaudited) RM'000
1. Cash flow from operating activities			
Profit (loss) before tax		(2,135)	1,013
Adjustment for investing and financing items not involving movement of cash and cash equivalent			
Impairment/(reversal of impairment) for trade and other receivables		(253)	52
Depreciation		3,127	3,435
Loss/ (Gain) on disposal of a subsidiary company		1,803	
(Gain)/Loss on disposal of property, plant and equipment		(1)	(131)
Property, plant and equipment written off		2	-
Interest expense		375	969
Interest income		(3)	(35)
Provision for and write off of inventories		-	75
Unrealised (gain)/loss on foreign exchange		37	(113)
Operating profit before working capital changes		2,952	5,265
Net change in inventories		(1,145)	(1,659)
Net change in trade and other receivables		(237)	(2,846)
Net change in trade and other payables		4,525	(2,735)
Net change in amount due to directors		(592)	3,931
Cash generated from operations		5,503	1,956
Interest paid		(301)	(417)
Income tax paid		(53)	(67)
Income tax refund		39	698
Net cash from operating activities		5,188	2,170

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 March 2013 and the accompanying explanatory notes attached to this Interim Financial Statements.

DENKO INDUSTRIAL CORPORATION BERHAD (Company No.: 190155-M)
(Incorporated In Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

		6 months to	
		30.09.2013	**30.09.2012**
		(Unaudited)	
2. Cash flow from investing activities	**Note**	**RM'000**	
Purchase of fixed assets		(307)	(190)
Decrease/(Increase) in pledged fixed deposit		-	(3)
Interest received		3	35
Proceeds from disposal of fixed assets		1	132
Deconsolidation of a subsidiary company		(1,236)	-
Net cash used in investing activities		(1,539)	(26)
3. Cash flow from financing activities			
(Repayment)/Increase in short term borrowings		(3,353)	2,180
Repayment of term loans		(655)	(1,536)
Repayment of hire purchase creditors		(204)	(1,381)
Interest paid		(74)	(552)
Net cash used in financing activities		(4,286)	(1,289)
Net increase/(decrease) in cash and cash equivalents		(637)	855
Cash and cash equivalents as at beginning of financial period 1st April 2013		1,412	500
Cash and cash equivalents as at end of financial period 30th September 2013		775	1,355
**Cash and cash equivalents at the end of the financial period comprise the following:*			
Fixed deposits with licensed banks		-	1,614
Cash and bank balances		775	2,880
		775	4,494
Bank overdrafts	25	-	(1,525)
		775	2,969
Less: Fixed deposits pledged to licensed banks		-	(1,614)
		775	1,355

The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 March 2013 and the accompanying explanatory notes attached to this Interim Financial Statements.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
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PART A
SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

(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 2013. 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 2013.

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2013 as below:

	Effective Date
MFRS 1 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
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 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
The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunctio	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 adopted the following MFRS framework for the financial year ended 31 March 2013.

MFRS 101 Presentation of Financial Statements	
Amendments to MFRS 101 Presentation of Items of Other Comprehensive Income	1 July 2012
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 119 Employee Benefits (revised)	1 January 2013
MFRS 127 Consolidated and Separate Financial Statements	1 January 2013
MFRS 128 Investment in Associates and Joing Ventures	1 January 2013
Amendments to MFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS Annual Improvements 2009-2011 Cycle	1 January 2013
	1 January 2013
Amendments to MFRS 10, MFRS11 and MFRS 12 Consolidated Financial Statemetns, Joint Arrangements and Disclosue of Interests in Other Entities: Transition Guidance	
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	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
MFRS 9 Financial Instruments	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 2013.

(3) Auditors' Report on Preceding Annual Financial Statements

The Auditors' Report on the Audited Financial Statements for the year ended 31 March 2013 was not qualified.

(4) Segmental Reporting

The Group's operations comprise the following business segments:
Manufacturing
Trading (Consumer Goods)
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

Other than the de-consolidation of Denko IPC Sdn Bhd as a subsidiary following its disposal (Refer Note 13) there were no items of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows during the current quarter under review.

(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.

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(8) Property, Plant and Equipment ('PPE")

	6 months ended 30 September	
	2013	2012
	(Unaudited) RM'000	
PPE at the beginning of period 1st April	49,356	55,122
Additions	947	190
Write offs	(2)	-
Disposal of a subsidiary	(576)	-
Depreciation and Amortization	(3,127)	(3,435)
PPE at the end of period 30th September	46,598	51,877

Acquisitions

During the quarter, the Manufacturing Division acquired machineries, tools and equipment, computers and office equipment totaling RM118,000 via a combination of cash purchase and normal supplier credit terms. The Trading (Consumer Goods) Division acquired Enterprise Resource Planning (ERP) software at a cost of RM750,000. This purchase was partly financed by a 3 year Hire Purchase Agreement.

Disposals

There was no disposal of asset during the current quarter.

(9) Inventory Write Offs

There was no inventory write off in the current quarter (Q1-FY13: RM26,000).

(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 2013.

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(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 except for the following:

Denko had on 30 September 2013 entered into a Share Sale and Purchase Agreement to dispose its 100% interest, representing 3,000,000 ordinary shares of RM1.00 each in the capital of Denko IPC Sdn Bhd (DIPC) to Mr.Yee San Khien for a total consideration of RM1,900,000. The disposal was completed on 25th October 2013 whereupon DIPC ceased to become a wholly-owned subsidiary company of Denko. Following therefrom, the Profit and Loss of DIPC for the three (3) months ending 30th September 2013 has been included in the Group's Consolidated Statement of Profit or Loss and Other Comprehensive Income for the current quarter whilst its Balance Sheet has been de-consolidated from the Group's Statement of Financial Position.

The effects of the de-consolidating Denko IPC Sdn. Bhd. as a wholly owned subsidiary during the quarter on the financial position of the Group are per Table A below:

Table A

	RM'000
Property plant and equipment	576
Inventories	836
Trade and other receivables	2,737
Cash and bank balances	1,236
Fixed Deposit with license bank	90
Trade and other payables	(1,004)
Deferred taxation	(142)
Tax Liabilities	(626)
Net assets	3,703
Total consideration	(1,900)
Loss on disposal of a subsidiary company	1,803
Total consideration received in cash	1,900
Less: Cash and cash equivalent disposed of	(1,236)
Net cash inflow	664

The loss on the disposal of subsidiary, DIPC can be analysed in Table B as below:

Table B

	RM'000
Cost of Investment	3,000
Less: Sales Proceeds	(1,900)
Loss on the disposal of subsidiary (Company level)	1,100
Add: FY13 - Revaluation Reserve B/F	328
Add: FY14 - Current Period Profit	570
Less: FY13 - Accumulated Loss B/F	(195)
Net Loss on the disposal of subsidiary (Consol level)	1,803

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(14) Capital Commitments

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

	As at 30.09.2013 (Unaudited) RM'000
- Authorised but not contracted	2,389
- Contracted but not provided	-

(15) Changes in Contingent Liabilities and Contingent Assets

	As at 30.09.2013 (Unaudited) RM'000
Contingent liability	
Corporate guarantees provided to financial institutions for credit facilities granted to subsidiaries	16,393

(16) Material Subsequent Events

As mentioned in Note 5 and more particularly covered in Note 13, the sale of the Group's 100% interest in Denko IPC Sdn Bhd was completed on 25th October 2013. As the disposal of DIPC was conducted in 2 stages, firstly the sale of its property in FY13 which yielded a RM4.9 Dividend Income to the Group and secondly, the sale of its shares in FY14 for a loss of RM1.8 million. When the 2 stages are combined, there is in effect a Net Surplus of RM3.8 million to the Group per Table B below:

Table B

	RM'million
FY13 - Dividend income received by Denko from DIPC generated from the proceeds on the disposal	4.9
<u>Add:</u> FY14 - Sales Proceeds from Disposal of the Shares in DIPC	1.9
Less: Cost of Investment	(3.0)
Net Surplus booked over 2 financial years (FY13 and FY14)	3.8

PART A
SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

(17) Significant Related Parties Transactions

	6 Months ended 30.09.2013 (Unaudited) RM'000
Revenue	
- Supply of plastic parts and tooling	108
Expenses	
- Sub contractor fees	Nil

(18) Profit for the period

		INDIVIDUAL QUARTER		**CUMULATIVE QUARTERS**	
		3 months ended		**6 months ended**	
		30-Sep			
		2013	**2012**	**2013**	**2012**
		(Unaudited)		**(Unaudited)**	
		RM'000			
(i)	Interest Income	2	16	3	35
(ii)	Other income including investment income	35	467	298	669
(iii)	Interest expense	(95)	(440)	(375)	(969)
(iv)	Depreciation and amortization	(1,559)	(1,699)	(3,127)	(3,435)
(v)	Reversal of provision / (Provision) for receivables	180	(20)	253	(52)
(vi)	Recovery / (written off) of inventories	92	(26)	-	(75)
(vii)	Gain/(loss) on disposal of quoted or unquoted investment or properties	-	26	1	131
(viii)	Write off/Impairment of assets	-	-	(2)	-
(ix)	Foreign exchange gain/(loss)	110	(59)	172	(284)
(x)	Loss on disposal of subsidiary (*refer to note 13 Table A and B*)	(1,803)	-	(1,803)	-

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

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PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

(19) Review of Current Quarter Performance

	INDIVIDUAL QUARTER 3 months ended		CUMULATIVE QUARTERS 6 months ended	
	30 Sep			
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Segment Revenue	RM'000			
Manufacturing	14,615	16,820	30,736	32,732
Trading (Consumer Goods)	4,352	6,435	9,630	13,260
Sub-Total (Operating Entities)	18,967	23,255	40,366	45,992
Management services – (Note1)	329	399	675	740
Investment holding	-	-	-	-
Total revenue including inter-segment sales	19,296	23,654	41,041	46,732
Elimination of inter-segment sales	(385)	(439)	(773)	(815)
Total Revenue	18,911	23,215	40,268	45,917
Segment Results				
Manufacturing	(418)	569	(277)	789
Trading (Consumer Goods)	(180)	106	(71)	161
Sub-Total (Operating Entities)	(598)	675	(348)	950
Management services	290	328	584	599
Investment holding	(313)	(285)	(566)	(536)
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	(622)	718	(331)	1,013
Loss on disposal of a subsidiary	(1,803)	-	(1,803)	-
Eliminations	-	-	-	-
Profit/(Loss) Before Taxation	(2,425)	718	(2,135)	1,013

Note 1: *This Division only provides services to members of Denko Group.*

Year on Year 3 months Comparison

(a) Revenue

The Group recorded a RM4.3 million decrease in Revenue (-19%) for the current quarter under review to RM18.9 million (Q2-FY13: RM23.2 million).

The Revenue reduction was mainly due to lower sales at the Manufacturing Division (-RM2.2 million) and at the Trading (Consumer Goods) Division (-RM2.1 million).

(b) Profit/(Loss) Before Taxation

As can be seen from TABLE 1 below , the Group recorded a Loss from Operations of RM396,000 for the current quarter (Q2-FY13 **Profit**: RM467,000) representing an adverse movement of RM863,000. This was mainly due to the significant reduction in Revenue as mentioned above and also the Gross Margin compression during the quarter.

TABLE 1

Reconciliation of Profit before Taxation	Q2-FY14	Q2-FY13	Variance
	RM'000		
Profit / (Loss) from Operations	(396)	467	(863)
Adjustment for One-Off Items			
Gain on Disposal of Property, Plant & Equipment	-	26	(26)
Recovery of inventory written off	-	339	(339)
Reversal/(Increased) - Impairment of Trade Debtors	180	(20)	200
Under accrued Utilities Charges	(357)	-	(357)
Additional Staff cost accrual	(139)	-	(139)
Write-Back of Accrued Interest Provision (i)	174	-	174
Unrealised Foreign Exchange Loss	(84)	(94)	10
Loss on Disposal of a subsidiary	(1,803)	-	(1,803)
Sub-Total	(2,029)	251	(2,280)
Profit Before Taxation	(2,425)	718	(3,143)

Notes:

(i) *The write back of Accrued Interest Provision relates to better than expected outcomes in settling previous long outstanding amounts owing to creditors.*

The Performance of the Group by Division for the current quarter was as follows:

(i) Manufacturing Division

This Division reported a RM2.2 million reduction in Revenue (-13%) to RM14.6 million (Q2-FY13: RM16.8 million) for the quarter under review.

The entire Revenue reduction of RM2.2 million was due to lower revenue at the Tool Fabrication sub-segment of this Division as the Plastic Parts sub-segment' s revenue remained largely unchanged for the current quarter. The Tool Fabrication sub-segment had Works-in-Progress of RM2.8 million as at 30 September 2013. These projects were planned to be completed in the current quarter but owing to the completion delay the revenue will now be recognised in Q3 FY14.

As tool fabrication is a higher margin business, the lower contribution to Revenue from this sub-segment contributed to the lower average Gross Margin for the Division and the Group. As a result, the Manufacturing Division reported a RM987,000 adverse movement in profitability to a Loss Before Taxation of RM418,000 (Q2-FY13 **Profit**: RM569,000).

In addition, this Division's results were also adversely affected by the introduction of the RM900 per month Minimum Wages with effect from 1st January 2013 which had resulted higher wages of RM300,000 in the current quarter compared to Q2-FY13.

(ii) Trading (Consumer Goods) Division

This Division's Revenue reduced by RM2.1 million (-33%) for the current quarter to RM4.3 million (Q2-FY13: RM6.4 million). This significant reduction is attributable to the following:

(i) The sale of Abbott range of milk powder products is a significant contributor to this Division's annual revenue. In February 2013, Abbott instituted price increases coupled with reduced promotional expenditure. These measures affected our Q1-FY14 sale of Abbott products and there is also a spill over adverse effect on the sales for the current quarter under review.

Further, in late June 2013, Abbott unilaterally gave notice to terminate its Wholesaler Agreement with this Division ahead of its 31 December 2014 expiry date. The termination date was determined to be 30 September 2013. Owing to this pending termination, the Division's focus was shifted to building our house brand HOMAX product range and to developing other distributorship opportunities. These activities also resulted in a RM500,000 reduction in sale of Abbott products to RM1.7 million (-23%) for the current quarter (Q2-FY13: RM2.2 million).

(ii) The rationalisation of our product range, customers and suppliers (based on profitability targets set for each category) initiated by the Division in 2012 is an on-going project. The impact of this review is a continual reduction in revenue from such products and customers.

The reduction in revenue and the additional costs incurred to develop new distributor relationships have resulted in an unfavourable RM286,000 impact on the profitability of this Division for the current quarter a Loss of RM180,000 (Q2-FY13: **Profit** RM106,000)

Year on Year 3 months Comparison (continued)
The Performance of the Group by Division for the current quarter was as follows:

(iii) <u>Investment Holding Division</u>

This Division relies on dividends from its subsidiaries for income. There were no dividend receipts during the quarter under review (Q2-FY13: Nil).

(20) **Comparison with Immediate Preceding Quarter's Results**

	INDIVIDUAL QUARTER	
	3 months ended	
	30.09.2013	**30.06.2013**
	(Unaudited)	
<u>Segment Revenue</u>	**RM'000**	
Manufacturing	14,615	16,121
Trading (Consumer Goods)	4,352	5,278
Sub-Total (Operating Entities)	18,967	21,399
Management services – **Note 1**	329	346
Investment holding	-	-
Total revenue including inter-segment sales	19,296	21,745
Elimination of inter-segment sales	(385)	(389)
Total revenue	18,911	21,356
<u>Segment Results</u>		
Manufacturing	(418)	141
Trading (Consumer Goods)	(180)	109
Sub-Total (Operating Entities)	(598)	250
Management services	290	294
Investment holdings	(313)	(253)
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	(622)	291
Loss on disposal of a subsidiary	(1,803)	-
Eliminations	-	-
Profit/(Loss) before taxation	(2,425)	291

***Note 1:** This Division only provides services to members of Denko Group.*

(a) <u>Revenue</u>

The Group's operating entities recorded a RM2.4 million decrease in Revenue (-11%) for the current quarter to RM19 million (Q1-FY14: RM21.4 million).

(i) **<u>Manufacturing Division</u>**

The RM1.5 million (-9%) reduction in Revenue recorded by this Division to RM14.6 million (Q1-FY14: RM16.1 million) was mainly due to the lower contribution from the Division's Tool Fabrication sub-segment. As mentioned in Note 19, there is RM2.8 million in Works-in-Progress as at 30 September 2013 which was planned to be completed and recognised as revenue in the current quarter but which will now be recognised in the next quarter.

(ii) **<u>Trading (Consumer Goods) Division</u>**

The RM900,000 Revenue reduction (-18%) at this Division to RM4.4 million (Q1-FY14: RM5.3 million) is mainly due to lower sale of Abbott's milk powder products and the contiguous product, customer and supplier rationalization initiatives explained in Note 19.

(b) <u>Profit/(Loss) Before Taxation</u>

Per TABLE 2 below, the Group registered an unfavourable RM662,000 reduction in Operating Profit for the current quarter. The Operating Loss before One-off adjustment was RM396,000 (Q1-FY14: **<u>Profit</u>** RM266,000). The main contributor to this unfavourable variance is the lower revenue generated by the higher margin Tool Fabrication sub-segment and the additional costs incurred by the Plastic Parts sub-segment to plan, trial and cater for increased pipeline of customers orders.

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PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA -
FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

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

TABLE 2

Reconciliation of Profit before Taxation	Q2-FY14	Q1-FY14	Variance
	RM'000		
Profit / (Loss) from Operations	(396)	266	(662)
Adjustment for One-Off Items			
Gain On Disposal Of Property, Plant & Equipment	-	1	(1)
Impairment Of Plant & Equipment	-	(2)	2
Reversal on Impairment of Trade Debtor	180	73	107
Utilities Charges under accrued from 01.01.2011 to 01.12.2012	(357)	-	(357)
Staff cost under accrued	(139)	-	(139)
Unrealised Foreign Exchange Loss	(84)	(47)	(37)
Write-Back of Accrued Interest Provision (i)	174	-	174
Loss on disposal of a subsidiary	(1,803)	-	(1,803)
Sub-Total	(2,029)	25	(2,054)
Profit Before Taxation	(2,425)	291	(2,716)

Notes: *(i) The write back o f Accrued Interest Provision relates to better than expected outcomes in settling previous long outstanding amounts owing to suppliers.*

(i) Manufacturing Division

This Division recorded a RM559,000 unfavourable reduction in profitability to register a Loss before Taxation of RM418,000 (Q1-FY14: **Profit** RM141,000). The impact of the lower revenue contribution from the Division's Tool Fabrication sub-segment on the Loss from Operations shown in TABLE 2 has been explained in Note 19.

Other than those One-off Items shown in TABLE 2, the Plastic Parts sub-segment had also incurred significant additional costs during the quarter on staff overtime, utility charges and material usage (for sample test runs, production trial runs and staff training) as it progressively gears up its operations to cater for higher forward sales.

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

(ii) Trading (Consumer Goods) Division

The reduction in revenue and the additional costs incurred to develop new distributor relationships has resulted in an unfavourable RM289,000 impact on the profitability of this Division for the current quarter to a Loss of RM180,000 (Q1-FY14: **Profit** RM109,000)

(21) Current Year Prospects

For the 6 months to 30 September 2013, the Group recorded a LOSS before Taxation (excluding the one-off loss on disposal of subsidiary of RM1.8 million) of RM413,000 compared to a Profit before Taxation of RM1.1 million in the preceding year; an unfavourable variance of RM1.5 million.

The two major contributing factors are the delayed recognition of the higher margin fabricated tool sales and the impact of the government imposed RM900 per month minimum wages with effect from 1 January 2013. As the Malaysian Government's ongoing focus is to reduce subsidies in general, the resultant increase in fuel price will have an across-the-board knock on effect on the Group's operational costs with particular emphasis on the logistics costs at our Trading (Consumer Goods) Division. The prospects of increasing cost of production and transportation is a major challenge for the Group.

Ideally, the easy route is to pass on the increased costs to our customers. However, in a competitive environment within our industry and in the industries in which our customers are operating, a full pass on is usually not achievable. At Denko, our fall back strategy continues to be to use increased capacity utilization and improved operating efficiency as the means to harness the economies of scale so as to part absorb the ever increasing operating costs and to improve our profitability.

At the Manufacturing Division, our consistent approach to work closely with our customers to provide strong technical support and to produce high quality products coupled with on-time delivery has yielded positive results. The significant effort and costs incurred in the first 6 months of the current financial year has resulted in a healthy pipeline of orders to be delivered over the next 6 months and beyond.

At the Trading (Consumer Goods) Division, it is unlikely we will be able to replace the loss of Revenue arising from the termination of our Distributorship of Abbott range of milk powder products within a short timeframe. Notwithstanding, we have reason to believe the efforts made by the Division to sign new distributorships, to increase the range of products under our HOMAX house brand and efforts to improve our distribution markets and channel penetration will result in improved profitability at this Division.

The sale of Denko IPC Sdn Bhd is to enable to Group to focus and build on its core operations of Plastic Manufacturing. The results for FY13 indicate the Group has restored its financial stability and contained its losses. In FY14, the focus is on capacity building to invest in the Group's future and to provide for a sustainable and profitable enterprise.

(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 30 Sep		CUMULATIVE QUARTERS 6 months ended 30 Sep	
	2013	**2012**	**2013**	**2012**
	(Unaudited) RM'000		**(Unaudited) RM'000**	
Over provided in previous year	0	0	0	173
In respect of current period				
-Malaysian income tax	36	(84)	(82)	(123)
-Deferred tax	-	22	-	38
	36	(62)	(82)	88

(24) Status of Corporate Proposals

There were no Corporate Proposals in the current quarter.

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PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

(25) Group Borrowings

Details of the unaudited Group borrowings as at 30 September 2013 are as follows:

Type of borrowing	Short term	Long term	Total
	Secured		
	RM'000		
Bank Overdraft	-	-	-
Bills Payable and Bankers Acceptance	8,477	-	8,477
Revolving Credit	2,000	-	2,000
Hire Purchase Creditors	391	1,465	1,856
Term Loans	1,330	2,932	4,262
TOTAL	12,198	4,397	16,595

Drawdown and Repayment Schedule

	Bank Overdraft	Bills Payable and Bankers Acceptance	Revolving Credit	Hire Purchase Creditors	Term Loans	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at beginning of period 1 April 2013	-	11,830	2,000	2,061	4,917	20,808
Drawdown	-	-	-	640	-	640
Repayment	-	(3,353)	-	(845)	(655)	(4,853)
As at end of period 30 September 2013	-	8,477	2,000	1,856	4,262	16,595

(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 Kuala Lumpur High Court had initially set 27, 28 & 29 November 2013 as the trial dates. However, following a Transfer Application by Denko, on 6 November 2013 Kuala Lumpur High Court allowed the transfer of proceedings from Kuala Lumpur High Court to Johor Bahru High Court.
Henceforth, all proceedings at Kuala Lumpur High Court are vacated until the Parties are notified of the next date for case management before a new judge at Johor Bahru High Court.

(27) Dividend Payable

No interim dividend has been recommended for the current quarter.

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

PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE SECOND QUARTER ENDED 30 SEPTEMBER 2013

(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 30 Sep		CUMULATIVE QUARTERS 6 months ended 30 Sep	
		2013	**2012**	**2013**	**2012**
		(Unaudited)		**(Unaudited)**	
Profit / (loss) attributable to ordinary equity holders of the parent	RM	(2,389,252)	656,000	(2,215,853)	1,101,000
Weighted average number of ordinary shares in issue		104,468,853	104,468,853	104,468,853	104,468,853
Basic profit/(loss) per share for period (sen):	RM	**(2.29)**	**0.63**	**(2.12)**	**1.05**

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

Fully diluted profit/(loss) per ordinary share for the current quarter is 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 30.09.2013 (Unaudited) RM'000
Total Accumulated Losses of the Group	
- Realised	5,173
- Unrealised	5,176
Total Group Accumulated Losses as per Consolidated Unaudited Financial Statements	10,349

(31) Authorised for Issue

These Interim Financial Statements were authorised for issue by the Board of Directors in accordance with a resolution passed on 18th November 2013.

BY ORDER OF THE BOARD
Woo Min Fong (MAICSA 0532413)
Wong Chee Yin (MAICSA 7023530)
Goh Anne (MIA 36898)
Company Secretaries