DENKO INDUSTRIAL CORPORATION BERHAD

(190155-M)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED
31 December 2013

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

INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 31 DECEMBER 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 THIRD QUARTER ENDED 31 DECEMBER 2013

	INDIVIDUAL QUARTER 3 months ended 31st December		CUMULATIVE QUARTERS 9 months ended 31st December	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
	RM'000	RM'000	RM'000	RM'000
Revenue	20,145	25,710	60,412	71,627
Cost Of Sales	(18,164)	(23,024)	(54,052)	(62,535)
Gross Profit	1,981	2,686	6,360	9,092
Other Income	(11)	5,471	764	6,181
Marketing and Distribution Costs	(854)	(932)	(2,749)	(2,705)
Administration Expenses	(1,437)	(1,929)	(4,257)	(4,997)
Other Operating Gains/(Expenses)	6	(1,754)	(390)	(2,047)
Profit/(Loss) From Operations	(315)	3,542	(272)	5,524
Finance Costs	(249)	(459)	(623)	(1,428)
Loss on disposal of an subsidiary	-	-	(1,803)	-
Profit/(Loss) Before Tax	(564)	3,083	(2,698)	4,096
Taxation	(112)	71	(195)	158
Profit/ (Loss) Net of Tax for the period	(676)	3,154	(2,893)	4,254
Other comprehensive income for the period	-	-	-	-
Total comprehensive income / (loss) attributable to equity holders of the parent	(676)	3,154	(2,893)	4,254
Basic, profit/(loss) per ordinary share (sen)	(0.65)	3.02	(2.77)	4.07
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 THIRD QUARTER ENDED 31 DECEMBER 2013

	Note	As at 31.12.2013 (Unaudited)	As at 31.03.2013 (Audited)
		RM'000	
ASSETS			
Non-current assets			
Property, plant and equipment	9	45,496	49,356
Current assets			
Inventories		13,443	10,970
Trade and other receivables		19,869	18,678
Current tax asset		1,406	1,525
Cash and bank balances		967	1,502
Total current assets		35,685	32,675
TOTAL ASSETS		81,181	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		(11,026)	(8,133)
Total Equity		36,446	39,339
Non current liabilities			
Long term borrowings	25	4,046	4,614
Trade payables and Other payables		501	1,403
Deferred tax liabilities		5,139	5,281
Total non-current liabilities		9,686	11,300
Current Liabilities			
Trade and other payables		22,471	14,485
Current Tax Liabilities		164	713
Short term borrowings	25	12,414	16,195
Total current liabilities		35,049	31,393
TOTAL LIABILITIES		44,735	42,692
TOTAL EQUITY AND LIABILITIES		81,181	82,031
Net assets per share attributable to equity holders of the parents (RM)		0.3489	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 THIRD QUARTER ENDED 31 DECEMBER 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	-	-	-	(2,893)	(2,893)
At 31 DECEMBER 2013	41,788	1,566	4,118	(11,026)	36,446

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

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 CASH FLOWS
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

	Note	9 months to 31.12.2013	9 months to 31.12.2012
		(Unaudited) RM'000	(Unaudited) RM'000
1. Cash flow from operating activities			
Profit (loss) before tax		(2,698)	4,096
Adjustment for investing and financing items not involving movement of cash and cash equivalent			
Impairment/(reversal of impairment) for trade and other receivables		(232)	120
Bad debts written off		20	3
Depreciation		4,566	5,115
Impairment losses on property plant and equipment		-	1,071
Loss/ (Gain) on disposal of a subsidiary company		1,803	-
(Gain)/Loss on disposal of property, plant and equipment		(1)	(4,375)
Property, plant and equipment written off		2	74
Interest expense		623	1,429
Interest income		(3)	(40)
Provision for and write off of inventories		166	718
Unrealised (gain)/loss on foreign exchange		12	(612)
Operating profit before working capital changes		4,258	7,599
Net change in inventories		(3,475)	(976)
Net change in trade and other receivables		(1,827)	(4,695)
Net change in trade and other payables		7,961	(2,627)
Net change in amount due to directors		(529)	94
Cash generated from / (used in) operations		6,388	(605)
Interest paid		(437)	(573)
Income tax paid		(80)	(117)
Income tax refund		93	698
Net cash from / (used in) operating activities		5,964	(597)

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 THIRD QUARTER ENDED 31 DECEMBER 2013

		9 months to	
		31.12.2013	**31.12.2012**
		(Unaudited)	
2. Cash flow from investing activities	**Note**	**RM'000**	
Purchase of fixed assets		(643)	(1,057)
Decrease/(Increase) in pledged fixed deposit		-	399
Interest received		3	39
Proceeds from disposal of fixed assets		1	11,297
Deconsolidation of a subsidiary company		(1,236)	-
Net cash (used in) / from investing activities		(1,875)	10,678
3. Cash flow from financing activities			
(Repayment)/Increase in short term borrowings		(2,979)	1,253
Repayment of term loans		(993)	(5,685)
Repayment of hire purchase creditors		(376)	(2,007)
Interest paid		(186)	(856)
Net cash used in financing activities		(4,534)	(7,295)
Net increase/(decrease) in cash and cash equivalents		(445)	2,786
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 31st December 2013		967	3,286
**Cash and cash equivalents at the end of the financial period comprise the following:*			
Fixed deposits with licensed banks		-	1,212
Cash and bank balances		967	3,604
		967	4,816
Bank overdrafts	25	-	(318)
		967	4,498
Less: Fixed deposits pledged to licensed banks		-	(1,212)
		967	3,286

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 THIRD QUARTER ENDED 31 DECEMBER 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

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
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PART A
SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134 FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

(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
Amendments to MFRS 10, MFRS11 and MFRS 12 Consolidated Financial Statemetns, Joint Arrangements and Disclosue of Interests in Other Entities: Transition Guidance	1 January 2013
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.

PART A
SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

(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

There was 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")

	9 months ended 31st December	
	2013	2012
	(Unaudited) RM'000	
Balance PPE at the beginning of period 1st April	49,356	55,122
Held for sale at the beginning of period 1st April	-	6,866
Additions	1,284	1,057
Impairment loss	-	(1,071)
Disposals	(0)	(6,921)
Write offs	(2)	(74)
Disposal of a subsidiary	(576)	-
Depreciation and Amortization	(4,566)	(5,115)
PPE at the end of period 31st December	45,496	49,864

Acquisitions
During the quarter, the Manufacturing Division acquired machineries and equipment totaling RM105,000; computers software and hardware totaling RM230,000 via a combination of cash purchase and supplier credit terms.

Disposals
There was no disposal of asset during the current quarter.

(9) Inventory Write Offs

The Group recorded inventory write offs totaling RM166,000 in the current quarter (Q3-FY13: RM643,000).

(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.

(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 1 October 2013 acquired a wholly-owned subsidiary company, namely Winsheng Plastic Marketing Sdn. Bhd. with an authorised share capital of RM400,000.00 divided into 400,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM2.00 comprising of 2 ordinary shares of RM1.00 each. The intended principal activity of Winsheng Plastic Marketing Sdn. Bhd. is trading of fabricated tools and plastic parts.

(14) Capital Commitments

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

	As at 31.12.2013 (Unaudited) RM'000
- Authorised but not contracted	7,106
- Contracted but not provided	541

(15) Changes in Contingent Liabilities and Contingent Assets

	As at 31.12.2013 (Unaudited) RM'000
Contingent liability Corporate guarantees provided to financial institutions for credit facilities granted to subsidiaries	16,230

(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 increase of Electricity tariff with effect from 01 January 2014. The increased electricity charges will have a significant adverse impact on the future performance of the Group.

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PART A
SELECTED EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (FRSs) 134
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

(17) Significant Related Parties Transactions

	9 Months ended 31.12.2013 (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		**9 months ended**	
		31st December			
		2013	**2012**	**2013**	**2012**
		(Unaudited)		**(Unaudited)**	
		RM'000			
(i)	Interest Income	-	5	3	40
(ii)	Other income including investment income	84	1,233	383	1,902
(iii)	Interest expense	(247)	(460)	(623)	(1,429)
(iv)	Depreciation and amortization	(1,439)	(1,680)	(4,566)	(5,115)
(v)	Reversal of provision / (Provision) for receivables	(41)	(72)	212	(123)
(vi)	Recovery / (written off) of inventories	(166)	(643)	(166)	(718)
(vii)	Gain/(loss) on disposal of quoted or unquoted investment or properties	-	4,244	1	4,375
(viii)	Write off/Impairment of assets	-	(1,145)	(2)	(1,145)
(ix)	Foreign exchange gain/(loss)	(38)	92	134	(192)
(x)	Loss on disposal of subsidiary	-	-	(1,803)	-

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

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
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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 2013

(19) Review of Current Quarter Performance

	INDIVIDUAL QUARTER 3 months ended		CUMULATIVE QUARTERS 9 months ended	
	31st December			
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Segment Revenue	RM'000			
Manufacturing	16,738	18,484	47,474	51,216
Trading (Consumer Goods)	3,407	7,274	13,037	20,534
Sub-Total (Operating Entities)	20,145	25,758	60,511	71,750
Management services – (Note1)	374	386	1,049	1,126
Investment holding	920	4,915	920	4,915
Total revenue including inter-segment sales	21,439	31,059	62,480	77,791
Elimination of inter-segment transactions	(1,294)	(5,349)	(2,068)	(6,164)
Total Revenue	20,145	25,710	60,412	71,627
Segment Results				
Manufacturing	(655)	3,150	(932)	3,938
Trading (Consumer Goods)	49	(14)	(22)	147
Sub-Total (Operating Entities)	(606)	3,136	(954)	4,085
Management services	337	316	921	915
Investment holding	625	4,545	58	4,010
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	356	7,997	25	9,010
Loss on disposal of a subsidiary	-	-	(1,803)	-
Elimination of inter-segment transactions	(920)	(4,914)	(920)	(4,914)
Profit/(Loss) Before Taxation	(564)	3,083	(2,699)	4,096

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

Current Quarter vs Prior Year Same Quarter 3 months Comparison

(a) Revenue

The Group's Revenue declined by RM5.6 million (-22%) for the current quarter under review to RM20.1 million (Q3-FY13: RM25.7 million).

The reduction is mainly due to the absence of two non recurring once-off events which accounts for RM4.4 million (78%) of the Revenue reduction in the current quarter namely:

(i) The de-consolidation of a wholly owned subsidiary; Denko IPC Sdn Bhd (DIPC) following completion of its disposal on 25th October 2013 resulted in a RM1.5 million reduction in Revenue; and

(ii) The termination of the Group's Wholesaler Agreement to distribute Abbott range of milk powder products with effect from 30th September 2013 resulted in a RM2.9 million reduction in Revenue.

The combined effects of the above is summarized in the table below:

TABLE 1 – Adjusted Total Revenue

Revenue	Q3-FY14	Q3-FY13	Variance
		RM'000	
Total Revenue	20,145	25,710	(5,565)
Less: De-consolidation of DIPC	-	(1,509)	1,509
Less: Termination of Abbott Whosaler Agreement	-	(2,888)	2,888
Adjusted Total Revenue	20,145	21,313	(1,168)

As can be seen from TABLE 1 above, after adjusting for the non recurring once-off events, the adjusted Revenue Reduction is RM1.2 million (-5.5%). The bulk of this reduction is at the Consumer Goods Trading Division.

TABLES 1-1 and 1-2 summaries the Adjusted Revenue for each of the Manufacturing and Consumer Goods Trading Division.

TABLE 1-1 Adjusted Revenue for Manufacturing Division

Revenue	Q3-FY14	Q3-FY13	Variance
		RM'000	
Total Revenue	16,738	18,484	(1,746)
Less: De-consolidation of DIPC	-	(1,509)	1,509
Adjusted Manufacturing Revenue	16,738	16,975	(237)

This Division recorded flat Revenue for the current quarter.

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
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PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING
OF B FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

(a) Revenue (*continued*)

TABLE 1-2 Adjusted Revenue for Consumer Goods Trading Division

	Q3-FY14	Q3-FY13	Variance
		RM'000	
Total Revenue	3,407	7,274	(3,867)
Less: Termination of Abbott Wholesaler Agreement	-	(2,888)	2,888
Adjusted Trading Revenue	3,407	4,386	(979)

This Division's adjusted Revenue reduced by RM1 million (-22.3%) in the current quarter primarily due to the ongoing project which commenced in 2012 to rationalise the Division's product range, customers and suppliers (based on profitability targets set for each category).

Current Quarter vs Prior Year Same Quarter 3 months Comparison

(b) Profit/(Loss) Before Taxation

As can be seen from TABLE 2 below, the Group recorded an Adjusted Loss from Operations of RM237,000 for the current quarter (Q3-FY13 Profit: RM160,000) representing an adverse movement of RM397,000.

This loss was entirely contributed by the Manufacturing Division as the Consumer Goods Trading Division recorded a small profit during the current quarter.

TABLE 2 – Adjusted Profit Before Taxation (without DIPC and Abbott's profit in Q3-FY13)

	Q3-FY14	Q3-FY13	Variance
		RM'000	
Profit / (Loss) from Operations	(237)	160	(397)
Operating Profit/ (Loss) from:			
- DIPC	-	(565)	565
- Sales of Abbott's product	-	325	(325)
Adjustment			
Gain on Disposal of Property, Plant & Equipment	-	4,244	(4,244)
Repainting on building	-	(143)	143
Inventory written off	(166)	(358)	192
Impairment of Plant and Machinery	-	(1,040)	1,040
Impairment of Trade Debtors	(21)	(41)	20
Bad debts written off	(20)	(3)	(17)
Additional Staff cost accrual	(145)	-	(145)
Unrealised Foreign Exchange Gain/(Loss)	25	504	(479)
Sub-Total	(327)	2,923	(3,250)
Profit Before Taxation	(564)	3,083	(3,647)

DENKO INDUSTRIAL CORPORATION BERHAD (190155-M)
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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 2013

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

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

Per TABLE 3 below, this Division reported an Adjusted Operating Loss of RM364,000 (Q3-FY13: Profit RM170,000) for the quarter under review.

TABLE 3 - Reconciliation of Operating Profit / (Loss) Before Taxation (Removing DIPC's transaction in Q3-FY13)

Revenue	Q3-FY14	Q3-FY13	Variance
	RM'000		
Profit / (Loss) from Operations	(364)	170	(534)
Operating Loss at DIPC	-	(565)	565
<u>Adjustment for Non operating items</u>			
Non Operating Inter-co. Expense	(90)	-	(90)
Repainting on building	-	(143)	143
Gain on Disposal of Property, Plant & Equipment	-	4,244	(4,244)
Inventory written off	(80)	(38)	(42)
Impairment of Plant and Machinery	-	(1,040)	1,040
Reversal of impairment/(Impairment) of Trade Debtors	(1)	18	(19)
Additional Staff cost accrual	(145)	-	(145)
Unrealised Foreign Exchange Gain/(Loss)	25	504	(479)
Sub-Total	(291)	2,980	(3,271)
Profit Before Taxation	(655)	3,150	(3,805)

The adverse movement of RM534,000 in Adjusted Loss from Operations were due to a combination of the following:

(a) During the quarter, this Division acquired a new customer which required very high finishing standard for their products. Working on a short lead time, significant additional costs (for staff costs plus overtime, material and utilities) were incurred in the pre-production and trial production stages.

(b) An existing customer transferred-in a significant number of toolings for this Division to manufacture the plastic parts. Also, working on a short lead time, significant additional costs (for staff costs plus overtime, material and utilities) were incurred in testing the tools.

(c) This Division's result was also adversely affected by the imposition of RM900 Minimum Wages which was implemented on 1 January 2013. The additional costs attributed to higher wages is RM300,000 in the current quarter compared to Q3-FY13.

PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

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

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

Per TABLE 4 below, this Division reported an Adjusted Profit from Operations of RM85,000 (Q3-FY13: RM43,000).

TABLE 4 - Reconciliation of Operating Profit Before Taxation (Removing Abbott's Profit in Q3-FY13)

Revenue	Q3-FY14	Q3-FY13	Variance
	RM'000		
Profit / (Loss) from Operations	85	43	42
Profit from sale of Abbott products	-	325	(325)
Adjustment for Non operating items			
Non Operating Inter-co. Income	90	-	90
Bad debts	(20)	(3)	(17)
Impairment of Trade Debtor	(20)	(59)	39
Inventory written off	(86)	(320)	234
Sub-Total	(36)	(57)	21
Profit Before Taxation	49	(14)	63

The favourable RM42,000 improvement in this Division's Profit from Operations for the current quarter despite a RM1 million reduction in Revenue is attributed to the positive results from product range rationalization activities referred to earlier. In addition, the increasing contribution of the higher margin HOMAX home brand sales towards the Division’s turnover contributed positively towards its profitability.

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

PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF B FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

Current Quarter vs Prior Year Same Quarter 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 derives its Revenue from dividends declared by the Company's subsidiaries. During the current quarter, the Company received RM920,000 in dividends (Q3-FY13: RM4.9 million).

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

	INDIVIDUAL QUARTER	
	3 months ended	
	31.12.2013	30.09.2013
	(Unaudited)	
Segment Revenue	RM'000	
Manufacturing	16,738	14,615
Trading (Consumer Goods)	3,407	4,352
Sub-Total (Operating Entities)	20,145	18,967
Management services – **Note 1**	374	329
Investment holding	920	-
Total revenue including inter-segment sales	21,439	19,296
Elimination of inter-segment transactions	(1,294)	(385)
Total revenue	20,145	18,911
Segment Results		
Manufacturing	(655)	(418)
Trading (Consumer Goods)	49	(180)
Sub-Total (Operating Entities)	(606)	(598)
Management services	337	290
Investment holdings	625	(313)
Total Profit/(Loss) before taxation including inter-segment Profit/(Loss)	356	(622)
Loss on disposal of a subsidiary	-	(1,803)
Elimination of inter-segment transactions	(920)	-
Profit/(Loss) before taxation	(564)	(2,425)

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

PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA -
FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

Current Quarter vs Previous Quarter 3 months comparison

(a) Revenue

The Group's Operating Entities recorded a RM1.2 million increase in Revenue (+7%) for the current quarter to RM20.1 million (Q2-FY14: RM18.9 million). The increased Revenue at the Manufacturing Division was partly offset by a reduction in Revenue at the Trading (Consumer Goods) Division.

(i) **Manufacturing Division**

TABLE 5 – Adjusted Revenue in Manufacturing Division

Revenue	Q3-FY14	Q2-FY14	Variance
	RM'000		
Total Revenue	16,738	14,615	2,123
Less: De-consolidation of DIPC	-	(1,387)	1,387
Adjusted Total Revenue	16,738	13,228	3,510

This Division generated a significant RM3.5 million (+27%) Revenue rebound to RM16.7 million (Q2-FY14: RM13.2 million). Revenue growth was recorded by both the Plastic Parts and Tooling Sub Segments.

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

TABLE 6 - Revenue in Trading (Consumer Goods) Division

Revenue	Q3-FY14	Q2-FY14	Variance
	RM'000		
Total Revenue	3,407	4,352	(945)
Less: Sale of Abbott products	-	(1,344)	1,344
Adjusted Total Revenue	3,407	3,008	399

The RM398,000 Revenue rebound (+13%) at this Division to RM3.4 million (Q2-FY14: RM3 million) is mainly due to additional listing of cookies, mushrooms and the Group's HOMAX home brand products through a major hypermarket chain in December for the 2014 Chinese New Year celebrations.

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

(i) Manufacturing Division

TABLE 7 - Reconciliation of Operating Profit / (Loss) Before Taxation

Revenue	**Q3-FY14**	**Q2-FY14**	**Variance**
	RM'000		
Profit / (Loss) from Operations	(364)	(279)	(85)
Profit Before Tax contribution from DIPC	-	335	(335)
Adjustment for Non operating items			
Non Operating Inter-co. Expense	(90)	(90)	-
Inventory written off	(80)	-	(80)
Reversal of impairment/(Impairment) of Trade	(1)	19	(20)
Additional Staff cost accrual	(145)	(139)	(6)
Under accrued of Utilities Charges	-	(357)	357
Write back of Accrued Interest Provision	-	174	(174)
Unrealised Foreign Exchange Gain/(Loss)	25	(81)	106
Sub-Total	(291)	(139)	(152)
Profit Before Taxation	(655)	(418)	(237)

Notwithstanding the RM3.5 million increase in Revenue, this Division disappointingly increased its Operating Losses by RM85,000 to RM364,000 (Q2-FY14: Loss RM279,000) due to the following:

(a) During the quarter, this Division acquired a new customer which required very high finishing standard for their products. Working on a short lead time, significant additional costs (for staff costs plus overtime, material and utilities) were incurred in the pre-production and trial production stages.

(b) An existing customer transferred-in a significant number of toolings for this Division to manufacture the plastic parts. Also, working on a short lead time, significant additional costs (for staff costs plus overtime, material and utilities) were incurred in testing the tools.

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

(ii) Trading (Consumer Goods) Division

TABLE 8 - Reconciliation of Operating Profit / (Loss) Before Taxation

	Q3-FY14	Q2-FY14	Variance
	RM'000		
Profit / (Loss) from Operations	85	(446)	531
Gross Profit from Abbott's sales	-	67	(67)
Adjustment for Non operating items			
Non Operating Inter-co. Income	90	90	-
Bad debts	(20)	-	(20)
(Impairment)/ Reversal of Trade Debtor	(20)	107	(127)
Inventory written off	(86)	-	(86)
Sub-Total	(36)	264	(300)
Profit Before Taxation	49	(181)	230

This Division's strong RM530,000 improvement in Profit from Operations to RM84,000 (Q2-FY14: Loss RM445,000) is due to the combination of the following:

(a) The higher turnover and change in product mix to higher margin products with particular emphasis on our HOMAX home brand products improved the operating margins;

(b) The continuous business rationalization to reduce products, customers and suppliers that do not meet our profitability targets contributed to the improved operating margins; and

(c) The previous quarter included additional costs incurred to develop new distributor relationships.

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(21) Current Year Prospects

Per TABLE 9 below, for the 9 months to 31 December 2013, the Group recorded an Adjusted LOSS before Taxation of RM895,000 (excluding the one-off transactions relating to DIPC). This is an increase of RM759,000 compared with the same period in FY13.

TABLE 9 Adjusted Profit / (Loss) Before Taxation (Removing Gain/Loss relating to DIPC)

	9 months to 31 Dec		
	Q3-FY14	Q3-FY13	Variance
	RM'000		
Profit Before Taxation	(2,698)	4,096	(6,794)
Less:			
Gain on disposal of Land and building for DIPC	-	(4,232)	4,232
Add:			
Loss on disposal of DIPC	1,803	-	1,803
Adjusted Profit Before Taxation	(895)	(136)	(759)

The RM900 Minimum Wages was implemented with effect from 1 January 2013. This increase had cost the Manufacturing Division alone an additional RM900,000 for the 9 months to 31 December 2013 (previous comparable period: NIL). This additional cost burden is the primary reason for the Group's loss to date.

(i) Manufacturing Division

Following the disposal of Denko IPC Sdn Bhd, this Division now comprises Plastic Parts and Tooling sub-segments. As mentioned earlier, this Division has acquired new customers and has received incremental orders from existing customers. However, as we gain new business at the expense of other competitors, we can expect to lose some customers to competitors as well. This is a reflection of the industry's current state of flux in Malaysia as a number of our competitors cease operations or withdraw from the market on the one hand and our common customers deciding to consolidate their suppliers on the other hand. In the case of multi-national customers, the supplier consolidation can be on a nationwide or regional basis.

The Plastic Parts sub-segment's pipeline of orders is currently still good. Mass production of plastic parts for some of the transferred-in toolings scheduled for December 2013 has been deferred by a major customer to now commence in April 2014. The Tooling sub-segment has much works-in-progress which should be converted to Revenue by 31 March 2014, the financial year end.

Whist this Division is making good progress to increase its Revenue, is operating cost continues to be affected by external factors. As with all non –SME manufacturers, the major cost increase in calendar 2013 was the effects of the RM900 Minimum Wages. In calendar 2014, it is the substantial increase in electricity tariffs with effect from 1 January 2014. As electricity is this Division's major operating cost, there will be a significant adverse impact on the Division's future financial performance.

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

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

Abbott's unilateral termination of the Trading (Consumer Goods) Wholesale Agreement effective 1 October 2013 had a major detrimental effect on the Revenue and profitability of this Division. However, the Divisional management team's pro-active and decisive actions to develop new and higher margin distributorships and to develop new distribution channels have been effective to restore its profitability.

In summary, having returned the Group into profitability in FY2013, the task ahead is to ensure the operational profitability is sustained amidst the challenges of increasing operating costs due to the external factors as mentioned above. Going forward, the next external cost pressure will be the additional one-off costs required to make the Group's operations GST compliant before its introduction on 1 April 2015.

Despite the difficult trading conditions and forecast slowdown in the Malaysian economy due to the Federal Government's efforts to reduce the Budget Deficit, the Group's Management Team is unwavering in its efforts to pursue its Revenue growth and sustained profitability objectives.

(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 31st December		CUMULATIVE QUARTERS 9 months ended 31st December	
	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	(112)	63	(195)	(61)
-Deferred tax	-	8	-	46
	(112)	71	(195)	158

(24) Status of Corporate Proposals

There were no Corporate Proposals in the current quarter.

PART B
EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA - FOR THE THIRD QUARTER ENDED 31 DECEMBER 2013

(25) Group Borrowings

Details of the unaudited Group borrowings as at 31 December 2013 are as follows:

Type of borrowing	Short term	Long term	Total
	Secured		
	RM'000		
Bank Overdraft	-	-	-
Bills Payable and Bankers Acceptance	8,851	-	8,851
Revolving Credit	1,997	-	1,997
Hire Purchase Creditors	337	1,347	1,684
Term Loans	1,229	2,699	3,928
TOTAL	12,414	4,046	16,460

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	-	(2,979)	(3)	(1,017)	(989)	(4,988)
As at end of period 30 September 2013	-	8,851	1,997	1,684	3,928	16,460

(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 Trial dates will be on 21, 22 and 23 April 2014 in Johor Bahru High Court.

(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 Dec			CUMULATIVE QUARTERS 9 months ended 31 Dec	
		2013	**2012**		**2013**	**2012**
		(Unaudited)			**(Unaudited)**	
Profit / (loss) attributable to ordinary equity holders of the parent	RM	(675,736)	3,154,000		(2,892,588)	4,254,000
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	**(0.65)**	**3.02**		**(2.77)**	**4.07**

(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 31.12.2013 (Unaudited) RM'000
Total Accumulated Losses of the Group	
- Realised	5,875
- Unrealised	5,151
Total Group Accumulated Losses as per Consolidated Unaudited Financial Statements	11,026

(31) Authorised for Issue

These Interim Financial Statements were authorised for issue by the Board of Directors in accordance with a resolution passed on 24th February 2014.

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