**KPS CONSORTIUM BERHAD (“KPSCB” or the “Company”) and**

**GROUP OF COMPANIES (“The Group”)**

# NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with the reporting requirements outlined in the Financial Reporting Standards 134 – ‘Interim Financial Reporting’ issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Bursa Malaysia Securities Bhd Listing Requirements.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2010.The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the financial statements for the financial year ended 31 December 2010 except for the following:

1. Adoption of New and Revised FRSs, IC Interpretations and Amendments

In the current period ended 31 December 2011, the Group adopted the following new and revised FRSs, IC Interpretations and Amendments to FRSs and IC Interpretations which are applicable to its financial statements and are relevant to its operations:

1) Amendments to FRS 7, Financial Instruments: Disclosures

2) Amendments to FRS 8, Operating Segments

3) FRS 101(revised), Presentation of Financial Statements

4) Amendments to FRS 107, Statement of Cash Flows

5) Amendments to FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors

6) Amendments to FRS 110, Events after Reporting Period

7) Amendments to FRS 116, Property, Plant and Equipment

8) Amendments to FRS 117, Leases

9) Amendments to FRS 118, Revenue

10) Amendments to FRS 119, Employee Benefits

11) FRS 123(revised), Borrowing Costs

12) Amendments to FRS 127, Consolidated and Financial Statements: Cost of an Investment in a

 Subsidiary, Jointly Controlled Entity or Associate

13) FRS 132(revised), Financial Instruments: Presentation

14) Amendments to FRS 134, Interim Financial Reporting

15) Amendments to FRS 136, Impairment of Assets

16) Amendments to FRS 138, Intangible Assets

17) Amendments to FRS 139, Financial Instruments: Recognition and Measurement

18) Amendments to FRS 140, Investment Property

19) IC Interpretation 10, Interim Financial Reporting and Impairment

Adoption of the relevant FRS’s and IC Interpretations effective from 1 January 2011 has no significant impact on the financial performance or position of the Group and the Company.

This change in classification has no effect to the statement of comprehensive income for the current quarter or comparative prior period.

1. Annual Report of the Group’s Preceding Annual Financial Statements

The Auditors’ report of the Group’s most recent annual audited financial statements for the year ended 31 December 2010 was unqualified.

# NOTES TO THE INTERIM FINANCIAL REPORT (CONT’D)

1. Changes in estimates

There were no changes in the estimate of amounts reported in prior quarter in the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current interim period.

1. Debt and equity securities

During the current reporting period, the term loans were repaid by the following company:-

|  |  |  |
| --- | --- | --- |
| **Company** | **Nature** | **Amount****RM’000** |
| KPS Plywood Sdn Bhd | Term Loan | 758 |

1. Dividends paid

There were no dividends paid during the financial period.

1. Segmental Reporting

|  |  |
| --- | --- |
|  | **12-months ended 31 Dec 2011** |
|  | **- Revenue-** |  | **Profit/(Loss)** |
|  | **Internal**RM’000 | **External**RM’000 | **Total**RM’000 | **Before tax**RM’000 |
| Paper milling | 35,532 |  10,969 | 46,501 |  1,331 |
| Paper converting | 5,914 |  51,637 | 57,551 |  945 |
| Trading building materials | 13,101 |  283,273 | 296,374 | 15,618 |
| Investments/ Management |  6,900 |  633 |  7,533 | 17 |
| Trading - Others | 766 |  34,198 | 34,964 | 1,442 |
| Unallocated Corp. expenses | - | - | - |  |
| Total | 62,213 | 380,710 | 442,923 | 19,353 |
| Elimination | (62,213) | - | (62,213) |   |
| Consolidated | - |  **380,710** | **380,710** | 19,353 |
| Financing cost |  |  |  | (2,730) |
| Interest Income |  |  |  | 68 |
| Profit before tax |  |  |  | **16,691** |
| Income tax |  |  |  | (2,989) |
| Profit after tax |  |  |  | **13,702** |

The activities of the Group are carried out in Malaysia and as such segmental reporting by geographical location is not presented.

**NOTES TO THE INTERIM FINANCIAL REPORT (CONT’D)**

1. Property, plant and equipment

The valuation of land and buildings has been brought forward, without amendment from the recent audited financial statements for the year ended 31 December 2010.

1. Material events subsequent to the balance sheet date

There are no other material events subsequent to the balance sheet date that has not been reflected in the financial statements.

1. Changes in composition of the Group

There was no change in the composition of the Group during the financial period.

1. Changes in contingent liabilities

Corporate guarantees issued to financial institutions and suppliers for banking and credit facilities respectively granted to subsidiary Companies amounted to RM31.4 million (2010: RM31.4 million)

**Additional information required by the Main Market’s Listing Requirement**

1. Review of performance

The Group recorded revenue of RM 380.7 million for the year to 31 Dec 2011 as compared with RM 375.0 million recorded in the preceding corresponding year.

Paper milling division turnover was RM 0.3 million higher than previous corresponding year, paper converting division turnover was lower by RM 17.5 million compared with the previous year 2010 , building materials division recorded a higher turnover of RM 7.9 million compared with the preceding year 2010 and general trading divisions reported higher turnover compared with preceding year quarter RM 15.5 million. The year to date revenue for previous corresponding year was generally affected by slowdown in economy. The reduction in turnover comparison for paper converting was due to subsidiary activities of Hai Ming Marketing being reclassified as other activities in 2011 from paper converting in 2010.

Profit before taxation for 12-months period was RM 16.9 million compared with RM 11.7 million for the preceding year 2010. Gross profit margins were generally higher than previous year corresponding quarter for all divisions except for paper converting division due to additional bad debts provisions .

1. Variation of results against immediate preceding quarter

The Group recorded a profit before taxation and interests of RM 3.3 million for the 4th quarter to 31 Dec 2011 as compared to a profit of RM 1.2 million recorded in the preceding 3rd quarter.

Comparison of current and immediate preceding quarter is as follows:–

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Paper Milling****RM’000** | **Paper Converting****RM’000** | **Building Materials Trading****RM’000** | **Investment & Management****RM’000** | **Other Trading****RM’000** |
| Profit before tax/interest income/ expenses- current quarter | 621 | (542) | 3,061 | (50) | 295 |
| - preceding quarter | 421 | 253 |  2,177 | 39 | 402 |
| **Difference** | **200** |  **(795)** | **884** | **(89)** | **(107)** |

The 4th quarter results were higher than preceding last quarter due to higher profit margins except for paper converting division due to additional provision for bad debts.

1. Profit Forecast

There were no profit forecasts for the current period.

**Additional information required by the Main Market’s Listing Requirement (Cont’d)**

1. Taxation

 **12-months to 31 Dec 2011**

 **RM ‘000**

Income tax expense

- current 3,048

 - prior year

 Deferred tax income-benefits

 from previously unrecognized

 tax loss (59)

 \_\_\_\_\_\_\_\_\_\_\_

 Income tax recognized in

 Profit and Loss **2,989**

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1. Unquoted investments and/or properties

There were no disposals of unquoted investments for the quarter under review.

1. Quoted investments

There were no investments in quoted securities as at the end of the reporting period.

1. Status of corporate proposals announced
	1. There were no major corporate proposals announced during the reporting period to date.
	2. The status of utilization of proceeds from any corporate proposal.

This is not applicable.

1. Borrowings and debt securities

Group borrowings and debt securities as at the end of the reporting period:-

###### Short Term Borrowings

|  |  |
| --- | --- |
|  | **RM’000** |
| SecuredBank overdrafts/ Bankers’ AcceptancesTerm loan |  57,603 |
| HP Creditors | 1,200 |
|   | 58,803 |

**Additional information required by the Main Market’s Listing Requirement (Cont’d)**

###### Long Term Borrowings

|  |  |
| --- | --- |
|  | **RM’000** |
| SecuredTerm loan  | - |
| HP Creditor | 1,076 |
|   | 1,076 |
|  |  |
| Total Borrowings | **59,879** |

1. Gains/Losses arising from Fair Value Changes of Financial Liabilities

There were no gains/losses arising from fair value changes arising from any financial liabilities

1. Derivative Financial Instruments

There were no derivative financial instruments at the date of issuance of this report.

1. Accumulated Realised/Unrealised Unappropriated Profits

The realized/unrealised unappropriated profits in the Statement of Financial Position are as follows:

 **Group**

 **RM’000**

Realised 21,443

 Unrealised 3,180

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 **Total 24,623**

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1. Material litigation

There was no material litigation, which would have a material adverse effect on the financial results.

1. Dividends

The Board of Directors is not recommending any payment of an interim dividend for the current financial period under review.

**Additional information required by the Main Market’s Listing Requirement (Cont’d)**

1. Earnings per share (“EPS”)
	1. Basic EPS

The calculation of basic EPS for continuing operations the current period is based on the profit of RM 13.6 million for 12-months to 31 Dec 2011 and the weighted average number of ordinary shares in issue during the current quarter of 147,827,158 ordinary shares.

* 1. Diluted EPS

No disclosure is requires as the Company does not have any financial instruments for future conversion into ordinary share.

# By Order of the Board

25 Feb 2012