**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 2011.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 2011 except for the following:

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

In the current period ended 30 June 2012, the Group adopted the following new and revised MFRSs, 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 MFRS 3, Business Combinations.Measument of non-controlling interests
2. Amendments to MFRS 7, Financial Instruments: Disclosures
3. Amendments to MFRS Amendments to FRS 101,Presentation of Financial Statements
4. Amendments to MFRS 8, Operating Segments

5) MFRS 101(revised), Presentation of Financial Statements

6) Amendments to MFRS 107, Statement of Cash Flows

7) Amendments to MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors

8) Amendments to MFRS 110, Events after Reporting Period

9) Amendments to MFRS 116, Property, Plant and Equipment

10) Amendments to MFRS 117, Leases

11) Amendments to MFRS 118, Revenue

12) Amendments to MFRS 119, Employee Benefits

13) MFRS 123(revised), Borrowing Costs

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

Subsidiary, Jointly Controlled Entity or Associate

15) MFRS 132(revised), Financial Instruments: Presentation

16) Amendments to MFRS 134, Interim Financial Reporting

17) Amendments to MFRS 136, Impairment of Assets

18) Amendments to MFRS 138, Intangible Assets

19) Amendments to MFRS 139, Financial Instruments: Recognition and Measurement

20) Amendments to MFRS 140, Investment Property

21) IC Interpretation 10, Interim Financial Reporting and Impairment

Adoption of the relevant MFRS’s and IC Interpretations effective from 1 January 2012 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.

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

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 2011 was unqualified.

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, there were no repayment of term loans

1. Dividends paid

There were no dividends paid during the financial period.

1. Segmental Reporting

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **6-months ended 30 June 2012** | | | |
|  | **- Revenue-** | |  | **Profit/(Loss)** |
|  | **Internal** RM’000 | **External** RM’000 | **Total** RM’000 | **Before tax** RM’000 |
| Paper milling | 21,921 | 7,592 | 29,513 | 1,326 |
| Paper converting | 4,168 | 24,783 | 28,951 | 484 |
| Trading building materials | 8,838 | 145,657 | 154,495 | 6,836 |
| Investments/ Management |  | 397 | 397 | 16 |
| Trading - Others | 150 | 18,463 | 18,613 | 508 |
| Unallocated Corp. expenses | - | - | - |  |
| Total | 35,077 | 196,892 | 231,968 | 9,170 |
| Elimination | (35,077) | - | (35,077) |  |
| Consolidated | - | **196,892** | **196,892** | 9,170 |
| Financing cost |  |  |  | (1,821) |
| Interest Income |  |  |  | 69 |
| Profit before tax |  |  |  | **7,418** |
| Income tax |  |  |  | (2,133) |
| Profit after tax |  |  |  | **5,285** |

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 2011.

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 RM 78.1 million (2011: RM31.4 million)

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

1. Review of performance

The Group recorded revenue of RM 100.7 million for the 2nd quarter period to 30 June 2012 as compared with RM 92.3 million recorded in the preceding year corresponding quarter period.

Paper milling division turnover was RM 1.0 million higher than previous year corresponding quarter period, paper converting division turnover was lower by RM 1.5 million compared with the previous year quarter , building materials division recorded a higher turnover of RM 7.4 million compared with the preceding year quarter period and general trading divisions reported higher turnover compared with preceding year quarter RM 1.5 million. The 2nd quarter revenue was higher than previous corresponding year was generally due to higher demand from customers.

Profit before taxation for 3-month period was RM 5.1 million compared with RM 4.6 million for the preceding year quarter period . Gross profit margins were slightly higher than previous year corresponding quarter .

1. Variation of results against immediate preceding quarter

The Group recorded a profit before taxation of RM 5.1 million for the 2nd quarter to 30 June 2012 as compared to a profit of RM 2.3 million recorded in the preceding 1st quarter.

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

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 | 714 | 216 | 4,761 | 20 | 272 |
| - preceding quarter | 611 | 268 | 2,075 | (4) | 236 |
| **Difference** | **103** | **(52)** | **2,686** | **24** | **36** |

The 2nd quarter results were higher than preceding last quarter due to higher profit margins for building materials division and revenue.

1. Profit Forecast

There were no profit forecasts for the current period.

1. Taxation

**6-months to 30 June 2012**

**RM ‘000**

Income tax expense

- current 858

- prior year

Deferred tax-benefits from

previous unrecognized tax loss 1,275

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Income tax recognized in

Profit and Loss  **2,133**

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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.

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

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** |
| Secured  Bank overdrafts/ Bankers’ Acceptances  Term loan | 68,266  650 |
| HP Creditors | 972 |
|  | 69,888 |

###### Long Term Borrowings

|  |  |
| --- | --- |
|  | **RM’000** |
| Secured  Term loan | 7,244 |
| HP Creditor | 934 |
|  | 8,178 |
|  |  |
| Total Borrowings | **78,066** |

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.

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

1. Accumulated Realised/Unrealised Unappropriated Profits

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

**Group**

**RM’000**

Realised 27,820

Unrealised 2,404

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**Total 30,224**

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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.

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 5.3 million for 6-months to 30 June 2012 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 potential ordinary shares.

# By Order of the Board

18 August 2012