

NIKKO ELECTRONICS BHD.

(Company No.: 174076-U)

Incorporated in Malaysia

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008**

	(Unaudited) As at 30.06.2008 RM'000	(Audited) As at 31.03.2008 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	29,513	55,479
Prepaid land lease payments	5,533	7,002
	<u>35,046</u>	<u>62,481</u>
Current assets		
Inventories	9,899	35,184
Trade and other receivables	2,887	16,871
Short term investment	1,881	505
Cash and bank balances	87	517
	<u>14,754</u>	<u>53,077</u>
TOTAL ASSETS	<u>49,800</u>	<u>115,558</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	99,269	99,269
Share premium	17,445	17,445
Revaluation reserve	-	4,225
ESOS reserve	162	162
Accumulated loss	(127,076)	(71,352)
Treasury shares, at cost	(106)	(106)
Total equity	<u>(10,306)</u>	<u>49,643</u>
Current liabilities		
Trade and other payables	35,775	45,190
Provision for product warranties	176	176
Bank borrowings	24,070	20,464
Dividend payable	85	85
	<u>60,106</u>	<u>65,915</u>
Total liabilities	<u>60,106</u>	<u>65,915</u>
TOTAL EQUITY AND LIABILITIES	<u>49,800</u>	<u>115,558</u>
Net assets per share attributable to equity holders of the parent (sen)	<u>(0.10)</u>	<u>0.50</u>

(The Condensed Consolidated Balance Sheet should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to the interim financial statements.)

NIKKO ELECTRONICS BHD.

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**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2008**

	(Unaudited)		(Unaudited)	
	3 months ended (Quarter)		3 months ended (Cumulative)	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	RM'000	RM'000	RM'000	RM'000
Sales	9,392	14,699	9,392	14,699
Expenses excluding finance cost and tax	(65,024)	(20,775)	(65,024)	(20,775)
Other operating income	156	441	156	441
Loss from operations	(55,476)	(5,635)	(55,476)	(5,635)
Finance costs	(248)	(148)	(248)	(148)
Loss before taxation	(55,724)	(5,783)	(55,724)	(5,783)
Taxation	-	-	-	-
Net loss for the period	(55,724)	(5,783)	(55,724)	(5,783)
Loss per share attributable to equity holders of the parent:				
- Basic (sen)	(56.17)	(5.83)	(56.17)	(5.83)
- Diluted (sen)	NA	NA	NA	NA

(The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to the interim financial statements.)

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2008**

	Share Capital RM'000	Treasury Shares RM'000	Non-Distributable			Distributable	Total Equity RM'000
			Share Premium RM'000	Revaluation and Other Reserves RM'000	ESOS Reserve RM'000	Accumulated Loss RM'000	
Balance at 1 April 2007	99,269	(106)	17,445	4,225	162	(31,013)	89,982
Net loss for the period	-	-	-	-	-	(40,339)	(40,339)
Balance at 31 March 2008	<u>99,269</u>	<u>(106)</u>	<u>17,445</u>	<u>4,225</u>	<u>162</u>	<u>(71,352)</u>	<u>49,643</u>
Balance at 1 April 2008	99,269	(106)	17,445	4,225	162	(71,352)	49,643
Net loss for the period	-	-	-	(4,225)	-	(55,724)	(59,949)
Balance at 30 June 2008	<u>99,269</u>	<u>(106)</u>	<u>17,445</u>	<u>-</u>	<u>162</u>	<u>(127,076)</u>	<u>(10,306)</u>

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to the interim financial statements.)

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2008**

	3 Months Ended	
	30.06.2008	30.06.2007
	RM'000	RM'000
Cash Flows From Operating Activities		
Net loss after taxation	(55,724)	(5,783)
Adjustments for :-		
Depreciation of property, plant and equipment	2,143	2,190
Impairment of assets	49,946	-
Interest expense	248	148
Amortisation of prepaid land lease payments	42	45
Interest income	(5)	(27)
Net gain on disposal of land and building, plant and equipment	-	(50)
Operating loss before working capital changes	(3,350)	(3,477)
Changes in working capital:		
Inventories	(3,497)	(15,076)
Receivables	13,985	8,451
Payables	(9,415)	3,324
Cash used in operations	(2,277)	(6,778)
Interest paid	(248)	(148)
Net cash used in operating activities	(2,525)	(6,926)
Cash Flows From Investing Activities		
Interest received	5	27
Purchase of property, plant and equipment	(140)	(1,563)
Proceeds from disposal of property, plant and equipment	-	286
Increase in short term investments	(1,376)	-
Net cash used in investing activities	(1,511)	(1,250)
Cash Flow From Financing Activities		
Increase in bank borrowings	3,677	7,239
Net cash generated from financing activities	3,677	7,239
NET DECREASE CASH AND CASH EQUIVALENTS	(359)	(937)
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF PERIOD	(6,151)	(841)
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD	(6,510)	(1,778)
Cash and cash equivalents comprise:-	RM'000	RM'000
Deposits, cash and bank balances	87	1,451
Bank overdraft	(6,597)	(3,229)
	(6,510)	(1,778)

(The Condensed Consolidated Cash Flow Statement should be read in conjunction with the audited financial statements for the year ended 31 March 2008 and the accompanying explanatory notes attached to the interim financial statements.)

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008

A. EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134 – Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial report should be read in conjunction with the audited financial report of the Company for the financial year ended 31 March 2008. The explanatory notes attached to the interim financial report statement provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended 31 March 2008.

A2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2008 except for the adoption of the following new/revised Financial Reporting Standards (“FRS”):

		Effective for financial period beginning on or after
FRS 119 ₂₀₀₄ (Revised)	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007

The adoption of the above FRS is not relevant to the Company.

A3. Auditor’s Report on Preceding Annual Financial Statements

The external auditors of the Company issued a disclaimer of opinion on the financial statements of the Company for the financial year ended 31 March 2008. The basis for the disclaimer of opinion was the inability to obtain sufficient and appropriate evidence to satisfy the auditors of the carrying values of certain assets and liabilities and they could not determine the effects of adjustments arising, if any, on the financial position of the Company as at 31 March 2008 or on its financial results for the financial year then ended.

The Company had undertaken an independent valuation of its properties in Prai and Parit Buntar and have incorporated the forced sale values made by an independent valuer in its unaudited financial report for the first quarter ended 30 June 2008.

Other plant and equipment and inventories have also been written down to recoverable amount as per directors’ valuation. The provision for impairment of assets was incorporated in the unaudited financial report for the first quarter ended 30 June 2008.

A4. Comments about Seasonal or Cyclical Factors

The sales demand of the Company for radio-controlled toys are seasonal in nature with more than half of the annual sales normally made in the September quarter.

A5. Unusual Items due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence during the quarter under review.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008

A. EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING

A6. Changes in Estimates

There were no changes in the estimates of amounts reported that have a material effect on the results in the current quarter under review.

A7. Debt and Equity Securities

There was no issuance and repayment of debt and equity securities, share buy back, share cancellation and resale of treasury shares during the financial quarter ended 30 June 2008.

A8. Dividend Paid

No dividend was paid during the current quarter ended 30 June 2008.

A9. Segmental Information

Segmental information is not applicable as the Company operates wholly in Malaysia and its activities are predominantly in the manufacturing and sales of radio controlled toys.

A10. Valuation of Property, Plant and Equipment

The Company had undertaken an independent valuation of its properties. The resultant net revaluation deficit of RM7.478 million has been incorporated into the unaudited financial report for the first quarter ended 30 June 2008. The revaluation deficit will be partly reversed against the revaluation reserve of RM4.225 million with the balance of RM3.253 million taken as a charge to income statement.

The directors of the Company have also made a provision for impairment of RM46.693 million on the carrying values of other fixed and current assets. This impairment has been incorporated into the unaudited financial report for the first quarter ended 30 June 2008.

A11. Events Subsequent to the End of the Interim Reporting Period

On 1 July 2008, the Board of Directors of the Company announced to Bursa Securities that on 30 June 2008, it received a statutory notice of demand pursuant to Section 218 of the Companies Act, 1965 from Hirel Co. Ltd. (Singapore branch), a supplier of the Company demanding the payment of USD736,250 (equivalent to RM2,355,000) being monies due for the supply of goods and owing to them as at 2 June 2008. The Company was given 21 days from the receipt of notice to settle the said outstanding debts, failing which, a winding up petition will be filed against the Company. The Company is seeking the necessary legal advice to resolve and/or defend this matter.

On 9 July 2008, the Board of Directors of the Company announced to Bursa Securities that on 9 July 2008, it was served a Writ of Summons dated 4 July 2008 from Jeevaretnam & Co, Advocates and Solicitors acting for J.P. Printers Sdn. Bhd. claiming RM797,399 purportedly being monies due and owing to J.P. Printers Sdn. Bhd. for the supply of packaging products. The Company is seeking the necessary legal advice to resolve and/or defend this matter.

On 10 July 2008, the Company announced to Bursa Securities that in addition to the default in payment announced on 30 June 2008, the Company also defaulted on another bankers' acceptance facility of RM2,957,000 due on 10 July 2008.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008

A. EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING

On 14 July 2008, the Board of Directors of the Company announced to Bursa Securities that on 14 July 2008, it was served a Writ of Summons dated 10 July 2008 from Lio & Partners, Advocates and Solicitors acting for Wictronics Sdn. Bhd. claiming RM52,124 purportedly being monies due and owing to Wictronics Sdn. Bhd. for the supply of products. The Company is seeking the necessary legal advice to resolve and/or defend this matter.

On 14 July 2008, the Board of Directors of the Company announced to Bursa Securities that on 14 July 2008, it was served a Writ of Summons dated 11 July 2008 from Kek Ooi & Lee Hong, Advocates and Solicitors acting for Texchem Materials Sdn. Bhd. claiming RM224,554 purportedly being monies due and owing to Texchem Materials Sdn. Bhd. for the supply of products. The Company is seeking the necessary legal advice to resolve and/or defend this matter.

On 28 July 2008, the Board of Directors of the Company announced to Bursa Securities that further to the announcement on 1 July 2008 in respect of statutory notice of demand pursuant to Section 218 of the Companies Act, 1965 ("Notice") from Hirel Co. Ltd. (Singapore Branch), the High Court of Pulau Pinang has on 18 July 2008 granted an Ex-parte injunction restraining Hirel Co. Ltd. (Singapore Branch) by itself or agents or servant, among other from filing or continuing with or taking any step to file or continue with the winding up petition or advertising the petition against Nikko pursuant to the said Notice until further Order and a declaration that the said Notice is not valid.

On 29 July 2008, the Board of Directors of the Company announced to Bursa Securities that on 29 July 2008, a Section 218 notice was served on Nikko by Presgrave & Matthews, Advocates & Solicitors acting for Cepco Electronics (M) Sdn. Bhd., demanding the payment of RM397,812 being monies due for the supply of goods and owing to them as at 30 June 2008. The Company is given 21 days from the receipt of notice to settle the said outstanding debts, failing which, a winding up petition will be taken against the Company. The Company is seeking the necessary legal advice to resolve and/or defend against this matter.

On 29 July 2008, the Company announced to Bursa Securities that in addition to the defaults in payment announced on 30 June 2008 and 10 July 2008, the Company also defaulted on another bankers' acceptance facility of RM467,000 due on 29 July 2008.

On 7 August 2008, the Board of Directors of the Company announced to Bursa Malaysia Securities that on 7 August 2008, a Summons dated 14 July 2008 was served on the Company by Cheong Wai Meng & Van Buerle, Advocates and Solicitors acting for T.T. A. Polymers (M) Sdn. Bhd. claiming RM118,900.00 purportedly being monies due and owing to them for the supply of products. The Company is seeking the necessary legal advice to resolve and/or defend against this matter.

On 11 August 2008, the Board of Directors of the Company announced to Bursa Securities that on 11 August, a Summons dated 5 August 2008 was served on the Company by Khor, Ong & Company, Advocates and Solicitors acting for Super Enterprise (Penang) Sdn Bhd claiming RM276,564.23 purportedly being monies due and owing to them for the supply of products and services rendered. The Company is seeking the necessary legal advice to resolve and/or defend against this matter.

On 12 August 2008, the Board of Directors of the Company announced to Bursa Securities that on 11 August 2008, it received a statutory notice of demand pursuant to Section 218 of the Companies Act, 1965 from Cheong Wai Meng & Van Buerle, Advocates & Solicitors acting for Ishikawa Spring (Malaysia) Sdn. Bhd., demanding the payment of RM201,194.67 being monies due and owing to them as at 30 June 2008 for the supply of goods. The Company is given 21 days from the receipt of notice to settle the said outstanding debts, failing which, a winding up petition will be taken against the Company. The Company is seeking the necessary legal advice to resolve and/or defend against this matter.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008

A. EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING

On 14 August 2008, the Board of Directors of the Company announced to Bursa Securities that on 14 August 2008, a Summons dated 25 July 2008 was served on the Company by Wong-Chooi & Mohd. Nor, Advocates and Solicitors acting for Exceptional Mould Manufacturing Sdn. Bhd. claiming RM61,900.00 purportedly being monies due and owing to them for the supply of products and/or services rendered. The Company is seeking the necessary legal advice to resolve and/or defend against this matter.

As at the date of this report, the Company is unable to estimate the amounts of its further liabilities, if any, which may arise from the above events.

A12. Changes in Composition of the Group

On 30 June 2008, the Company announced to its employees that it would cease its manufacturing operations with immediate effect. As at the date of this report, the Company is unable to estimate the total amount of the cessation costs.

There were no other changes in the composition of the Company during the quarter under review, including business combination, acquisition or disposal of subsidiaries and long term investments and restructurings.

A13. Changes in Contingent Liabilities and Contingent Assets

There were no other contingent liabilities or contingent assets that have become enforceable since the last annual balance sheet date as at 31 March 2008 and up to the date of this report, other than that already disclosed in Note A11: Events Subsequent to the End of the Interim Reporting Period.

A14. Capital Commitments

There were no capital commitments for the purchase of property, plant and equipment not provided for in the interim condensed financial statements as at 30 June 2008.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008**A. EXPLANATORY NOTES AS PER FRS 134 – INTERIM FINANCIAL REPORTING**

A15. Significant Related Party Transactions

Save as disclosed below, the Directors are of the opinion that there were no other related party transactions which would have a material impact on the financial position and the business of the Group during the current financial quarter.

The significant transactions with related parties by Group are as follows:

Name of company	Type of Transaction	3 months ended 30.06.2008 RM '000
Nikko Co. Ltd.	Sales of goods	10
	Purchase of raw materials and equipment	7
	Royalty and sales commission payments	495
Nikko Entertainment Hong Kong Ltd.	Sales of goods	3,835
Nikko America Inc.	Sales of goods	1,052
Nikko Scandinavia AS	Sales of goods	260
Nikko Tec Int. Ltd.	Sales of goods	83
Rising Sun Toys Sdn. Bhd.	Sales of goods	2
Nics Engineering Ltd.	Purchase of raw materials	4

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS

B1. Review of Performance

The Company recorded a turnover of RM9.4 million and a loss before taxation of RM55.7 million for the first quarter ended 30 June 2008 compared with a turnover of RM14.7 million and a loss before taxation of RM5.8 million in the preceding financial year's corresponding quarter.

The decrease in turnover during the quarter under review compared to the previous financial year's corresponding quarter was due to sales volume being impacted by severe reduction in demand for toys worldwide. The Company had also been affected by intense competition in addition to the unsuccessful launch of its new products which did not make a positive contribution.

The net loss for the period was mainly attributed to an impairment loss on the carrying values of its property, plant and equipment, and also certain current assets. The properties in Prai and Parit Buntar were written-down to forced sale values and other plant, equipment and inventories were written-down to its recoverable amount as determined by the Directors of the Company.

On 30 June 2008, the Company had announced that it would cease all manufacturing activities with immediate effect to prevent incurring further losses.

B2. Comment on Material Change in Profit Before Taxation of Current Quarter Compared with Preceding Quarter

The Company recorded a loss before taxation of RM55.7 million with a turnover of RM9.4 million in the first quarter ended 30 June 2008 compared to a loss before taxation of RM13.9 with a turnover of RM8.6 million in the preceding quarter ended 31 March 2008. The higher loss incurred in the current quarter under review was due to the provision for impairment on fixed and current assets of the Company.

B3. Commentary on Current Year Prospects

On 30 June 2008, the Company was classified as an Affected Listed Issuer pursuant to the paragraphs 2.1(f) and 2.1(g) of the Amended Practice Note No. 17/2005 ("PN17") and Paragraph 8.14C of the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"). Following the issuance of a disclaimer of opinion by the auditors on the financial statements of the Company for the financial year ended 31 March 2008, the Company was also classified an Affected Listed Issuer pursuant to paragraph 2.1(d) of PN 17 on 30 July 2008.

The Company also announced on 30 June 2008 to its employees that it would cease its manufacturing operations with immediate effect. Whilst the directors are currently in discussions with potential investors to restructure the Company, at this point in time, the directors are uncertain of the outcome or the form of the restructuring plan.

The Company is required to submit a Regularisation Plan within eight months from its first announcement on 30 June 2008 to Bursa Securities for approval, failing which, the shares of the Company will be suspended from trading and de-listed. As at the date of this report, the Company has yet to submit a Regularisation Plan to Bursa Securities.

B4. Profit Forecast or Profit Guarantee

This is not applicable as no profit forecast was published.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008**B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS**

B5. Income Tax Expense

	3 months ended (Quarter)		3 Months Ended (Cumulative)	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	RM'000	RM'000	RM'000	RM'000
Malaysian taxation:				
- Current taxation	-	-	-	-

There was no provision for taxation for the current quarter under review as the Company is in a tax loss position.

B6. Profits/(Losses) on Sale of Unquoted Investments and/or Properties

There was no sale of unquoted investments and/or properties during the current quarter ended 30 June 2008.

B7. Quoted Securities

There was no purchase or disposal of quoted and marketable securities during the current quarter ended 30 June 2008.

B8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this report.

B9. Borrowings and Debt Securities

The Company's borrowings and debt securities as at 30 June 2008 which are secured by negative pledge on the assets of the Company are as follows:

	(Unaudited) As at 30.06.2008 RM '000	(Audited) As at 31.03.2008 RM '000
a) <u>Bank overdraft</u> Denominated in RM	6,597	6,668
b) <u>Short term borrowings</u> Denominated in RM	17,473	13,796
Total borrowings	24,070	20,464

B10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at the date of this report.

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NOTES TO THE QUARTERLY REPORT – 30 JUNE 2008**B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS**

B11. Material Litigations

There are no other material litigations other than that disclosed under Note A11: Events Subsequent to the End of Interim Reporting Period of this report.

B12. Proposed Dividend

No dividend was recommended by the Board for the current quarter ended 30 June 2008.

B13. Earnings Per Share (“EPS”)

(a) Basic earnings / (loss) per share

	3 months ended (Quarter)		3 Months Ended (Cumulative)	
	30.06.2008 RM'000	30.06.2007 RM'000	30.06.2008 RM'000	30.06.2007 RM'000
Net loss attributable to equity holders of the parent (RM '000)	(55,724)	(5,783)	(55,724)	(5,783)
Weighted average number of ordinary shares in issue ('000)	99,201	99,201	99,201	99,201
Basic loss per share (sen)	(56.17)	(5.83)	(56.17)	(5.83)

(b) Diluted earnings per share

The diluted earnings per share in the current quarter under review is not disclosed as the unissued ordinary shares granted to executive employees pursuant to the Company's ESOS have no dilutive effect as the exercise price was above the average market value of the Company's shares.

BY ORDER OF THE BOARD

Lim Li Shiang
Company Secretary

Kuala Lumpur
Dated: 29 August 2008