

NIKKO ELECTRONICS BHD.

(Company No.: 174076-U)

Incorporated in Malaysia

**CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2008**

	(Unaudited) As at 30.09.2008 RM'000	(Audited) As at 31.03.2008 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	29,154	55,479
Prepaid land lease payments	5,489	7,002
	<u>34,643</u>	<u>62,481</u>
Current assets		
Inventories	4,632	35,184
Trade and other receivables	1,434	16,871
Short term investment	84	505
Cash and bank balances	768	517
	<u>6,918</u>	<u>53,077</u>
TOTAL ASSETS	<u>41,561</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
Accumulated loss	(143,676)	(71,352)
Treasury shares, at cost	-	(106)
Total equity	<u>(26,962)</u>	<u>49,643</u>
Current liabilities		
Trade and other payables	43,126	45,190
Provision for product warranties	176	176
Bank borrowings	25,136	20,464
Dividend payable	85	85
	<u>68,523</u>	<u>65,915</u>
Total liabilities	<u>68,523</u>	<u>65,915</u>
TOTAL EQUITY AND LIABILITIES	<u>41,561</u>	<u>115,558</u>
Net assets per share attributable to equity holders of the parent (sen)	<u>(0.27)</u>	<u>0.50</u>

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

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**CONDENSED INCOME STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2008**

	(Unaudited)		(Unaudited)	
	3 months ended (Quarter)		6 months ended (Cumulative)	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	RM'000	RM'000	RM'000	RM'000
Sales	1,236	38,361	10,628	53,060
Expenses excluding finance cost and tax	(17,537)	(44,270)	(82,561)	(65,045)
Other operating income	131	483	287	924
Loss from operations	(16,170)	(5,426)	(71,646)	(11,061)
Finance costs	(430)	(294)	(678)	(442)
Loss before taxation	(16,600)	(5,720)	(72,324)	(11,503)
Taxation	-	-	-	-
Net loss for the period	(16,600)	(5,720)	(72,324)	(11,503)
Loss per share attributable to equity holders of the parent:				
- Basic (sen)	(16.73)	(5.77)	(16.73)	(11.60)
- Diluted (sen)	NA	NA	NA	NA

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

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

			<u>Non-Distributable</u>			<u>Distributable</u>	
	Share	Treasury	Share	and Other	ESOS	Accumulated	Total Equity
	Capital	Shares	Premium	Reserves	Reserve	Loss	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance at 1 April 2007	99,269	(106)	17,445	4,225	162	(31,013)	89,982
Net loss for the period						(11,503)	(11,503)
Balance at 30 September 2007	<u>99,269</u>	<u>(106)</u>	<u>17,445</u>	<u>4,225</u>	<u>162</u>	<u>(42,516)</u>	<u>78,479</u>
Balance at 1 April 2008	99,269	(106)	17,445	4,225	162	(71,352)	49,643
Net loss for the period		106		(4,225)	(162)	(72,324)	(76,605)
Balance at 30 September 2008	<u>99,269</u>	<u>-</u>	<u>17,445</u>	<u>-</u>	<u>-</u>	<u>(143,676)</u>	<u>(26,962)</u>

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

NIKKO ELECTRONICS BHD.

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**CONDENSED CASH FLOW STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2008**

	6 Months Ended	
	30.09.2008	30.09.2007
	RM'000	RM'000
Cash Flows From Operating Activities		
Net loss after taxation	(72,324)	(11,503)
Adjustments for :-		
Depreciation of property, plant and equipment	2,515	4,512
Impairment of assets	54,219	-
Provision for termination benefits	8,293	-
Provision for doubtful debts	1,171	-
Interest expense	678	422
Treasury share written off	106	
ESOS reserve written off	(162)	
Amortisation of prepaid land lease payments	73	(41)
Interest income	(11)	(93)
Operating loss before working capital changes	(5,442)	(6,703)
Changes in working capital:		
Inventories	(2,503)	(14,598)
Receivables	14,267	(11,988)
Payables	(10,357)	18,232
Cash used in operations	(4,035)	(15,057)
Interest paid	(678)	(422)
Net cash used in operating activities	(4,713)	(15,479)
Cash Flows From Investing Activities		
Interest received	11	41
Purchase of property, plant and equipment	(140)	(3,293)
Proceeds from disposal of property, plant and equipment	-	517
Increase in short term investments	421	-
Net cash generated from/(used in) investing activities	292	(2,735)
Cash Flow From Financing Activities		
Increase/(Decrease) in bank borrowings	(648)	15,039
Net cash generated from/(used in) financing activities	(648)	15,039
NET DECREASE CASH AND CASH EQUIVALENTS	(5,069)	(3,175)
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF PERIOD	(6,151)	(841)
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD	(11,220)	(4,016)
Cash and cash equivalents comprise:-	RM'000	RM'000
Deposits, cash and bank balances	768	4,739
Bank overdraft	(11,988)	(8,755)
	(11,220)	(4,016)

(The Condensed Cash Flow Statement should be read in conjunction with the audited financial statements for the financial 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 SEPTEMBER 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”) on the basis that the Company is a non-going concern.

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 seasonal nature of the sales for radio-controlled toys was no longer relevant as the Company had ceased operations with effect from 30 June 2008.

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.

NIKKO ELECTRONICS BHD.

(Company No.: 174076-U)

Incorporated in Malaysia

NOTES TO THE QUARTERLY REPORT – 30 SEPTEMBER 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 September 2008.

A8. Dividend Paid

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

A9. Segmental Information

Segmental information is not applicable as the Company had ceased operations with effect from 30 June 2008.

A10. Valuation of Property, Plant and Equipment

The valuations of property, plant and equipment have been brought forward, without amendment, from the quarter ended 30 June 2008.

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

On 20 October 2008, the Provisional Liquidator of the Company announced to Bursa Securities that on 16 October 2008, it received a statutory notice of demand pursuant to Section 218 of the Companies Act, 1965 from CIMB Bank Berhad demanding the payment of RM6,001,417.18 being the balance outstanding as at 12 October 2008. The Company was given 21 days from the receipt of notice to settle the said outstanding amount, failing which, winding up proceedings will be taken against the Company. The Company is seeking the necessary legal advice to resolve and/or defend this matter.

On 28 October 2008, the Provisional Liquidator of the Company announced to Bursa Securities that on 28 October 2008, it received a statutory notice of demand pursuant to Section 218 of the Companies Act, 1965 from Avery Technologies (S) Pte Ltd demanding the payment of USD21,158.60 being amount due to them as at 1 August 2008. Avery Technologies (S) Pte Ltd is also claiming interest at the rate of 1.0% per month to be compounded monthly from 2 August 2008 until the date of full settlement. The Company was given 21 days from the receipt of notice to settle the said outstanding amount, failing which, winding up proceedings will be taken against the Company. The Company is seeking the necessary legal advice to resolve and/or defend 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.

NIKKO ELECTRONICS BHD.

(Company No.: 174076-U)

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NOTES TO THE QUARTERLY REPORT – 30 SEPTEMBER 2008

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

A12. Changes in Composition of the Group

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

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	6 Months
		(Quarter) 30.09.2008 RM '000	(Cumulative) 30.09.2008 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	616	4,451
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
Nikko Entertainment BV	Sales of goods	186	186
Nics Engineering Ltd.	Purchase of raw materials	-	4

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(Company No.: 174076-U)

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NOTES TO THE QUARTERLY REPORT – 30 SEPTEMBER 2008

B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES LISTING REQUIREMENTS

B1. Review of Performance

The Company recorded a turnover of RM1.2 million and a loss before taxation of RM16.6 million for the second quarter ended 30 September 2008 compared with a turnover of RM38.4 million and a loss before taxation of RM5.7 million in the preceding financial year's corresponding quarter.

The Company had ceased all manufacturing activities with immediate effect since 30 June 2008. The turnover recorded for the quarter under review was derived from sales of old stocks. Loss for the quarter under review was mainly due to provision for termination benefits, further write down of inventories and provision for doubtful debts.

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

The Company recorded a loss before taxation of RM16.6 million with a turnover of RM1.2 million for the second quarter ended 30 September 2008 compared to a loss before taxation of RM55.7 million with a turnover of RM9.4 million in the preceding quarter ended 30 June 2008. The loss before taxation for the current quarter was mainly due to the reasons mentioned in note B1 above. Turnover was also much reduced in the quarter under review as the Company had ceased all manufacturing activities since 30 June 2008 and was only clearing off old stocks. The reduced loss in the current quarter under review compared to the preceding quarter was also due to impairment loss on property, plant and equipment incurred in the preceding quarter.

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.

On 11 September 2008, Dato' Robert Teo Keng Tuan of RSM NWT Advisory Services Sdn Bhd, Ground Floor, Wisma RKT, No. 4 Jalan Raja Abdullah, Off Jalan Sultan Ismail, 50300 Kuala Lumpur, was appointed Provisional Liquidator of the Company by Order of the High Court of Malaya at Penang. The appointment followed the failure of the Company to settle outstanding debts to Ishikawa Spring (Malaysia) Sdn Bhd after receipt of a notice of demand pursuant to Section 218 of the Companies Act, 1965 demanding the payment of RM201,194.67 being monies due and owing to them for the supply of goods.

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(Company No.: 174076-U)

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

B4. Profit Forecast or Profit Guarantee

This is not applicable as no profit forecast was published.

B5. Income Tax Expense

	3 months ended (Quarter)		6 Months Ended (Cumulative)	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	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 September 2008.

B7. Quoted Securities

There was no purchase or disposal of quoted and marketable securities during the current quarter ended 30 September 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 September 2008 which are secured by negative pledge on the assets of the Company are as follows:

	(Unaudited) As at 30.09.2008 RM '000	(Audited) As at 31.03.2008 RM '000
a) <u>Bank overdraft</u> Denominated in RM	11,988	6,668
b) <u>Short term borrowings</u> Denominated in RM	13,148	13,796
Total borrowings	25,136	20,464

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

B10. Off Balance Sheet Financial Instruments

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

B11. Material Litigations

There are no other material litigations other than those already announced to Bursa Securities and those 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 September 2008.

B13. Earnings Per Share (“EPS”)

(a) Basic earnings / (loss) per share

	3 months ended (Quarter)		6 Months Ended (Cumulative)	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	RM'000	RM'000	RM'000	RM'000
Net loss attributable to equity holders of the parent (RM '000)	(16,600)	(5,720)	(72,324)	(11,503)
Weighted average number of ordinary shares in issue ('000)	99,201	99,201	99,201	99,201
Basic loss per share (sen)	(16.73)	(5.77)	(72.91)	(11.60)

(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: 28 November 2008