DXN HOLDINGS BHD.
(Company No. 363120-V)
(Incorporated in Malaysia)
Notes to the Interim Financial Report
Period Ended 31 May 2006

1. Basis of preparation

The interim financial report is unaudited and has been prepared in compliance with FRS 134, Interim Financial Reporting and the additional disclosure requirements as in Part A of Appendix 9B of the Revised Listing Requirements.

The interim financial report should be read in conjunction with the most recent audited financial statements of DXN Holdings Bhd for the year ended 28 February 2006.

2. Changes in accounting policies

The accounting policies and methods of computation adopted by DXN Holdings Bhd., its subsidiaries and associated company ("the Group") in this interim financial report are consistent with those adopted in the financial statements for the year ended 28 February 2006 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 March 2006:

FRS 3 Business Combinations
FRS 101 Presentation of Financial Statements
FRS 102 Inventories
FRS 108 Accounting Policies, Changes in Estimates and Errors
FRS 110 Events After the Balance Sheet Date
FRS 116 Property, Plant and Equipment
FRS 121 The Effects of Changes in Foreign Exchange Rates
FRS 127 Consolidated and Separate Financial Statements
FRS 128 Investments in Associates
FRS 132 Financial Instruments: Disclosure and Presentation
FRS 133 Earnings Per Share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets
FRS 140 Investment Property

New/Revised FRSs which would be adopted from the financial period beginning 1 March 2007 are:

FRS 117 Leases
FRS 124 Related Party Disclosures

The adoption of FRS 102, 108, 110, 116, 121, 127, 128, 132 and 133 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

(a) FRS 3: Business Combination and FRS136: Impairment of Assets

Effective from 1 March 2006, in accordance with FRS 3 and FRS 136, the Group no longer amortizes goodwill on consolidation. Instead, such goodwill is tested annually for impairment, including the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated to exceeds its recoverable amount. Any impairment loss that arises is recognized in profit or loss and subsequent reversal is not allowed.

2. Changes in accounting policies (Cont'd)

(a) FRS 3: Business Combination and FRS136: Impairment of Assets (Cont'd)

Prior to 1 March 2006, goodwill was amortized from the date of initial recognition over its estimated useful life of ten (10) years. The new policy in respect of goodwill has been applied prospectively in accordance with the transitional arrangement under FRS 3. As a result, comparative amounts have not been restated. The cumulative amount of amortization as of 1 March 2006 is offset against the cost of goodwill on consolidation to arrive at the carrying value of RM1,804,849 and no amortization charge has been recognized in the income statement for current quarter ended 31 May 2006. This has increased the Group's profit before tax for the current quarter ended 31 May 2006 by RM50,000.

Effective from 1 March 2006 and in accordance with FRS 3, where the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. previously known as negative goodwill), the excess is recognized immediately in the income statement as it arises. Prior to 1 March 2006, negative goodwill of the Group was carried on the consolidated balance sheet without amortization. In accordance with the transitional provisions of FRS 3, negative goodwill of RM10,873,000 was derecognized with a corresponding increase in retained earnings.

(b) FRS 101: Presentation of financial statements

The adoption of the revised FRS 101 has affected the presentation of the share of results of associates. Share of results in associates is now disclosed net off tax and minority interests in the consolidated income statement.

(c) FRS 138: Intangible Assets

The Group has applied FRS 138 which requires computer software to be classified as a separate class of intangible asset. Accordingly, from 1 March 2006, computer software is stated at cost less accumulated amortization and impairment losses. Although the application of FRS 138 is prospective, the Group has reclassified the comparative amount for computer software in the prior year for better presentation.

(d) FRS 140: Investment Property

The adoption of this new FRS has resulted in a reclassification of property held for rental or long term appreciation in value as investment properties. The Group adopted the cost model to measure all its investment properties. Under the cost model, investment property is measured at cost less accumulated depreciation and impairment losses.

Investment properties previously classified under property, plant and equipment are now presented as a separate line item on the face of the consolidated balance sheet within non-current assets.

The effect to the Group comparative figures on adoption of the above FRSs is as follows:

	Previously Stated RM'000	FRS 3 (Note 2(a)) RM'000	FRS 138 (Note 2(b)) RM'000	FRS 140 (Note 2(c)) RM'000	Restated RM'000
<u>At 28 February 2006</u>					
Property, plant and equipment	62,516		(715)	(2,306)	59,495
Computer software			715		715
Investment property				2,306	2,306

3. Auditors' qualification

There were no qualification on the audit report of the preceding annual financial statements of DXN Holdings Bhd.

4. Seasonality or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors.

5. Exceptional and extraordinary items

There were no exceptional and extraordinary items for the period under review.

6. Change in estimates

There were no material changes in the estimates used for the preparation of this interim financial report.

7. Change in debt and equity securities

i) Issuance of Shares
There were no issuance of any new ordinary shares for the current financial year to date.

ii) Share Buy Back
For current quarter ended 31 May 2006, the Company repurchased 166,800 shares from the open market for a total cash consideration of RM106,150.

As a result, 166,800 shares with the total cash consideration of RM106,150 have been repurchased to-date for the financial year ending 28 February 2007 and it was financed by internally generated funds.

The shares repurchased are being held as treasury shares in accordance with Section 67A subsection 3C of the Companies Act, 1965. None of the treasury shares held were resold or cancelled during the quarter.

8. Dividends paid

The interim dividend of 5% less 28% tax per share amounting to RM2.142 million in respect of the financial year ended 28 February 2006 was paid on 21 March 2006.

9. Segment revenue and results

The group is principally involved in cultivation, manufacturing of the health food supplements and marketing the product through the Multi Level Marketing. Business segmental information has not been prepared as the Group's revenue and operating profit are mainly confined to one business segment only.

10. Valuation of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The valuations of land and building have been brought forward without amendment from the previous audited financial statements**.**

11. Material post balance sheet events

There were no material post balance sheet events subsequent to the end of the current interim period.

12. Changes in Group's composition

There were no changes in the composition of the Group for the current financial period other than below: -

i) DXN Holdings Bhd. had on 9 May 2006 incorporated a 97.6% owned subsidiary in Dominican Republic, Daxen Inc. Dominicana S.A through its wholly owned sub-subsidiary, Daxen Inc. The authorized and paid up share capital of Daxen Inc. Dominicana S.A. are RD500,000 respectively; and

ii) DXN Holdings Bhd. had on 19 July 2006 through its wholly-owned subsidiary, DXN Oleochemicals Sdn. Bhd. ("DOSB")(formerly known as Future Nutri Sdn. Bhd.), entered into a deed of termination with Green Diesel Corporation ("GDC") and DXN Biofuels Sdn. Bhd. ("DBSB")(formerly known as Ewin Resources Sdn. Bhd.). Pursuant to the deed of termination, the parties have agreed to terminate, revoke and rescind the earlier shareholders' agreement, and the subscription and founders' agreement dated 26 January 2006 (collectively the "SSFA") and to release and discharge each other from the rights, liabilities and obligations contained in the SSFA. Pursuant thereto, GDC shall, among others, transfer the 1 ordinary share of RM1 each in DBSB to DOSB for a cash consideration of RM1. Upon the completion of share transfer, DBSB will become a wholly-owned subsidiary of DOSB.

13. Changes in contingent liabilities and assets

i) DXN Herbal Manufacturing (India) Pvt. Ltd. ("DXN Herbal"), a wholly-owned sub-subsidiary of DXN Holdings Bhd. in India, had on 10 February 2006 received 2 notices of demand in respect of year assessment 2003-04 and 2004-05, for a total amount of Rs.52,885,711 (approximately equivalent to RM4,193,950) from the Commissioner of Income Tax, Pondicherry, in relation to the dispute of the Company tax status. Save as disclosed above, there are no notice of demand has been received for other assessment years as at to-date.

The Company has appealed the matter to the Commissioner of Income Tax, Pondicherry, but has yet to receive any response as at the date of this announcement. The Directors are of the opinion that no provision is necessary as the outcome of the appeal is still uncertain at this juncture.

ii) DXN Herbal is also in a dispute with the custom authorities in India regarding the payment of custom and excise duty for certain products imported. While DXN Herbal continued to pay the differential custom and excise duty under protest, a civil appeal has been filed by the company before the Honourable Supreme Court.

Based on the opinion received from the company's legal counsel, the Directors are of the opinion that the subsidiary will be successful in their appeal to recover the custom and excise duty paid under protest which is currently recorded as a receivable. No provision is deemed necessary by the Directors as the customers of DXN Herbal have agreed in principal to bear the amount in the event that the appeal do not turn out to be favourable.

Other than the status of the contingent liabilities as disclosed above, there were no other contingent liabilities and assets applicable to the Group.

14. Review of performance of the Company and its principal subsidiaries for the current quarter and year-to-date

The Group recorded RM49.6 million revenue for current quarter ended 31 May 2006, representing a marginally increase of 1.22% as compared to RM49.0 million in the corresponding quarter ended 31 May 2005. The slightly increase in revenue is mainly due to the higher sales recorded by Malaysian subsidiaries in the current quarter.

The Group recorded a lower profit before tax ("PBT") of RM6.7 million for the current quarter ended 31 May 2006 as compared to the corresponding quarter ended 31 May 2005 of RM8.9 million. The Group's PBT margin decreased from 18.2% in the corresponding quarter ended 31 May 2005 to 13.5% in current quarter ended 31 May 2006. This was mainly due to increase in finance cost, higher exchange loss and increase in administrative and operating cost.

15. Variation of results against preceding quarter

The Group reported a higher revenue of RM49.6 million in the current quarter ended 31 May 2006 as compared to RM43.2 million in the preceding quarter ended 28 February 2006. The Group's PBT for the quarter under review was RM6.7 million as compared to preceding quarter of RM 5.7 million. The Group's PBT margin slightly increase from 13.2% in preceding quarter ended 28 February 2006 to 13.5% in current quarter ended 31 May 2006.

16. Current year prospects

Barring any unforeseen circumstances, the Directors anticipate that the performance of the Group for the financial year ending 28 February 2007 to remain satisfactory.

17. Variance of profit forecast

Not applicable for this reporting.

18. Tax expense

	Current year quarter ended 31 May 2006 RM'000	Current year-to-date 31 May 2006 RM'000
Current tax expense		
- Based on results for the period	2,008	2,008
Deferred tax expense	68	68
	2,076	2,076

The Group's effective tax rate for the current quarter under review is higher than the effective tax rate applied in prior year. This is mainly due to the expiry of the pioneer status in respect of RG & GL granted to a Malaysian subsidiary.

19. Profit/(Loss) on sale of unquoted investments and/or properties for current quarter and financial year-to-date

There were no sale of unquoted investments and properties for the current quarter under review except for:

	Current Year quarter ended 31 May 2006 (RM'000)	Current year-to-date 31 May 2006 (RM'000)
Disposal of unquoted securities	(718)	(718)
Gain on disposal	22	22

20. Purchase or disposal of quoted securities

There were no purchase or disposal of quoted securities for the current quarter under review.

Investments in quoted securities as at 31 May 2006

	Cost RM'000	Book Value RM'000	Market Value RM'000
Total quoted investment	206	73	80

21. Status of corporate proposals

There are no corporate proposals announced but not completed as at the date of this announcement except for:

i) The Company had on 12 July 2006 entered into a joint venture agreement ("JV agreement") with Yayasan Islam Negeri Kedah ("YIKED"), a statutory corporation incorporated pursuant to the Kedah Islamic Foundation Enactment 1976, to undertake the proposed mixed development project located in Mukim Pengkalan Kundur, Daerah Kota Setar, Kedah Darul Aman, on seventeen (17) pieces of land, containing an aggregate area of approximately 20.2367 hectares ("Project"). Pursuant to the JV agreement, DXN shall pay for the acquisition cost of the Land payable by the State Authority to the Landowners estimated to be RM13,635,000 in cash ("the acquisition cost") and deposit an additional deposit sum of 25% of the acquisition cost ("the additional deposit") with the relevant authorities in the event the acquisition cost is higher than the estimated acquisition cost and the relevant fee payable to the Director of Land and Mines (Pengarah Tanah Dan Galian) of the state of Kedah Darul Aman ("PTG"). DXN will form a new wholly-owned subsidiary under the name of YIKED-DXN STARGATE SDN BHD ("YDSG") or such other name as may be approved by the Registrar of Companies for the purpose of carrying the joint venture project. Announcement on the above agreement was made by the Company on 12 July 2006.

22. Group borrowings and debts securities

	31 May 2006 RM'000
Current	
Secured	
- Ringgit Malaysia	5,685
- Foreign Currencies	2,240
	7,925
Non-current	
Secured	
- Ringgit Malaysia	58,735
- Foreign Currencies	-
	58,735

23. Off balance sheet financial instruments

During the financial period to date, the Group did not enter into any contracts involving off balance sheet financial instruments.

24. Changes in material litigation

The Group was not engaged in any material litigation for the current financial period

25. Proposed dividend

Subject to shareholders' approval, the directors proposed a final dividend of 5% less 28% tax in respect of the year ended 28 February 2006. (Previous year ended 28 February 2005 : 5% less 28% tax)

26. Earnings per share

The calculation of earnings per share for the current quarter and corresponding quarter preceding year are based on the net profit attributable to ordinary shareholders of RM4,640,000 and RM7,280,000 respectively.

Basic earnings per share
Weighted average number of ordinary shares

	Current year quarter ended 31 May 2006 '000	Preceding year quarter ended 31 May 2005 '000
Issued ordinary shares at beginning of the period	237,981	240,754
Effect of shares issued during the period	-	9
Effect of shares buy-back during the period	(152)	-
Weighted average number of ordinary shares	237,829	240,763

Diluted earnings per share
Weighted average number of ordinary shares

	Current year quarter ended 31 May 2006 '000	Preceding year quarter ended 31 May 2005 '000
Weighted average number of ordinary shares	237,829	240,763
Effect of ESOS	-	-
Weighted average number of ordinary shares	237,829	240,763

As all the ESOS option holders has surrendered their exercise rights to the Company, therefore the calculation of diluted earnings per share is not applicable to the Group for the current quarter ended 31 May 2006.

27. Capital commitments

	31 May 2006 RM'000
Contracted but not provided for	42,387
Approved but not contracted for	-

28. Related party transactions

There were no non-recurring related party transactions during the period under review.

BY ORDER OF THE BOARD
Lam Voon Kean
Company Secretary
Dated this 20 July 2006