

**DXN HOLDINGS BHD.**  
**(Company No. 363120-V)**  
**(Incorporated in Malaysia)**  
**Notes to the Interim Financial Report**  
**Period Ended 30 November 2010**

**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 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 2010.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with the most recent annual audited financial statements for the year ended 28 February 2010 except for the adoption of the following new and revised FRSs, IC Interpretations and Amendments :-

**FRSs, Amendments to FRSs and IC Interpretations**

FRS 4	Insurance Contract
FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards
Amendments to FRS 2	Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 7	Financial Instruments: Disclosures
Amendments to FRS 101	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to FRS 127	Consolidated and Separate Financial Statements: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 128	Investments in Associates
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 134	Interim Financial Reporting
Amendments to FRS 136	Impairment of Assets
Amendments to FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Improvements to FRSs (2009)	

## 1. Basis of preparation (Cont'd)

Other than for the application of FRS 8, FRS 101, Amendments to FRS 117 and FRS 139, the application of the above FRSS, Amendments to FRSS and IC Interpretations did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

### (a) FRS 8, Operating Segments

FRS 8 requires segment information to be presented on the same basis as that used for internal reporting purposes. As a result, the Group's segmental reporting has been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. The adoption of this standard does not have any impact on the financial position and results of the Group.

### (b) FRS 101, Presentation of Financial Statements (revised)

FRS 101 separates owner and non-owner changes in equity. Therefore, the current consolidation statement of changes in equity only includes details of transactions with owners. All non-owner changes in equity are presented as a single line labeled as total comprehensive income. Comparative information, with exception of the requirements under FRS139, had been re-presented so that it is also in conformity with the revised standard. The adoption of this standard does not have any impact on the financial position and results of the Group.

### (c) Amendments to FRS 117, Leases

Prior to the adoption of the Amendment to FRS 117, leasehold land were treated as operating leases and classified and presented as prepaid lease payments in the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incident to ownership lie. Accordingly, the Group has reassessed and determined the lands with initial lease term of 50 years or more are in substance finance leases, and reclassified it to property, plant and equipment. This change in classification has no effect to the profit or loss for the current period ended 30 November 2010 or the comparative prior period. The effect of the reclassification to the comparative of the prior year's statement of financial position is as follows:

At 28 February 2010	As previously Reported RM'000	Reclassified RM'000	As restated RM'000
Property, plant and equipment	71,142	13,699	84,841
Prepaid land lease payments	14,765	(13,699)	1,066

### (d) FRS 139, Financial Instruments: Recognition and Measurement

FRS 139 sets out new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments at the balance sheet reflects the designation of the financial instruments.

The adoption of FRS 139 has resulted in the following adjustments in which the foreign currency forward contracts entered into by the Group as at 1 March 2010 have been identified and re-measured at fair value. The difference between the re-measured amount and the contracted amount has been recognised as an adjustment to the retained earnings as detailed in the Statement of Changes in Equity.

## 1. Basis of preparation (Cont'd)

Consolidated statement of changes in equity	Retained Earnings
At 1 March 2010, as previously stated	RM ('000) 145,485
Effect of adopting FRS 139: - Recognition of derivatives previously not recognised, net of tax	89
At 1 March 2010, as restated	<u>145,574</u>

Prior to the adoption of FRS 139, forward foreign currency contracts were recognized in the financial statements on settlement date. With the adoption of FRS 139, forward foreign currency contracts are now categorized as fair value through profit and loss and measured at their fair values with the gain or loss recognized in the profit or loss.

## 2. Auditors' qualification

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

## 3. Seasonality or cyclical factors

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

## 4. Exceptional and extraordinary items

There were no exceptional and extraordinary items for the current financial year-to-date.

## 5. Change in estimates

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

## 6. 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) Treasury Shares

The Company has repurchased 84,000 shares from open market for total cash consideration of RM 112,446 during the current quarter ended 30 November 2010.

Accumulated total of 94,000 shares have been repurchased for a total cash consideration of RM 118,745 for the current financial year-to-date. The repurchased shares were financed by internally generated fund.

## 6. Change in debt and equity securities (Cont'd)

The shares repurchased are being held as treasury shares in accordance with Section 67A subsection 3C of the Companies Act, 1965. Other than the above, there were no cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter ended 30 November 2010.

## 7. Dividends paid

The 3<sup>rd</sup> interim dividend of 4% less 25% tax per share amounting to RM 1.704 million in respect of the financial year ended 28 February 2010 was paid on 19 March 2010.

The 4<sup>th</sup> interim dividend of 3% less 25% tax per share amounting to RM 1.278 million in respect of the financial year ended 28 February 2010 was paid on 30 June 2010.

The 1<sup>st</sup> interim dividend of 4% less 25% tax and 4% tax exempted dividend, totalling 8% gross dividend per share amounting to RM 3.976 million in respect of the financial year ended 28 February 2011 was paid on 30 September 2010.

The 2<sup>nd</sup> interim dividend of 5% less 25% tax and 6% tax exempted dividend, totalling 11% gross dividend per share amounting to RM 5.536 million in respect of the financial year ended 28 February 2011 was paid on 15 December 2010.

## 8. Segment revenue and results

The business segmental information has been prepared as follow:-

	Multi-level marketing RM'000	Property development RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
<b>Segment Revenue</b>					
Total External Revenue	194,494	19,188	1,156	-	214,838
Inter Segment Revenue	-	258	1,777	(2,035)	-
Total segment Revenue	194,494	19,446	2,933	(2,035)	214,838
<b>Operating profit/(loss)</b>	46,078	3,960	(483)	(5,862)	43,693

## 9. 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.

## 10. Material post balance sheet events

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

## 11. Changes in Group's composition

There were no changes in the composition of the Group during the current quarter and financial year-to-date other than as disclosed below:-

- i) DXN Holdings Bhd. ("DXN") had on 24 March 2010 through its wholly owned subsidiary, DXN International Holding Limited ("DIH") to acquire 22,060 ordinary shares and 2,440 ordinary shares of Thai Bath 100 each respectively, representing in total 12.25% equity interest in DXN International (Thailand) Company Ltd ("DXN Thailand") for a total cash consideration of Thai Baht 6,247,500 (equivalent to approximately RM640,591). Upon the completion of the above acquisition, DIH's equity interest increased from 36.75% to 49.00%. Thereafter, DIH regards DXN Thailand as its subsidiary by virtue of having board control and being the single largest shareholder in DXN Thailand; and
- ii) Daxen International (Nepal) Pvt. Ltd ("Nepal"), a wholly owned subsidiary of DXN had on 20 April 2010 received the official notification letter from Company Registrar Office of Nepal to inform that the strike off application has been completed and the registration of Nepal has been cancelled pursuant to section 136(1a) of the Companies Act 2006.
- iii) DXN had on 15 October 2010 incorporated a wholly owned sub-subsidiary in Russia, DAXEN RUS Limited Liability Company ("Daxen RUS"). The initial authorized and paid up share capital of DAXEN RUS are Russian Rubble ("RUB") 10,000 (equivalent to approximately RM1,006), in which 99% equity subscribed by DXN (Singapore) Pte Ltd and 1% equity subscribed by DXN.

## 12. Changes in contingent liabilities and assets

### Income Tax dispute

There were no change in the status of DXN Herbal Manufacturing (India) Pvt. Ltd. ("DXN Herbal") tax cases dispute for year assessments 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 as disclosed in the previous quarter except for:-

- i) DXN Herbal had on 16 November 2010 received a notice of demand in respect of year assessments 2008-09, for a total amount of Indian Rupee ("RS") 7,616,698 (equivalent to approximately RM 521,513) from the Commissioner of Income Tax ("COIT") Pondicherry, in relation to the dispute of DXN Herbal's tax status. In respond to the notice of demand, DXN Herbal had made total payments in protest for RS 1,945,000 (equivalent to approximately RM 133,174) to COIT up until 17 January 2011 and the remaining amount of RS 5,671,698 (equivalent to approximately RM 388,339) to be paid subsequently in 3 monthly instalments. DXN Herbal is appealing the case in COIT and pending for the hearing date to be fixed.

Save as disclosed, no notice of demand has been received for other assessment years as at to-date.

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

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

The Group recorded a revenue of RM64.6 million for the current quarter ended 30 November 2010 which was higher than the corresponding quarter revenue of RM62.3 million. The increase in revenue was due to the Multi Level Marketing segment revenue continued to growth steadily by RM5.5 million, however the revenue contributed from property and others segment declined by RM3.2 million compared to the corresponding quarter. Accumulatively, the Group recorded RM 214.8 million revenue for the nine months financial period ended 30 November 2010.

The Group recorded a profit before tax (“PBT”) of RM 15.2 million for the current quarter ended 30 November 2010 as compared to the corresponding quarter of RM 12.1 million with PBT margin of 23.6% compared to 19.4%. The PBT for the current quarter has been accounted for the final provision of its investment in CapOne subordinated bond of RM0.5 million under the Collateralised Loan Obligation programme. The higher PBT margin was contributed from its Multi Level Marketing segment especially of the higher overseas sales of its health food supplements products.

### 14. Variation of results against preceding quarter

The Group reported a revenue of RM 64.6 million in the current quarter ended 30 November 2010 which was lower than the preceding quarter revenue of RM 82.5 million with PBT margin of 23.6% compared to 18.6%. The decreased in revenue was mainly due to the lower revenue generated from its property and others segment. The higher PBT margin was contributed from its Multi Level Marketing segment.

### 15. Current year prospects

The Board is committed to remain focus on its core multi-level marketing business activities and aiming to penetrate more overseas markets to enhance the Group performance. Barring any unforeseen circumstances, the Board anticipates the Group performance for the financial year ending on 28 February 2011 to be optimistic with potential of achieving a new record high.

### 16. Variance of profit forecast

Not applicable for this reporting.

### 17. Taxation

	Current Year Quarter Ended 30 November 2010 RM'000	Financial Year-to-date 30 November 2010 RM'000
Current tax	2,477	8,609
Deferred tax	562	(282)
	<u>3,039</u>	<u>8,327</u>

The Group’s effective tax rate of 20.0% and 19.3% for the current quarter and financial year-to date respectively are lower than the Malaysian statutory tax rate mainly due to one of its manufacturing subsidiaries has utilising the tax exemption granted from its pioneer status.

**18. 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 and financial year-to-date except as disclosed below:-

Disposal of properties	Current Year Quarter Ended 30 November 2010 RM'000	Financial Year-to-date 30 November 2010 RM'000
Gain on disposal	-	559

**19. Purchase or disposal of quoted securities**

i) There were no purchase or disposal of quoted securities for the current quarter and financial year-to-date.

ii) Investments in quoted securities as at 30 November 2010: -

	Cost RM'000	Book Value RM'000	Market Value RM'000
Total quoted investment	6	-	-

Full provision has been made on the diminution of the above quoted investment.

**20. Status of corporate proposals**

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

**21. Group borrowings and debts securities**

	30 November 2010 RM'000	30 November 2009 RM'000
Current		
Secured		
- Denominated in Ringgit Malaysia	1,988	18,600
- Denominated in US Dollar	11,391	2,249
- Denominated in SG Dollar	24	24
- Denominated in Philippine Peso	22	-
- Denominated in Thai Baht	32	-
Unsecured		
- Denominated in Ringgit Malaysia	-	50,000
	<u>13,457</u>	<u>70,873</u>
Non-current		
Secured		
- Denominated in Ringgit Malaysia	5,180	6,208
- Denominated in US Dollar	12,919	175
- Denominated in SG Dollar	60	85
- Denominated in Philippine Peso	31	-
- Denominated in Thai Baht	-	-
Unsecured		
- Denominated in Ringgit Malaysia	-	15,000
	<u>18,190</u>	<u>21,468</u>

## 22. Financial instruments

There were no financial instruments as at the balance sheet date except for as disclosed below:-

### Disclosure of derivatives

Type of Derivatives	Contract Value in Foreign Currency (USD'000)	Contract/Notional Sale Value (RM'000)	Fair Value (RM'000)
i) Sales Forward Foreign Exchange Contract			
- Less than 1 year	7,850	25,239	25,050
- 1 year to 3 years	-	-	-
- More than 3 years	-	-	-

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its liquidity and foreign currency risks. There were no significant changes to the Group's financial risk management policy nor accounting policy as disclosed in the most recent audited financial statements of the Group for the year ended 28 February 2010 except as disclosed in Note1- Adoption of New and Revised FRSs, IC Interpretations and Amendments of this report.

## 23. Changes in material litigation

The Group was not engaged in any material litigation as at the reporting date.

## 24. Proposed dividend

A 3<sup>rd</sup> interim dividend of 3% less 25% tax and 9% tax exempted dividend per ordinary share of RM0.25 each, totalling 12% gross dividend has been proposed and approved by the Board for the current quarter (Previous corresponding quarter ended 30 November 2009: 4% less 25% tax). The dividend will be paid at a date to be determined later.

## 25. 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 equity holders of the Company of RM 12,039,000 and RM 9,061,000 respectively.

### Basic earnings per share

#### Weighted average number of ordinary shares

	Current Year Quarter Ended 30 November 2010 RM'000	Preceding Year Quarter Ended 30 November 2009 RM'000
Issued ordinary shares at beginning of the period	227,217	229,836
Effect of shares issued during the period	-	-
Effect of shares buy-back during the period	(37)	(1,725)
Effect of disposal of treasury shares during the period	-	-
Weighted average number of ordinary shares	<u>227,180</u>	<u>228,111</u>



**26. Capital commitments**

30 November 2010  
RM'000

Contracted but not provided for

980

Approved but not contracted for

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**27. Related party transactions**

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

**BY ORDER OF THE BOARD**

**Lam Voon Kean**

Company Secretary

**Dated this 18 January 2011**