

OGAWA WORLD BERHAD (712499 - V)
(Incorporated in Malaysia)

A. EXPLANATORY NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARD 134 (FRS 134): INTERIM FINANCIAL REPORTING

A1. Basis of preparation

The unaudited interim financial report has been prepared in compliance with Financial Reporting Standard (FRS) 134, Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended June 30, 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended June 30, 2010.

The accounting policies and methods of computation adopted in this interim financial report are consistent with those adopted in the most recent annual financial statements except for the adoption of the following new Financial Reporting Standards (“FRSs”), amendments to FRSs and IC Interpretations applicable to the Group as follows:

FRSs, Amendments to FRSs and IC Interpretations

FRS 7	Financial Instruments: Disclosures ¹
FRS 101	Presentation of Financial Statements (Revised 2009) ¹
FRS 123	Borrowing Costs (Revised) ¹
FRS 139	Financial Instruments: Recognition and Measurement ¹
Amendments to FRS 2	Share-based Payment Vesting Conditions and Cancellations ¹
Amendments to FRS 7	Financial Instruments: Disclosures (Amendments relating to reclassification of financial assets and reclassification of financial assets – Effective date and transition) ¹
Amendments to FRS 8	Operating Segments ¹
Amendments to FRS 107	Statement of Cash Flows ¹
Amendments to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors ¹
Amendments to FRS 110	Events after the Reporting Period ¹
Amendments to FRS 116	Property, Plant and Equipment ¹
Amendments to FRS 117	Leases ¹
Amendments to FRS 118	Revenue ¹
Amendments to FRS 119	Employee Benefits ¹
Amendments to FRS 120	Accounting for Government Grants and Disclosure of Government Assistance ¹
Amendments to FRS 123	Borrowing Costs ¹
Amendments to FRS 127	Consolidated and Separate Financial Statements (Amendments relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate) ¹
Amendments to FRS 132	Financial Instruments: Presentation (Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation and transitional provision relating to compound instruments) ^{1,2}
Amendments to FRS 134	Interim Financial Reporting ¹
Amendments to FRS 136	Impairment of Assets ¹
Amendments to FRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to eligible hedged items, reclassification of financial assets, reclassification of financial assets – Effective date and transition and embedded derivatives) ¹
IC Interpretation 9	Reassessment of Embedded Derivatives ¹
IC Interpretation 10	Interim Financial Reporting and Impairment ¹
IC Interpretation 11	FRS 2 Group and Treasury Share Transactions ¹
IC Interpretation 13	Customer Loyalty Programmes ¹
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives ³

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Other than for the application of FRS 2, FRS 101, FRS120, FRS 139 and IC Interpretation 13, 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.

¹ Effective for annual periods beginning on or after January 1, 2010

² Effective for annual periods beginning on or after March 1, 2010

³ Effective for annual periods beginning on or after July 1, 2010

(i) **FRS 2: Share-based Payment**

This FRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company established an equity-settled, share based compensation plan for eligible directors and executives of the Group with effect from 1 September 2010. With the adoption of FRS 2, the compensation expense relating to share options is recognized within staff cost in income statement over the vesting periods of the grants with a corresponding increase in equity.

The total amount recognized as compensation expense is determined by reference to the fair value of the share options at the date of grants and the number of share options vested by the vesting dates. The fair value of the share options is computed using binomial model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting dates. Any revision of this estimate is included in income statement and a corresponding adjustment to equity over the remaining vesting periods.

(ii) **FRS 101 (Revised 2009): Presentation of Financial Statements**

The revised FRS 101 introduces the term “total comprehensive income” which is defined as changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners. The revised standard requires such changes in equity to be presented in either a single statement of comprehensive income or in two statements comprising a separate income statement and a statement of comprehensive income. The Group has elected to present in single statements format. Comparative information, with exception of the requirements under FRS 139, has been represented so that it is in conformity with the revised standard.

This Standard only affects the presentation and disclosures aspects and has no impact on the financial position and results of the Group.

(iii) **FRS 120: Accounting for Government Grants and Disclosure of Government Assistance**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(iv) **FRS 139: Financial Instruments, Recognition and Measurement**

A financial instrument is recognized in the financial statements when the Group becomes a party to the contractual provisions of the instrument. A financial instrument is recognized initially at its fair value. Subsequent measurements of those instruments reflect the designation of the financial instruments. The Group classifies its financial assets in the following categories:

- (a) Financial assets / liabilities at fair value through profit and loss.
- (b) Derivatives financial instruments through its foreign exchange forward contracts to hedge certain exposures.

The Group does not hold or issue derivative financial instruments for speculative purposes.

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Impact on opening balances

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 30 June 2010 are not restated. The changes in accounting policies above which resulted in adjustments to opening reserves of the Group are as follows:

	Previously stated RM'000	Effect of FRS 139 RM'000	As restated RM'000
Current Liabilities			
Derivative liabilities	-	5	5
Equity			
Reserves (Retained Earnings)	24,804	(5)	24,799

Derivatives

Prior to the adoption of FRS 139, derivative contracts were recognised in the financial statements on settlement dates. With the adoption of FRS 139, derivative contracts are now categorised as fair value through profit or loss and measured at their fair values with gain or loss recognised in profit or loss other than derivatives designated as hedging instruments which are accounted for in accordance with the hedge accounting policy.

(v) **IC Interpretation 13: Customer Loyalty Programmes**

IC Interpretation 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise, participate in, customer loyalty programme under which the customers are entitled to receive award credits.

In the past, the Company had accounted for the customer loyalty programmes by recognizing the full consideration from retail sales as revenue and recognizing the cost of award credits as expenses. However, IC Interpretation 13 requires such transactions to be accounted for as a separately identifiable component of the sales transaction(s) in which they are granted (the "initial sale"). The consideration received in the initial sale transactions should be allocated between the sale of retail goods and the cost of the award credits that are earned by the customers. The Group has discontinued the loyalty programmes at the end of last financial year and this IC Interpretation has no impact on the financial position and results of the Group.

A2. **Audit report of preceding annual financial statements**

There was no audit qualification on the financial statements of the Group for the year ended June 30, 2010.

A3. **Seasonal or cyclical factors**

The Group's business operations are influenced by seasonality and the cyclical effects of promotional sales and festive seasons.

A4. **Unusual items affecting assets, liabilities, equity, net income or cash flows**

Save for the information disclosed in this interim financial report, there are no other unusual items affecting assets, liabilities, equity, net income or cash flow.

A5. **Material changes in estimates**

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

A6. **Issuance or repayment of debts and equity securities**

There were no issuance, cancellation, repurchases, resale and repayment of debt and equity securities for the current quarter under review.

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A7. Dividend paid

A first and final single-tier dividend of 3 sen per ordinary share of 50 sen, amounting RM3.6 million in respect of financial year ended June 30, 2010 was paid to shareholders on January 5, 2011.

A8. Segmental reporting

Business Segments

The Group operates solely in the business segment involving the design, development, distributing and servicing of health care equipment and supplementary appliances.

Geographical Segments

The Group activities are located in Malaysia, Singapore, People's Republic of China, Australia and Hong Kong and Vietnam. In addition, a Malaysian incorporated wholly owned subsidiary company also exports its products to distributors in Indonesia, Myanmar and Saudi Arabia. The following is an analysis of the Group's revenue, assets, liabilities and capital expenditures by geographical markets, irrespective of the origin of the goods/services:

Year To Date ended March 31, 2011

	Malaysia	Other Countries	Elimination	Consolidated
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Revenue				
Sales to external customers	<u>70,911</u>	<u>49,137</u>	<u>-</u>	<u>120,048</u>
Other segment information				
Segment assets	<u>186,541</u>	<u>29,183</u>	<u>(126,690)</u>	<u>89,034</u>
Segment liabilities	<u>(62,785)</u>	<u>(15,153)</u>	<u>50,883</u>	<u>(27,055)</u>
Total Capital expenditure				
- Property, plant and equipment	<u>11,471</u>	<u>1,934</u>	<u>-</u>	<u>13,405</u>

Year To Date ended March 31, 2010

	Malaysia	Other Countries	Elimination	Consolidated
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Revenue				
Sales to external customers	<u>63,911</u>	<u>44,339</u>	<u>-</u>	<u>108,250</u>
Other segment information				
Segment assets	<u>165,710</u>	<u>23,628</u>	<u>(109,433)</u>	<u>79,905</u>
Segment liabilities	<u>(43,026)</u>	<u>(7,850)</u>	<u>29,272</u>	<u>(21,604)</u>
Total Capital expenditure				
- Property, plant and equipment	<u>10,446</u>	<u>1,708</u>	<u>-</u>	<u>12,154</u>

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A9. Valuation of property, plant and equipment

Property, plant and equipment of the Group are stated at cost less accumulated depreciation and impairment loss, if any.

There was no revaluation of the property, plant and equipment during the current quarter under review.

A10. Changes in the composition of the Group

There were no changes in the composition of the Group during the quarter under review except for the followings:

- (a) Acquisition of 100% equity interest in Health Solution Company Limited, a company incorporated in Vietnam for a total cash consideration of VND300,000,000 (which is equivalent to RM47,692) by Ogawa Vietnam Sdn Bhd, a wholly-owned subsidiary of Healthy World Lifestyle Sdn Bhd, which in turn is a wholly-owned subsidiary of OWB on 17 January 2011.
- (b) Disposal of Distribution Business by Ogawa Medicare Sdn Bhd [formerly known as Ogawa Health-Care (Selangor) Sdn Bhd], a wholly-owned subsidiary of the Company at a consideration of RM28,043 on 16 March 2011.

A11. Contingent Liabilities

The Directors are of the opinion that the Group has no contingent liabilities which upon crystallization would have material impact on the business and financial position of the Group except for performance guarantee on the tenancy agreements entered into between its wholly owned subsidiary companies and the shopping complexes as follows:

	As at March 31, 2011 RM'000	As at June 30, 2010 RM'000
Corporate guarantee	1,333	1,307

A12. Subsequent Events

There was no material event subsequent to the current quarter ended March 31, 2011 except for the followings:

- (a) Acquisition of 100% equity interest in O-HealthCare Solution Phil., Inc. ("OHCS"), a company incorporated in the Philippines for a total cash consideration of PHP70,000 (which is equivalent to RM4,984) by Healthy World Lifestyle Sdn Bhd, a wholly-owned subsidiary of OWB on 4 May 2011.

The paid-up share capital of OHCS is 2,500 shares with par value of PHP100 each partly paid up to PHP28 each.

The principal activity of OHCS is marketing and sales of health care equipment, devices, supplementary appliances, accessories and catalogs, health books, magazines and periodicals for the maintenance and improvement of overall health and fitness.

The above acquisition does not have any effect on the issued and paid-up share capital of OWB and has no material effect on the earnings and net assets of the Group for the financial year ending 30 June 2011.

- (b) Incorporation of a new wholly-owned subsidiary, OgawaWorld Philippines, Inc. ("OWP"), a company incorporated in the Philippines by Healthy World Lifestyle Sdn Bhd, a wholly-owned subsidiary company of OWB on 13 May 2011.

OWP has an issued and paid-up capital stock of PHP8,909,000.00 comprising 8,909 shares of PHP1,000.00 each which is equivalent to RM630,840.

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The principal activity of OWP is import, wholesale and distribute of all types of health care equipment, devices, supplementary appliances, accessories and catalogs, health books, magazines and periodicals for the maintenance and improvement of overall health and fitness.

The above incorporation does not have any effect on the issued and paid-up share capital of OWB and has no material effect on the earnings and net assets of the Group for the financial year ending 30 June 2011.

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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of performance

Current 3 months results against corresponding 3 months period of the last financial year

For the 3 months ended March 31, 2011, Group revenue increased by 9.95% to RM40.75 million from RM37.06 million in the corresponding period of the preceding financial year.

The Group registered a profit before tax of RM 24K for the 3 months ended March 31, 2011 as compared to a profit before tax of RM1.88 million for the corresponding period of the preceding financial year due mainly to higher operating costs at overseas operations.

Current 9 months results against corresponding 9 months period of the last financial year

For the 9 months ended March 31, 2011, Group revenue increased by 10.90% to RM120.05 million from RM108.25 million in the corresponding period of the preceding financial year.

The Group registered a profit before tax of RM2.50 million for the 9 months ended March 31, 2011 as compared to a profit before tax of RM3.19 million for the corresponding period of the preceding financial year due mainly to higher operating costs.

B2. Comparison with preceding quarter results

Revenue for the Group decreased marginally from RM41.06 million in the immediate preceding quarter to RM40.75 million in this quarter. The Group registered a profit before taxation of RM24K as compared to profit before tax of RM2.36 million in the immediate preceding quarter due to cyclical effect as well as higher operating costs at overseas operations.

B3. Commentary on Prospects

Due to the continuing uncertainties in the global economies, retail market conditions remain difficult. The Group will be cautious in managing these challenges as it focuses on executing its medium to long term growth strategies.

B4. Variance of Actual and Forecast Profit

Not applicable.

B5. Taxation

	<u>Quarter ended Mar 31,</u>		<u>Year To Date ended Mar 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax expense:				
Income tax	668	156	1,524	1,025
Deferred tax	-	-	-	-
	668	156	1,524	1,025
Under / (Over) provision				
Income tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-
Total	668	156	1,524	1,025

The tax expense for the current quarter is derived based on management's best estimate of the tax payable for the financial period.

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B6. **Sale of unquoted investments and/or properties**
There was no disposal of any unquoted securities and/or properties for the current quarter and financial period to date.

B7. **Purchase/Disposal of quoted securities**
There was no purchase or disposal of quoted securities in the current quarter and financial period to date.

B8. **Corporate proposal**
During this period, there was no corporate proposal announced and not completed as at the date of this announcement.

B9. **Group borrowings**
There were no other borrowings and debts securities in the Group as at March 31, 2011, except as disclosed below:-

	As at March 31, 2011 RM'000	As at June 30, 2010 RM'000
Hire-purchase (secured)		
Current portion	622	333
Non-current portion	625	344
TOTAL	1,247	677

B10. **Off balance sheet financial instruments**
There were no financial instruments with off balance sheet risk as at the date of this report.

B11. **Disclosure of Derivatives**
There were no financial instruments with material off balance sheet risk as at March 31, 2011. The management objectives and policies in respect of derivatives and its various risk management are consistent with those adopted during the last financial year ended 30 June 2010.

B12. **Material litigation**
The Group is not engaged in any material litigation and the Directors do not have any knowledge of any material proceeding threatened against the Group.

B13. **Dividends**
No dividend has been recommended or declared for the current quarter nor previous corresponding period under review.

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B14. Earnings per share

Basic earnings per share

Basic earnings per share for the current quarter and financial period to-date are calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue.

	Current quarter <u>31.03.2011</u>	Preceding year corresponding quarter <u>31.03.2010</u>	Financial period to-date <u>31.03.2011</u>	Preceding year corresponding period to-date <u>31.03.2010</u>
Net (loss)/profit for the financial year attributable to equity holders of the Company (RM'000)	(644)	1,719	979	2,167
Number of ordinary shares ('000)	120,000	120,000	120,000	120,000
Weighted average number of ordinary shares ('000)	120,000	120,000	120,000	120,000
Basic earnings per share (sen)	-0.54	1.43	0.82	1.81

Diluted earnings per share

As the exercise price of the ESOS exceeded the average market price of ordinary shares during the current financial quarter and financial period to-date, the options do not have dilutive effect on the weighted average number of ordinary shares.

B15. Realised and unrealised profits

The breakdown of unappropriated profits of the Group as at the reporting date, into realised and unrealised profits, is as follows:

	As at March 31, 2011 <u>RM'000</u>
Total unappropriated profits of the Company and its subsidiaries:	
- Realised	31,193
- Unrealised	5
	<u>31,198</u>
Consolidation adjustments	<u>(9,020)</u>
Total group unappropriated profits as per consolidated accounts	<u>22,178</u>