

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2010

PART A – EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARDS (“FRS”) 134

1. Basis Of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 - Interim Financial Reporting (formerly known as MASB 26) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2010. The 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 30 June 2010.

2. Accounting Policies

The accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements for the year ended 30 June 2010 except for adoption of the following new and revised FRSs, IC Interpretations and Amendments to FRSs and IC Interpretations which are applicable to its financial statements.

| | |
|-------------------------------|--|
| FRS 7 | Financial Instruments: Disclosures |
| FRS 8 | Operating Segments |
| FRS 101 | Presentation of Financial Statements (revised) |
| FRS 123 | Borrowing Costs (revised) |
| 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 127 | Consolidation and Separate Financial Statements: Costs of and Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| Amendments to FRS 132 | Financial Instruments: Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation - Separation of Compound Instruments |
| Amendments to FRS 139 | Financial Instruments: Recognition and Measurement - Reclassification of Financial Assets - Collective Assessment of Impairment for Banking Institutions |
| Improvements to FRSs (2009) | |
| 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 14, FRS 119 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction |

The adoption of the above FRSs, Admendments to FRSs and IC Interpretations does not have significant financial impact on the Group.

3. Status Of Audit Qualification

The audited financial statements for the year ended 30 June 2010 was not subject to any qualification.

4. Seasonal Or Cyclical Factors

The results of the Group are not subject to any seasonal or cyclical factors.

5. Nature And Amount Of Exceptional And Extraordinary Items

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows during the quarter ended 30 September 2010.

6. Changes In Estimates

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

7. Debt And Equity Securities

During the financial period, there were no issuances, cancellation, repurchases or resale of debt and equity securities.

8. Dividend

There was no dividend paid for the current quarter.

9. Segment Information

Segment analysis for the current financial year-to-date:-

| Period Ended 30 September 2009 | Investment Holding RM'000 | Manufacturing And Trading RM'000 | Group RM'000 |
|---------------------------------|---------------------------------|--|-----------------|
| REVENUE: | | | |
| - Export | - | 8,841 | 8,841 |
| - Local | - | 10,008 | 10,008 |
| TOTAL | - | 18,849 | 18,849 |
| RESULTS: | | | |
| (Loss)/Profit Before Income Tax | 6 | 831 | 837 |
| Income Tax Expense | - | (10) | (10) |
| Profit After Income Tax | | | <u>827</u> |

The Group's operations are mainly in the manufacture and trading of sweets and confectionery.

10. Revaluation of Property, Plant and Equipment

The valuations of land and buildings have been brought forward, without any amendments from the previous annual financial statements.

11. Material Subsequent Events

There have been no material events subsequent to the end of the quarter that have not been reflected in the financial statements.

12. Changes In The Composition Of The Group

There were no changes in the composition of the Group for the current quarter and financial year-to-date.

13. Changes In Contingent Liabilities / Assets

There is a contingent liability amounting to approximately RM34.6 million being corporate guarantees given to financial institutions for banking facilities granted to a subsidiary company.

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

14. Review Of Performance

Turnover of the Group increased to RM15.735 million for the current quarter which represents 19.8% increase over that of RM15.735 million achieved in the preceding year corresponding quarter. The current quarter result reported a profit before income tax of RM827,000 as compared to the result of the same period last year of profit before income tax of RM532,000, due to better operating strategies adopted by the Group bearing positive result.

15. Material Changes In The Quarterly Results Compared To The Results Of The Preceding Quarter

| | Current Year Quarter 30.09.2010 RM'000 | Immediate Preceding Quarter 30.06.2010 RM'000 | % +/- |
|--------------------------|---|--|------------------|
| Turnover | 18,849 | 19,917 | -5.36 |
| Profit before income tax | <u>837</u> | <u>489</u> | +71.17 |

The Group achieved a lower turnover of RM18.849 million in the first quarter ended 30 September 2010 representing a 5.4% decrease over that of the preceding quarter. Profit before income tax increased by 71.2% in the first quarter under review as compared to the preceding quarter. This performance is within the Group's expectation. The following quarter for the period ending 31 December, 2010 should improve further.

16. Prospects for the Current Financial Year

The year ending 30 June 2011 shall be another challenging year. The management shall continue its endeavour to ensure that the marketing strategies adopted will put the Group in a better stead for 2011.

17. Variance From Profit Forecast

The Group has not made any profit forecast or profit guarantee for the period under review.

18. Income tax expense

| | Current Year Quarter 30.09.2010 RM'000 | Current Year To Date 30.09.2010 RM'000 |
|-------------------------|---|---|
| Income tax liabilities: | | |
| Estimate for the period | 10 | 10 |
| | <u>10</u> | <u>10</u> |

19. Profit On Sale Of Unquoted Investments Or Properties

There were no sale of investment and/or properties for the current financial quarter under review.

20. Purchase Or Disposal Of Quoted Securities

There were no purchase or sale of quoted securities in the current quarter under review.

21. Corporate Proposals

There were no new corporate proposals that have been announced by the Company as at date of this report.

22. Group Borrowings And Debt Securities

| | 30.09.2010 The Group RM'000 |
|-------------------------------|--|
| Short term borrowings: | |
| Bank overdrafts | 5,816 |
| Bankers' acceptance | 17,613 |
| Hire-purchase creditors | 3,450 |
| | <u>26,879</u> |
| Long term borrowing | |
| Hire-purchase creditors | 7,764 |
| | <u>34,643</u> |

Bank overdrafts and credit facilities of a subsidiary companies are secured by corporate guarantees given by the Company.

23. Off Balance Sheet Financial Instruments

There were no material financial instruments with off balance sheet risk as at 23 November 2010.

24. Material Litigation

There was no pending material litigation against the Group as at 23 November 2010.

25. Proposed Dividend

No interim dividend is proposed for this quarter under review.

26. Earnings Per Share

The earnings per share is calculated by dividing the Group's profit after income for the financial period over the number of ordinary shares in issue during the financial period as follows:-

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|---------------|---|--|---|--------------------------------------|
| | CURRENT YEAR QUARTER 30/9/2010 | PRECEDING YEAR CORRESPONDING QUARTER 30/9/2009 | CURRENT YEAR TO DATE 30/9/2010 | PRECEDING YEAR TO DATE 30/9/2009 |
| Basic | Number of 60,000,000 ordinary shares | Number of 60,000,000 ordinary shares | Number of 60,000,000 ordinary shares | Number of 60,000,000 ordinary shares |
| Fully diluted | Ordinary shares in issue and issueable of 69,000,000 ordinary shares (inclusive of adjustment for assumed full exercise of remaining share options) | N/A | Ordinary shares in issue and issueable of 69,000,000 ordinary shares (inclusive of adjustment for assumed full exercise of remaining share options) | N/A |

Khee San Berhad (304376-A)
(Incorporated in Malaysia)



BY ORDER OF THE BOARD

Director

Dated :