

# **Nakamichi Corporation Berhad**

(Company No: 301384-H)

## **Explanatory Notes**

### **1. Basis of preparation**

The interim financial statements are unaudited and have been prepared in accordance with *MASB 26* Interim Financial Reporting and Chapter 9 part K of the Listing Requirements of Bursa Malaysia. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the annual financial statement for the year ended 31 December 2003 except for the adoption of the following MASB standards for the first time :-

MASB 25	Income Taxes
MASB 27	Borrowing Costs
MASB 28	Discontinuing Operations
MASB 29	Employee Benefits

The adoption of the above Standards have not given rise to any adjustments to the opening balances of retained profits of the prior year and the current period or changes in comparative.

### **2. Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the financial statements for the year ended 31 December 2003 was not qualified.

### **3. Comments about seasonal or cyclical factors**

The Group is primarily in the business of manufacture and sales of audio electronic products and there are the usual seasonal higher demands during the third quarter and lower demand in the first quarter of a calendar year.

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## **4. Unusual items due to their Nature, Size or Incidence**

The Group obtained full settlement of an amount due amounting to RM4,811,878 that was previously provided for. This provision has been written back to the profit & loss a/c under other income during the third quarter of 2004.

There were no other unusual items affecting the assets, liabilities, equity, net income, or cash flows during the period ended 31 December 2004, except for the stock provision as stated in note 14.

## **5. Changes in estimates**

There were no changes in estimates that have a material effect in the current quarter.

## **6. Issuance or repayment of debts and equity securities**

The Group did not implement any scheme that involved issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial year to date.

## **7. Dividend Paid**

No dividend has been recommended or declared for the period under review.

## **8. Segment Revenue and Segment Result**

The basis of business segment reporting is not applicable to the Group as it manufactures one product category sold through its sole distributor.

## **9. Valuation of Property, plant and equipment brought forward**

The valuation of property, plant and equipment have been brought forward, without amendment from the previous annual financial statements.

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### **10. Material subsequent events**

As reported in the previous quarterly announcement, the Company had on 24 February 2003 received a letter from Grande (Nominees) Limited (“GNL”) offering to settle the amount due from Nakamichi Corporation Japan (“NCJ”) by offering 97,568,000 shares of Sansui Electric Co. Ltd (“Sansui”) (“Sansui Shares”) as consideration for the amount owing. Sansui is a company listed on the Tokyo and Osaka Stock Exchange while NCJ is a trade debtor of Nakamichi Malaysia Sdn Bhd (“NMSB”).

On 5 September 2002, the Tokyo District Court formally approved the Civil Rehabilitation Programme (“CRP”) of NCJ. In accordance with the CRP, 10% of amounts due from NCJ would be converted into a 10-year long term debt while 4% will be compensated by new shares in NCJ valued at Yen 10 each. The remainder of the amounts due amounting to 86% is to be waived.

In view of the above, GNL, in its letter dated 24 February 2003, has agreed to compensate NMSB’s losses in respect of the 86% “hair-cut” as well as to acquire the new NCJ shares and the long-term debt from NMSB at NMSB’s stated book value, the consideration of which is to be satisfied by the issuance of Sansui Shares as stated above. The above compensation by GNL would represent a full settlement of the amount owed by NCJ of RM43,692,033 to NMSB as at the cut-off date of 4 March 2002.

GNL is a wholly-owned subsidiary of The Grande Holdings Limited (“GHL”), which is the substantial shareholder of both the Company and NCJ.

The Board of Directors had on 20 May 2003 appointed the following Advisers to advise on the above:-

- OSK Securities Berhad as Main Adviser
- PM Securities Sdn Bhd as Independent Adviser
- Messrs Cheang & Ariff as Legal Adviser

The transaction is subject to the approval of other regulatory authorities namely the Hong Kong Stock Exchange.

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On 31 May 2004, OSK Securities Berhad, on behalf of NCB, announced that GNL had via its letter dated 27 May 2004, informed NMSB that after due consideration with the relevant authorities in the Hong Kong Special Administrative Region, revised their original offer, in that the total number of shares to be offered to NMSB will now be based on the prevailing market price of the Sansui Shares over a five (5) day period that immediately precedes the date of issuance of the Sansui Shares.

The other terms set out in the offer letter dated 24 February 2003 remain unchanged. The compensation by GNL would represent a full settlement of the amount owed by NCJ of RM43,692,033 to NMSB as at the cut-off date of 4 March 2002.

The board of NCB has received all the foreign regulatory approvals for the transaction except for the approval of the local regulatory authorities. Shareholders and the Board will review the final opinion and advice from its advisers and will make the appropriate announcement upon conclusion of its position.

## **11. Changes in composition of the Company**

The Group did not undertake any exercise that resulted in changes of its composition for the current financial period ended 31 December 2004.

## **12. Contingent liabilities / assets**

There were no contingent liabilities/assets as at the date of this announcement.

## **13. Capital Commitments**

There were no amount of commitments for the purchase of property, plant and equipment not provided for in the current financial period ended 31 December 2004.

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## **Selected Explanatory Notes pursuant to Appendix 9B of the Listing Requirements**

### **14. Review of performance**

The Group's revenue for the current financial period ended 31 Dec 2004 was RM44.4 million as compared with RM109.9 million in the previous financial period (12 months to 31 Dec 2003). The Group reported a loss before taxation of RM14,036,160 as compared with a profit before taxation of RM97,338 in the previous financial period. The loss in the current financial period as compared with the profit in the previous financial period was mainly attributed to a provision for obsolescence stock of approximately RM13,489k as noted below and lower turnover as a result of less orders from its principal customer. The loss was partly offset by the write back of the provision for receivable of RM4,811,878 as mentioned in note 4 above.

During the third quarter of 2004, the Company has set up an additional allowance for stock obsolescence of approximately RM13,489k, by considering the customer orders at the present time and the estimation of material usage in accordance with the quantities ordered. In addition, the provision has been set up by considering the materials, for which the production has ceased, and whose products have reached their end of life. Also, the expiry of the life span of the materials is taken into consideration.

### **15. Comparison with preceding quarter's results**

The Group's revenue for the current reporting quarter was RM 12.4 million as compared with RM 9.4 million in the previous quarter. The Group reported a loss before taxation of RM 1,783,706 as compared with loss before taxation of RM 10,348,301 in the previous quarter.

### **16. Prospects**

The Group will continue to focus on its core business segment particularly the production of the high quality home audio and visual systems of the

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Nakamichi brand. The Group will continuously work with its principal to identify new Nakamichi products to be added to its existing Nakamichi product range. As and when opportunities arise, the Group will source for other revenue streams.

### 17. Variance from profit forecast / guarantee

Not applicable.

### 18. Taxation

	<b>RM'000</b>
Based on results for year to date	Nil
Under/(over) provision in respect of prior years	Nil
Transfer to/(from) deferred taxation	Nil
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	Nil
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Deferred tax assets have not been recognised for the following items:-

	<b>Group</b>
	<b>RM'000</b>
Unutilised tax losses	3,324
Unabsorbed capital allowance	27,609
	<u>30,933</u>

### 19. Sale of any unquoted investments and / or properties

The Group did not undertake any sale of unquoted investments and / or properties for the current quarter and financial year to date.

### 20. Purchase or disposal of quoted securities

The Group did not purchase or dispose any quoted securities for the current financial year to date.

### 21. Status of uncompleted corporate proposals

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There are no outstanding corporate proposals as at the date of this announcement.

## 22. Group borrowings and debt securities

### Short Term Borrowings

	<b>Group</b> <b>RM'000</b>
Bankers Acceptance	1,390
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Total	1,390
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The interest rates during the financial period for short-term borrowings falls within the range of 4.00 % to 4.25%. All the bank borrowings of the Group are unsecured.

## 23. Financial instruments with off balance sheet risk

The Group did not contract for any financial instruments with off balance sheet risk as at the date of this announcement.

## 24. Pending material litigation

There is no pending material litigation as at the date of this announcement.

## 25. Dividend

No dividend has been recommended or declared for the period under review.

## 26. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period of 55,410,180 excluding treasury shares held by the Company, if any.

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	Quarter	12 months
	Ended	Ended
	31/12/04	31/12/04
Basic earnings per share (sen)	<u>(3.22)</u>	<u>(25.33)</u>

BY ORDER OF THE BOARD

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