NAKAMICHI CORPORATION BERHAD

(Company No: 301384-H)
(Incorporated in Malaysia)

QUARTERLY UNAUDITED FINANCIAL REPORT

FOR THE PERIOD ENDED 30 JUNE 2011

Contents

Nakamichi Corporation Berhad
Condensed unaudited consolidated statements of comprehensive income for the period ended 30 June 2011

	Current year quarter 30.6.2011 RM'000	Preceding year corresponding quarter 30.6.2010 RM'000	Current period 30.6.2011 RM'000	Preceding year corresponding period 30.6.2010 RM'000
Revenue	7,553	16,173	11,395	33,417
Operating expenses	(5,862)	(11,412)	(9,733)	(26,040)
Other operating income	-	919	-	919
Profit from operations	1,691	5,680	1,662	8,296
Interest income	-	-	-	-
Finance costs	(231)	(396)	(496)	(781)
Profit before taxation	1,460	5,284	1,166	7,515
Tax expense	(600)	(1,354)	(744)	(2,078)
Profit for the period	860	3,930	422	5,437
Other comprehensive (loss)/income, net of tax				
- Foreign currency translation differences for foreign operations	(2)	(8)	(13)	9
Total comprehensive income for the period	858	3,922	409	5,446
(Loss)/Profit attributable to:				
Owners of the Company	(22)	1,524	(672)	1,967
Minority interest	882	2,406	1,094	3,470
Profit for the period	860	3,930	422	5,437
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(24)	1,516	(685)	1,976
Minority interests	882	2,406	1,094	3,470
Total comprehensive income for the period	858	3,922	409	5,446
Basic (loss)/earnings per per ordinary share (sen)	(0.04)	2.75	(1.21)	3.55
Diluted earnings per ordinary share (sen)	N/A	N/A	N/A	N/A

(The condensed unaudited consolidated statements of comprehensive income should be read in conjunction with the Annual Financial Report for the year ended 31 December 2010)

Nakamichi Corporation Berhad
Condensed unaudited consolidated statement of financial position as at 30 June 2011

	30.6.2011	(Audited) 31.12.2010
	RM'000	RM'000
Non current assets		
Property, plant and equipment	1,513	1,742
Intangible asset	98,635	99,894
Total non current assets	100,148	101,636
Current assets		
Assets held for sale	24,488	24,488
Receivables, deposits and prepayments	1,243	1,267
Inventories	2,894	2,778
Cash and cash equivalents	1,556	470
Total current assets	30,181	29,003
TOTAL ASSETS	130,329	130,639
Equity attributable to owners of the Company		
Share capital	55,410	55,410
Reserves	(23,545)	(22,860)
	31,865	32,550
Minority interest	40,335	39,241
Total equity	72,200	71,791
Long term and deferred liabilities		
Borrowings	1,361	5,725
Deferred tax liabilities	24,736	25,050
Total long term and deferred liabilities	26,097	30,775
Current liabilities		
Payables and accruals	16,138	13,165
Tax liabilities	4,394	3,420
Borrowings	11,500	11,488
Total current liabilities	32,032	28,073
Total liabilities	58,129	58,848
TOTAL EQUITY AND LIABILITIES	130,329	130,639
Net assets per share attributable to owners of the Company (RM)	0.58	0.59

(The condensed unaudited consolidated statement of financial position should be read in conjunction with the Annual Financial Report for the year ended 31 December 2010)

Nakamichi Corporation Berhad
Condensed unaudited consolidated statements of changes in equity for the period ended 30 June 2011

	Attributable to owners of the Company						
	Share capital RM'000	**Share premium RM'000**	**Foreign currency translation reserves RM'000**	**Accumulated losses RM'000**	**Total RM'000**	**Minority interest RM'000**	**Total equity RM'000**
At 1 January 2011	55,410	38,452	(7)	(61,305)	32,550	39,241	71,791
Total comprehensive (loss)/income for the period	-	-	(13)	(672)	(685)	1,094	409
At 30 June 2011	55,410	38,452	(20)	(61,977)	31,865	40,335	72,200

	Attributable to owners of the Company						
	Share capital RM'000	**Share premium RM'000**	**Foreign currency translation reserves RM'000**	**Accumulated losses RM'000**	**Total RM'000**	**Minority interest RM'000**	**Total equity RM'000**
At 1 January 2010	55,410	38,452	(8)	(60,929)	32,925	38,880	71,805
Total comprehensive income for the period	-	-	9	1,967	1,976	3,470	5,446
At 30 June 2010	55,410	38,452	1	(58,962)	34,901	42,350	77,251

The condensed unaudited consolidated statement of changes in equity should be read in conjunction with the Annual Financial Report for the year ended 31 December 2010)

Nakamichi Corporation Berhad
Condensed unaudited consolidated statements of cash flow for the period ended 30 June 2011

	30.6.2011 RM'000	30.6.2010 RM'000
Cash flows from operating activities		
Profit before taxation	1,166	7,515
Adjustments for:		
Amortisation of intangible asset	1,259	3,813
Depreciation	244	217
Interest expense	496	781
Other non-cash items	(13)	9
Operating profit before working capital changes	3,152	12,335
Changes in working capital:		
Inventories	(116)	2,348
Receivables, deposits and prepayment	25	(4,025)
Payables and accruals	2,974	(4,440)
Cash generated from operations	6,035	6,218
Tax paid	(85)	-
Net cash generated from operating activities	5,950	6,218
Cash flows from investing activities		
Purchase of property, plant and equipment	(15)	(517)
Net cash used in investing activities	(15)	(517)
Cash flows from financing activities		
Interest paid	(496)	(781)
Repayment of bank borrowings – net	(4,353)	(4,924)
Net cash used in financing activities	(4,849)	(5,705)
Net increase/(decrease) in cash and cash equivalents	1,086	(4)
Cash and cash equivalents at beginning of period	(530)	1,258
Cash and cash equivalents at end of period	556	1,254
Cash and cash equivalents at end of period comprise:		
Cash and bank balances	1,556	2,254
Bank overdraft	(1,000)	(1,000)
	556	1,254

(The condensed unaudited consolidated statements of cash flow should be read in conjunction with the Annual Financial Report for the year ended 31 December 2010)

Explanatory notes

1. Basis of preparation

The quarterly financial report is unaudited and has been prepared in accordance with the Financial Reporting Standard ("FRS") 134, Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The quarterly financial report do not include all the information required for the full annual financial statements and should be read in conjunction with the annual audited financial statements of the Group for the year ended 31 December 2010.

2. Significant Accounting Policies

Save as disclosed below, the significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2010.

i) Accounting for business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

The Group has changed its accounting policy with respect to accounting for business combinations.

From 1 January 2011 the Group has applied FRS 3, *Business Combinations* (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

Under FRS 3 (revised), the definition of a business has been broadened, which will result in more acquisitions being treated as business combinations.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any minority (will be known as non-controlling) interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement arwards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2006 and 1 January 2011

For acquisitions between 1 January 2006 and 1 January 2011, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2006

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

ii) Loss of control

The Group applied FRS 127, *Consolidated and Separate Financial Statements* (revised) since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

In the previous years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be recognised as cost on initial measurement of the investment.

iii) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and the owners of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, *Consolidated and Separate Financial Statements* (revised) where losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have impact on earnings per share.

In the previous years, where losses applicable to the non-controlling interests exceed the their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated with all such profits until the non-controlling interests' share of losses previously absorbed by the Group had been recovered.

The Group has not applied the following accounting standards, amendments, and interpretations that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Group:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- Amendments to IC 14, *Prepayments of a Minimum Funding Requirement*
- IC 19, *Extinguishing Financial Liabilities with Equity Instruments*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- IC 15, *Arrangements for the Construction of Real Estate*

The Group plans to apply the abovementioned standards, amendments and interpretations from the annual period beginning 1 January 2012 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012 except for IC Interpretation 19, Amendments to IC Interpretation 14 and IC Interpretation 15 which are not applicable to the Group.

The initial application of a standard, an amendment or an interpretation, which will be applied prospectively or which requires extended disclosures, is not expected to have any financial impact to the current and prior periods' financial statements upon their first adoption.

Following the announcement by the Malaysian Accounting Standards Board on 1 August 2008, the Group's financial statements will be prepared in accordance with the International Financial Reporting Standards ("IFRS") framework for annual periods beginning on 1 January 2012.

3. Qualified audit report

The preceding annual audited financial statements of the Group were reported on without any qualification.

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

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial period to-date.

5. Changes in estimates

There were no changes in the estimates of amounts which give a material effect for the current quarter and financial period to-date.

6. Taxation

The tax expense for the current quarter and financial period to-date are as follows:

	Current quarter 30.06.2011 RM'000	**Financial period to-date 30.06.2011 RM'000**
Tax expense, Malaysia – current	782	1,059
Deferred tax – current	(182)	(315)
Total	600	744

The tax expense for the Group for the current quarter and financial period to-date relates to the taxable income from our timber segment.

The effective tax rate of the Group for the current quarter and financial period to-date is higher than the statutory tax rate due mainly to the losses incurred by the investment holding segment and certain charges not allowable for tax purposes.

7. Purchase or sale of unquoted investments/properties

There were no purchases or sales of unquoted investments/properties for the current quarter and financial period to-date.

8. Purchase or disposal of quoted securities

There was no purchase or disposal of quoted securities for the current quarter and financial period to-date.

9. Valuation of property, plant and equipment

There is no revaluation of property, plant and equipment brought forward from the previous audited financial statements.

10. Borrowings

The Group borrowings as at the end of the reporting period are as follows:

	RM'000
Non-current	1,361
Current	11,500
Total Group borrowings	12,861

As at 30 June 2011, all the borrowings are secured and there are no foreign currency denominated borrowings.

11. Debt and equity securities

There were no issuances, cancellations, repurchases and repayments of the Company's debt or equity securities for the period ended 30 June 2011.

12. Changes in composition of the Group

There was no change in the composition of the Group for the financial period to-date and up to the date of this report.

13. Corporate proposals

There are no corporate proposals that were announced but not completed within 7 days from the date of this quarterly report.

14. Material events subsequent to the period end

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

15. Contingent liabilities/assets

The contingent liabilities of the Group as at 30 June 2011 comprises corporate guarantees totaling RM1.7 million, executed by the Company for loan/hire purchase facilities granted to subsidiaries. Out of the total loan/hire purchase facilities secured by corporate guarantees, a total of RM1.2 million was outstanding at the period end.

16. Capital commitments

There were no capital commitment as at 30 June 2011.

17. Unrecognised financial instruments

As at 30 June 2011, there were no financial instruments that were not recognised in the statement of financial position.

18. Seasonal and cyclical factors

There are no material seasonal or cyclical factors affecting the income and performance of the Group.

19. Segmental information

Analysis by business segments being the primary basis of the Group's segment reporting for the financial period ended 30 June 2011 is as follows:

	Investment holding RM'000	**Timber RM'000**	**Total RM'000**
Turnover			
External turnover	-	11,395	11,395
Internal turnover	-	-	-
Total turnover	-	11,395	11,395
Results			
Segment results	(1,844)	3,506	1,662
Finance costs			(496)
Profit before taxation			1,166
Taxation			(744)
Profit for the period			422
Other comprehensive loss for the period, net of tax			(13)
Total comprehensive income for the period			409
Minority interest			(1,094)
Total comprehensive loss attributable to owners of the Company			(685)

	Investment holding RM'000	**Timber RM'000**	**Elimination RM'000**	**Group RM'000**
Assets				
Segment assets	47,184	28,273	(43,763)	31,694
Intangible asset				98,635
Total				130,329
Liabilities				
Segment liabilities	88,608	15,463	(75,072)	28,999
Tax liabilities				4,394
Deferred tax liabilities				24,736
Total				58,129
Other segment information				
Capital expenditure	-	15	-	15
Depreciation	18	226	-	244
Amortisation of intangible asset	1,259	-	-	1,259

20. Material litigation

On 5 October 2010, the Company had announced that Tamabina Sdn Bhd ("TSB"), a 51% owned and major subsidiary had on 4 October 2010 received a Writ of Summons Suit No. S-22-59 and Statement of Claim dated 17 September 2010 and 14 September 2010 respectively, from KKS Timber Trading ("KKS") filed through their solicitors, Messrs Ngui & Associates ("the Action") in the High Court of Sabah and Sarawak at Sandakan. The Action arises from the claim by KKS against TSB for non-payment for logging work performed by KKS at Coupe YS1/07(3) at the Pinangah Forest Reserve in the Yayasan Sabah Concession Area. The amount claimed is as follows:

i) RM1,448,173.07, being the unpaid balance owed for the logging works performed;
ii) Interest at the rate of 8% per annum on the unpaid balance calculated from 27 July 2010 to the date of judgment;
iii) Interest at 8% per annum on the judgment sum from the date of judgment to the date of full settlement;
iv) Cost, on solicitors-clients basis; and
v) Any other relief or order as the court deems fit and proper.

In the event TSB loses the case, the expected losses arising from the Action is RM975,008 plus interest and legal cost. An amount of RM473,165 has been provided for in the books of TSB. The Action will not have any operational impact on NCB group.

TSB will be defending the Action on the basis that the amount claimed is disputed.

21. Review of performance

The Group's revenue for the current quarter of RM7.6 million is lower than RM16.2 million for the preceding year corresponding quarter. This was due to the lower revenue reported by the timber segment as a result of lower logs production.

In tandem with the decline in revenue, the net profit of the Group decreased from RM1.5 million for the preceding year corresponding quarter to a net loss of RM22,000 for the current quarter.

22. Quarterly analysis

Comparing quarter on quarter, the Group's revenue has increased by RM3.7 million to RM7.6 million for the current quarter. This was due to the timber segment recording an increase in logs production.

In tandem with the increase in revenue, the Group managed to reverse its loss before taxation for the previous quarter of RM0.3 million to a profit before taxation of RM1.5 million. The improvement in the Group's results is attributable to improving margins and higher logs production and sale by the timber segment.

23. Prospects

Due to the current sovereign debt crisis in Europe, downgrade in the credit rating of the Unites States of America, the slowing pace in economic growth of Asia and the unpredictable weather which disrupts the felling of timber logs, the Board is of the view that the remaining period to the end of financial year to be challenging.

24. Profit forecast and profit guarantee

The Group did not publish any profit forecast.

On 30 December 2009, the shareholders of the Company had at an extraordinary general meeting approved the variation in the profit guarantee from the vendors of TSB ("Vendors"). The variation entailed the joint and several guarantee from the vendors of TSB on the achievement by TSB of an audited consolidated profit after taxation of not less than RM12 million for each of the three (3) financial periods of twelve (12) months each ending 30 June 2010, 30 June 2011 and 30 June 2012. In addition, any excess of the amount of the profit guarantee in any of the relevant financial period under guarantee shall be carried forward to the subsequent financial period under guarantee for the purposes of computing the guaranteed profit for such subsequent financial period.

For the twelve (12) months financial period ended 30 June 2010, TSB registered an audited consolidated profit after taxation of RM12.02 million which is above the profit guarantee of RM12 million.

For the twelve (12) months financial period ended 30 June 2011, TSB registered an audited consolidated profit after taxation of RM3.0 million which when aggregated with the excess over the profit guarantee for the previous financial period under guarantee of RM0.02 million, is less than the profit guarantee by RM8.98 million. The Vendors shall compensate the Company for the Company's share of the shortfall of the profit guarantee amounting to RM4.58 million.

25. Assets held for sale

The Group had in 2009 expressed its intention to sell its leasehold land and building. As such, the leasehold land and building has been reclassified in 2009 as "Assets held for sale" in accordance with FRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The assets held for sale as at 30 June 2011 comprise as follows:

	Amount RM'000
Leasehold land	3,064
Leasehold buildings	21,424
Total	24,488

26. Earnings per share

<u>Loss per share</u>

The basic loss per share for the current quarter and financial period to-date were arrived at as follows:

	Loss attributable to owners of the Company RM'000	**Weighted average number of ordinary shares '000**	**Basic loss per share sen**
Current quarter	22	55,410	0.01
Financial period to-date	672	55,410	1.21

Diluted earnings per share

Diluted earnings per share are not applicable as there are no potentially dilutive instruments.

27. Dividends

The Board of Directors does not recommend any dividend in respect of the financial period ended 30 June 2011.

28. Realised and unrealised profits/losses

The breakdown of the accumulated losses of the Group into realised and unrealised profits/(losses) as follows:

	As at 30.06.2011 RM'000	As at 31.12.2010 RM'000
Realised	(98,951)	(100,343)
Unrealised	(104)	(78)
	(99,055)	(100,421)
Consolidation adjustments	37,078	39,116
Total accumulated losses	(61,977)	(61,305)