

# **KHIND HOLDINGS BERHAD**

Quarterly Report on unaudited consolidated results for the third financial quarter ended 30 September 2006

## **Notes to the Interim Financial Report**

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

The interim financial statements have been prepared under the historical cost convention except for investment property which is stated at fair value.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005.

The interim financial statements have been prepared using the accounting policies and methods of computation consistent with the most recent audited financial statements of the Group for the financial year ended 31 December 2005.

The following notes explain the 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 31 December 2005.

### **2. Changes in Accounting Policies**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairments of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

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The principal effects of the changes of some accounting policies resulting from the adoption of the other new/revised FRSs are discussed as below:

### **(a) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138.

#### **Intangible assets – goodwill**

The adoption of these new FRSs has resulted in the Group ceasing annual goodwill amortisation. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in profit or loss. Prior to 1 January 2006, negative goodwill was amortised over the weighted average useful life of the non-monetary assets acquired, except to the extent it relates to identified expected future losses as at the date of acquisition. In such cases, it was recognised in profit or loss as those expected losses were incurred. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 January 2006 of RM4,683,000 was derecognised with a corresponding increase in retained earnings.

#### **Intangible assets other than goodwill**

Under the new FRS 138, trademark is an intangible asset. From 1 January 2006, trademark is stated at cost less accumulated amortisation and impairment losses. Its cost is amortised based on its definite life and amortisation is recognised accordingly.

The new FRS 138 require that the useful lives of intangible assets other than goodwill be assessed at the individual asset level as having either a finite or indefinite life. Some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Intangible assets with indefinite useful lives are not amortised but instead, are tested for impairment annually. In accordance with the transitional provisions of FRS 138, the change in the useful life assessment from finite to indefinite is made on a prospective basis.

### **(b) FRS 101: Presentation of Financial Statements**

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

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The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

### **(c) FRS 140: Investment Property**

The adoption of this new FRS has resulted in a change in accounting policy for investment property. The valuation of investment property has been brought forward, without amendment from the previous annual financial statements. Revaluation will be carried out during the year.

In accordance with FRS 140, investment property is separately classified from property, plant and equipment and presented as a separate line item in non-current assets.

### 3. Comparatives

The following comparative amounts have been restated due to the adoption of new and revised FRS:

	Previously Stated RM'000	Adjustment FRS 116 RM'000	Restated RM'000
At 31 December 2005			
Property, plant and equipment	27,454	(1,326)	26,128
Investment property	-	1,326	1,326

### 4. Audit qualification

The financial statement for the year ended 31 December 2005 was not qualified.

### 5. Seasonal or cyclical factors

Generally, sales of our products are enhanced during festive seasons celebrated in Malaysia.

### 6. Unusual items

Other than those stated in the notes, there are no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

### 7. Changes in estimates

There were no changes in estimates for the financial period under review.

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### 8. Issuance or repayment of debts and equity securities

Save as disclosed below, there were no other issuance and repayment of debt and equity securities, share buybacks, share cancellations, shares held as treasury shares and resale of treasury shares for the current financial year to date.

#### Employee Share Option Scheme(“ESOS”)

The new ESOS Option Scheme has been in forced from 27.6.2003 for a tenure of 5 years.

The details of the ESOS are as below:

Date of Offer	Option Price	Creation	Acceptance	Exercised	Lapsed due to resignation & retirement	Balance unexercised as at 30.9.2006
7.7.03	RM1.00	3,301,000	2,898,000	59,000	725,000	2,461,000
19.5.04	RM1.00	509,000	347,000			

### 9. Dividend paid

	<b>Year To Date Ended 30.9.2006 RM'000</b>	<b>Year To Date Ended 31.12.2005 RM'000</b>
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Interim dividend	NIL	1,442
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The interim dividend for the quarter under review in 2006 is NIL. In 2005, an interim dividend of 5 sen per ordinary share less 28% income tax amounted to RM1,442,124 was paid on 28.10.05.

### 10. Segmental reporting

Segment information is presented in respect of the Group’s geographical segments by location of customer.

Inter-segment pricing is determined based on negotiated terms.

No business segment analysis is prepared as the Group is primarily engaged in the manufacture, assembly and trading of electrical home appliances and wiring accessories.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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	Malaysia		Rest of the world		Elimination		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Segment Revenue</b>								
External revenue	79,534	86,811	32,603	25,513	-	-	112,137	112,324
Inter-segment revenue	40,176	46,949	17,615	4,214	(57,791)	(51,163)	-	-
Total revenue	<u>119,710</u>	<u>133,760</u>	<u>50,218</u>	<u>29,727</u>	<u>(57,791)</u>	<u>(51,163)</u>	<u>112,137</u>	<u>112,324</u>
<b>Segment Results</b>								
Operating profit	2,166	2,555	1,406	395	-	-	3,572	2,950
Interest expense							(1,464)	(1,100)
Interest income							26	3
Profit before tax							<u>2,134</u>	<u>1,853</u>
Tax expense							(697)	(645)
Net profit for the period							<u>1,437</u>	<u>1,208</u>

Rest of the world relates primarily to Asia, Africa, Middle East and Europe.

Year 2006 refers to 9 months period ended 30.09.2006 as compare to Year 2005 which also refers to 9 months ended 30.09.2005.

### 11. Valuation of property, plant and equipment

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

### 12. Material subsequent events

As at the date of issue of this quarterly report, there were no material events subsequent to the end of this period reported on that have not been reflected in the financial statement for the said period.

### 13. Changes in the composition of the group

There was no disposal of subsidiaries & long term investments, restructuring or discontinuance of operation for the current quarter and financial year to date.

### 14. Contingent liabilities

As at 30.9.2006, the company has given corporate guarantee for banking facilities obtained by subsidiaries to meet the liabilities and financial obligations of its subsidiaries amounting to RM60.51 million.

The contingent liabilities of its subsidiaries pertaining to utilise trade line facilities amounted to RM3.66 million.

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## ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

1. Group performance review – Company and the Principal Subsidiaries  
Revenue for the financial period ended 30.9.06 has decreased by 0.2% when compared to the preceding period ended 30.9.05.

The group profit before tax increased marginally by 15.2% compared to preceding corresponding period mainly due to higher other income.

2. Variation of results against immediate preceding quarter  
For the quarter under review, the Group recorded a Profit Before Tax of RM921,000 compared to Profit Before Tax of RM1,651,000 in the immediate preceding quarter. This was mainly due to higher operating expenses.

3. Current year prospect  
The Board of Directors expects the current year Group's performance to remain challenging.

4. Profit forecast  
Not applicable as no profit forecast was published.

5. Tax expense: -

	Individual period		Cumulative period	
	30/9/06 RM'000	30/9/05 RM'000	30/9/06 RM'000	30/9/05 RM'000
Income Tax				
- Current year tax	354	286	697	645
Tax expense	<u>354</u>	<u>286</u>	<u>697</u>	<u>645</u>

The effective tax rate for the Group is higher than the statutory tax rate due to certain expenses were not deductible for income tax purpose.

6. Profits on sale of investment and/or properties  
There were no sale of investments or properties for the current financial year to date.
7. Quoted investment  
Particulars of purchase quoted securities other than securities in existing subsidiaries and associated companies :-
  - (a) total purchase consideration for current quarter is NIL. There was no disposal as at 30.9.06.
  - (b) cumulative investments in quoted securities as at this reporting period :-
    - (i) at cost =RM100,428
    - (ii) at carrying value/book value =RM100,428 ; and
    - (iii) at market value = RM51,389

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### 8. Status of corporate proposals

There were no corporate proposals announced and remained outstanding as at this date of this quarterly report.

### 9. Borrowings and debt securities

#### (a) Bank Borrowings (current and repayable within 1 year)

Details of the Group's bank borrowings as at the end of this reporting period: -

	30/9/06 RM'000	31/12/05 RM'000
<b>Bank Overdrafts</b>		
Secured	-	591
Unsecured	2,289	3,318
<b>Banker Acceptances</b>		
Secured	-	-
Unsecured	26,319	29,075
<b>Total</b>	<b>28,608</b>	<b>32,984</b>

Secured bank borrowings are secured by fixed charges over the long term leasehold or freehold land and building of certain subsidiary company and are guaranteed by the Company.

Unsecured bank overdraft and bankers' acceptances are guaranteed by the Company.

The bank overdrafts bear interest at rates ranging from 7.50% - 8.55% (2005 – 7.50% to 8.55%) per annum.

The banker acceptances bear interest at rates ranging from 4.40% to 5.45% (2005 – 3.75% to 5.45%) per annum.

#### (b) Term Loans

Details of the Group's term loans as at the end of this reporting period :-

	30/9/06 RM'000	31/12/05 RM'000
<b>Current Term Loans</b>		
Secured	579	742
Unsecured	-	-
<b>Total Current Term Loans</b>	<b>579</b>	<b>742</b>
<b>Non-Current Term Loans</b>		
Secured	1,822	2,210
Unsecured	-	-
<b>Total Non-Current Term Loans</b>	<b>1,822</b>	<b>2,210</b>

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Term loans repayment schedule:

	Total RM'000	Under 1 year RM'000	1-2 year RM'000	2-5 year RM'000	Over 5 year RM'000
Secured	2,401	579	1,023	733	66
Unsecured	-	-	-	-	-
Total	<u>2,401</u>	<u>579</u>	<u>1,023</u>	<u>733</u>	<u>66</u>

The term loans are secured by :-

- i) fixed charges over the respective subsidiary's long term leasehold or freehold land and building, and
- ii) corporate guarantee from the Company.

The term loans bear interest at 3.66% to 8.50 % (2005 – 3.66% to 8.50%) per annum.

c) Hire Purchase Creditors

Details of the Group's hire purchase creditors as at the end of this reporting period:-

	30/9/06 RM'000	31/12/05 RM'000
Hire Purchase Creditors	370	373
Less: Interest in suspense	23	27
Balance	<u>347</u>	<u>346</u>
Repayable within one year	203	154
Repayable one to five years	144	192
Balance	<u>347</u>	<u>346</u>

The hire purchase liabilities bear interest at rates ranging from 2.50% to 4.50% (2005 – 2.50% to 4.50%) per annum.

### 10. Off balance sheet financial instruments

There are no financial instruments with off balance sheet risk at date of issue of this quarterly report.

### 11. Pending material litigation as at the date of this quarterly report

- i) On 21 April 2000, Ming Kee Manufacturing Limited ("MKML") served on Khind Marketing (M) Sdn Bhd ("KMM") a writ of summons in relation to its claim for damages for trademark infringement and passing off. KMM applied to strike out MKML's claim but the court had dismissed KMM's application.



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On 4 August 2005, the matter was fixed for case management before the Deputy Registrar (DR). MKML informed the DR that the statement of facts and issues between them and KMM is not finalized. The matter is now fixed for next case management on 27 November 2006.

The damages are unquantifiable as they relate not only to the value of trademark to MKML but also, goodwill and reputation, to be assessed and valued. The solicitors are of the view that KMM has a good chance of success in the matter.

- ii) On 2 March 2004, Leaderpac Manufacturing Sdn Bhd (“LMSB”) served on Khind Industries Sdn Bhd’s (“KISB”) solicitors an amended writ of summons and statement of claim for the amount of RM269,830.00 being consequential losses suffered due to cancellation of orders. KISB filed statement of defence and counter-claimed against LMSB on 24 March 2004. The matter is now fixed for pre-trial case management on 3 September 2007.

The directors of the KISB with the advice of its solicitors are of the view that KISB has strong ground to defend the claims by LMSB.

- iii) On or about 30 May 2006, a copy of the writ bearing Supreme Court of Victoria at Melbourne Commercial and Equity Division Writ No. 6278 of 2006 (“the Said Suit”) was served by Panache Manufacturing Pty Ltd (“Panache”) and Richard Harold Rubin (“RHR”) against Khind Industries Sdn Bhd (“KISB”) among others, for breach of a Deed of Settlement dated 11 May 2005 (“Deed of Settlement”), entered into between Panache and KISB.

Pursuant to the Said Suit, Panache and/or RHR are claiming against KISB among others, for the refund of Australia Dollar Two Hundred Twenty Two Thousand Two Hundred Twenty Two and Sen Twenty Two (AUSD222,222.22) only paid under the Deed of Settlement, being losses suffered due to breach and other injunctive relief restraining KISB from enforcing securities provided under the Deed of Settlement.

Panache has since entered into liquidation.

The hearing on 9 November 2006 has been adjourned to 8 March 2007 to enable the liquidator of Panache to assess the merits of the case. The directors of KISB with the advice of its solicitors are of the view that KISB has strong ground to defend the case by the plaintiff.

- iv) On 8 September 2006, an application to issue writ of summons has been filed by Khind Industries Sdn Bhd (“KISB”) against Panache Manufacturing Pty Ltd (“Panache”) and Richard Harold Rubin (“RHR”) claiming among others, for payment of the sum of RM900,000.00 together with interest arising from breach of the terms and conditions of Deed of Settlement dated 11 May 2005. Pursuant to this, KISB has obtained an Order from the High Court of Malaya to issue a writ of summons on 4 October 2006.

The Board of Directors with the advice of its solicitors that KISB has strong ground and good chance of success in the claims.

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### 12. Dividend

There is no dividend proposed in this period (2005 interim ordinary dividend of 5.0 sen per share less tax of 28% amounting to RM1,442,124 in respect of the financial year ending 31 December 2005 was paid on 28.10.2005).

### 13. Earnings per share

	Quarter Ended 30.9.2006	Year To Date Ended 30.9.2006
Net profit attributable to ordinary equity holders of the parent (RM'000)	537	1,072
Weighted average number of ordinary shares ('000)	40,059	40,059
Basic earning per share (sen)	1.34	2.68

Basic earnings per share of the Group is calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the financial period.

Under FRS 133 on Earnings Per Share, the options for 2,461,000 (30.9.2005: 2,630,000) unissued ordinary shares of RM1.00 each granted to eligible employees pursuant to the Company's ESOS have no dilutive effect as the exercise price is above the average market value of the Company's shares during the financial period.