

# **KHIND HOLDINGS BERHAD**

Quarterly Report on unaudited consolidated results for the first financial quarter ended 31 March 2007

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

### **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 issued by the Malaysian Accounting Standard Board and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2006.

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 2006.

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

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 2006, except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2007:

FRS 117 Leases

FRS 124 Related Party Disclosures

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

#### **(a) FRS117 : Leases**

Prior to 1 January 2007, leasehold land and buildings held were classified as property, plant and equipment and were stated at revalued amount and less accumulated depreciation. The adoption of FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land held for own use. Leasehold land held for own use is now classified as operating lease and are amortised on a straight line basis over the remaining lease term. As the leasehold land had been previously revalued, the Group retained the unamortized amounts as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117.

The reclassification of leasehold land as prepaid lease payment has been accounted for retrospectively by restating the balance sheet presentation as at 31 December 2006 in Note 3.

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### 3. Comparatives

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

	Previously Stated RM'000	Adjustment FRS 117 RM'000	Restated RM'000
At 31 December 2006			
Property, plant and equipment	24,323	(3,642)	20,681
Prepaid lease payments on leasehold land	-	3,642	3,642

### 4. Audit qualification

The financial statement for the year ended 31 December 2006 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.

### 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 31.3.2007
7.7.03	RM1.00	3,301,000	2,898,000	59,000	846,000	2,340,000
19.5.04	RM1.00	509,000	347,000			

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### 9. Dividend paid

	Year To Date Ended 31.3.2007 RM'000	Year To Date Ended 31.12.2006 RM'000
Interim dividend	NIL	865

The interim dividend for the quarter under review in 2007 is NIL. In 2006, an interim dividend of 3 sen per ordinary share less 28% income tax amounted to RM865,274 was paid on 27.12.06.

### 10. Segment 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.

	Malaysia		Rest of the world		Elimination		Total	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Segment Revenue</b>								
External revenue	20,033	23,358	8,253	8,312	-	-	28,286	31,670
Inter-segment revenue	10,884	12,518	4,418	4,534	(15,302)	(17,052)	-	-
Total revenue	<u>30,917</u>	<u>35,876</u>	<u>12,671</u>	<u>12,846</u>	<u>(15,302)</u>	<u>(17,052)</u>	<u>28,286</u>	<u>31,670</u>
<b>Segment Results</b>								
Operating (loss)/profit	(194)	(87)	165	166	-	-	(29)	79
Interest expense							(436)	(519)
Interest income							10	2
Profit before tax							<u>(455)</u>	<u>(438)</u>
Tax expense							(46)	(114)
Net loss for the period							<u>(501)</u>	<u>(552)</u>

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

Year 2007 refers to 3 months period ended 31.03.2007 as compare to Year 2006 which also refers to 3 months ended 31.03.2006.

### 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.

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### 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 31.3.2007, the company has given corporate guarantee for banking facilities obtained by subsidiaries to meet the liabilities and financial obligations of its subsidiaries amounting to RM57.03 million.

The contingent liabilities of its subsidiaries pertaining to utilise trade line facilities amounted to RM1.81 million.

### 15. Key management personnel compensation

Total compensation to Directors of the Company and other members of key management during the quarter under review are as follows:

	31/3/07 RM'000	31/3/06 RM'000
Directors of the Company	245	241
Other key management personnel	523	391

### 16. Related party transactions

Transactions with related parties during the quarter under review are as follows:-

	Transaction value 3 months ended		Balance as at	
	31/3/07 RM'000	31/3/06 RM'000	31/3/07 RM'000	31/3/06 RM'000
HSL Electrical and Electronics Sdn Bhd				
- Sales	788	732	947	926
E&E Sales and Services Sdn Bhd				
- Purchases	-	3	-	-

These transactions had been entered into in the normal course of business and had been established under negotiated terms.

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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 31.3.07 has decreased by 10.69% mainly from the local market when compared to the preceding period ended 31.3.06.

The Group Loss Before Tax increased marginally by 3.89% compared to preceding corresponding period mainly due to lower other income.

2. Variation of results against immediate preceding quarter  
For the quarter under review, the Group recorded a Loss Before Tax of RM455,000 compared to Profit Before Tax of RM997,000 in the immediate preceding quarter. This was mainly due to drop in sales.

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	
	31/3/07 RM'000	31/3/06 RM'000	31/3/07 RM'000	31/3/06 RM'000
Income Tax				
- Current year tax	46	114	46	114
Tax expense	46	114	46	114

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 31.3.07.
  - (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 = RM64,230

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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: -

	31/3/07 RM'000	31/12/06 RM'000
<b>Bank Overdrafts</b>		
Secured	314	163
Unsecured	773	1
<b>Banker Acceptances</b>		
Secured	-	-
Unsecured	21,425	25,667
<b>Total</b>	<b>22,512</b>	<b>25,831</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% (2006 – 7.50% to 8.55%) per annum.

The banker acceptances bear interest at rates ranging from 4.40% to 5.45% (2006 – 4.40% to 5.45%) per annum.

#### (b) Term Loans

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

	31/3/07 RM'000	31/12/06 RM'000
<b>Current Term Loans</b>		
Secured	682	677
Unsecured	-	-
<b>Total Current Term Loans</b>	<b>682</b>	<b>677</b>
<b>Non-Current Term Loans</b>		
Secured	1,340	1,536
Unsecured	-	-
<b>Total Non-Current Term Loans</b>	<b>1,340</b>	<b>1,536</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	2,022	682	724	616	-
Unsecured	-	-	-	-	-
Total	2,022	682	724	616	-

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 % (2006 – 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:-

	31/3/07 RM'000	31/12/06 RM'000
Hire Purchase Creditors	307	317
Less: Interest in suspense	20	19
Balance	287	298
Repayable within one year	190	173
Repayable one to five years	97	125
Balance	287	298

The hire purchase liabilities bear interest at rates ranging from 2.50% to 4.50% (2006 – 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.

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 next case management on 20 March 2007 was deferred to 20 June 2007.

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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 hearing on 8 March 2007 has further been adjourned to 16 April, 2007 and thereafter to a date to be fixed by the Court. 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.

On 19 January 2007, KISB has obtained a Judgement against the above named First and Second Defendants for the payment of RM900,000 and interest at 8% per annum, to be calculated from 12 May 2006 until full settlement thereof.

The Second Defendant has filed an application to set aside the Judgment and the Court has fixed 30 May 2007 as hearing date for the said application.



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- v) On 29 December 2006, a copy of the Writ of Summons bearing Supreme Court of Victoria at Melbourne Commercial Division No. 10599 of 2006 was served by solicitors of Panache Manufacturing Global Pty. Ltd. ("P Global") against KISB, a wholly-owned subsidiary of Khind, claiming for loss and damages including the following:-
- (a) Damages pursuant to S.82 of the Trade Practices Act 1974 (Cth) or otherwise;
  - (b) Interests;
  - (c) Costs;
  - (d) Such further order as the Court deems fit.

The Board of Directors of Khind, with the advice of its solicitors, are of the view that KISB has strong grounds to defend the case by the Plaintiff.

The Plaintiff has also filed an application to join Richard Harold Rubin as Co-Plaintiff and the said application is now fixed for hearing on 16 April, 2007 which has been later adjourned to a date to be fixed.

### 12. Dividend

There is no dividend proposed in this period (2006 interim ordinary dividend of 3.0 sen per share less tax of 28% amounting to RM865,274 in respect of the financial year ending 31 December 2006 was paid on 27.12.2006).

### 13. Earnings per share

	Quarter Ended 31.3.2007	Year To Date Ended 31.12.2007
Net profit attributable to ordinary equity holders of the parent (RM'000)	<u>(388)</u>	<u>(388)</u>
Weighted average number of ordinary shares ('000)	<u>40,059</u>	<u>40,059</u>
Basic earning per share (sen)	<u>(0.97)</u>	<u>(0.97)</u>

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 2,340,000 (31.3.2006: 2,546,000) 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.