

KHIND HOLDINGS BERHAD

Quarterly Report on unaudited consolidated results for the third financial quarter ended 30 September 2017

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 Malaysian Financial Reporting Standard ("MFRS") 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 2016.

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 2016.

2. Significant Accounting Policies

The accounting policies and methods of computation adopted by the Group as at 30 September 2017 are consistent with those adopted in audited financial statements for the year ended 31 December 2016.

The following MFRSs, Amendments to MFRSs and IC Interpretation were issued but not yet effective and have not been applied by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

| | |
|------------------------|--|
| Amendments to MFRS 107 | Statements of Cash Flows – Disclosure Initiative |
| Amendments to MFRS 112 | Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to MFRS 12 | Disclosure of Interests in Other Entities (Annual Improvement 2014-2016 Cycle) |

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

| | |
|------------------------|---|
| Amendments to MFRS 2 | Share-based Payment – Classification and Measurement of Share-based Payment Transactions |
| MFRS 9 | Financial Instruments (2014) |
| MFRS 15 | Revenue from Contracts with Customers |
| Amendments to MFRS 15 | Clarifications to MFRS 15 |
| Amendments to MFRS 1 | First-time Adoption of Malaysia Financial Reporting Standards (Annual Improvements 2014-2016 cycle) |
| Amendments to MFRS 128 | Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 cycle) |
| Amendments to MFRS 140 | Transfers of Investment Property |
| IC Interpretation 22 | Foreign Currency Transaction and Advance Consideration |

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

| | |
|----------------------|--|
| MFRS 16 | Leases |
| IC Interpretation 23 | Uncertainty over Income Tax Treatments |

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2. Significant Accounting Policies (continued)

MFRSs, Interpretations and amendments effective date yet to be confirmed

| | |
|-----------------------|--|
| Amendments to MFRS 10 | Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
|-----------------------|--|

The directors anticipate that the above mentioned accounting standards, interpretations and amendments will be adopted by the Group and the Company when they become effective. Amendments to MFRS 4 *Insurance contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts* and MFRS 17 *Insurance Contracts* have not been taken into consideration because they are not applicable to the Group and the Company

3. Audit qualification

The auditor's report on the financial statements of the Group and the Company for the year ended 31 December 2016 was not subject to any qualification.

4. Seasonal or cyclical factors

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

5. Unusual items

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

6. Changes in estimates

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

7. Issuance or repayment of debts and equity securities

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.

8. Dividend paid

There were no dividends paid in the current quarter.

9. Segment reporting

The Group has three reportable segments, as described below, which are the Group's strategic business units.

- (i) Investment holdings – includes the holding of investment in subsidiaries
- (ii) Trading and service – includes trading of electrical products and providing general repair and rework services
- (iii) Manufacturing – includes manufacturing and distribution of electrical products

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9. Segment reporting (continued)

| | Investment holding | | Trading & service | | Manufacturing | | Elimination | | Total | |
|-------------------|--------------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 | 2017 RM'000 | 2016 RM'000 |
| Turnover | | | | | | | | | | |
| External | | | | | | | | | | |
| Local | - | - | 106,911 | 124,843 | 7,663 | 10,232 | - | - | 114,575 | 135,074 |
| Overseas | - | - | 136,072 | 130,358 | 1,482 | 7,333 | - | - | 137,553 | 137,691 |
| Internal | 8,684 | 11,930 | 5,576 | 5,178 | 52,053 | 49,209 | (66,313) | (66,318) | - | - |
| Total revenue | 8,684 | 11,930 | 248,559 | 260,379 | 61,198 | 66,774 | (66,313) | (66,318) | 252,128 | 272,765 |
| Segment results | 738 | 3,920 | 5,162 | 12,696 | 1,027 | 4,716 | (2,560) | (8,200) | 4,367 | 13,132 |
| Finance cost | | | | | | | | | (2,976) | (2,888) |
| Interest income | | | | | | | | | 133 | 223 |
| Profit before tax | | | | | | | | | 1,524 | 10,467 |
| Tax expense | | | | | | | | | (665) | (1,882) |
| Net profit | | | | | | | | | 859 | 8,585 |

Year 2017 refers to 9 months period ended 30.09.2017 as compare to the corresponding 9 months in the preceding year.

10. Valuation of property, plant and equipment

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

11. 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.

12. Changes in the composition of the group

There were no changes in the composition of the Group during the current quarter.

13. Contingent liabilities

As at 30.09.2017, the company has given corporate guarantee for banking facilities obtained by subsidiaries to meet the liabilities and financial obligations of its subsidiaries amounting to RM171.59 million. The contingent liabilities of its subsidiaries pertaining to utilise trade line facilities amounted to RM14.78 million.

14. 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:

| | 30/09/17 RM'000 | 30/09/16 RM'000 |
|--------------------------------|--------------------|--------------------|
| Directors of the Company | 1,476 | 1,378 |
| Other key management personnel | 5,557 | 5,175 |

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15. Related party transactions

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

| | Transaction value 9 months ended | | Balance as at | |
|----------------------------|----------------------------------|--------------------|--------------------|--------------------|
| | 30/09/17 RM'000 | 30/09/16 RM'000 | 30/09/17 RM'000 | 30/09/16 RM'000 |
| <i>Sales to :-</i> | | | | |
| HSL E & E Corp (M) Sdn Bhd | - | - | 14 | 14 |

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. Review of Performance

Comparison results of current quarter and previous corresponding quarter

The Group recorded revenue of RM79.48 million for the current quarter under review representing a decrease of 5.6% over revenue of RM84.21 million of previous corresponding quarter.

The Group recorded profit before tax of RM0.17 million for the current quarter under review representing a decrease of 90.6% over profit before tax of RM1.78 million of previous corresponding quarter.

Comparison results of current period and previous corresponding period

The Group recorded revenue of RM252.13 million for the current period under review representing a decrease of 7.6% over revenue of RM272.77 million of previous corresponding period.

The Group recorded profit before tax of RM1.52 million for the current period under review representing a decrease of 85.4% over profit before tax of RM10.47 million of previous corresponding period.

The performance of the business segments for the current period is described as below:

1) Investment Holdings Division

The Investment Holdings Division has received lower dividend income from subsidiaries, therefore resulted in lower revenue and profit before tax as compared to previous corresponding period.

2) Trading and Service Division

The revenue in Trading and Service Division recorded a decrease of 4.5% as compared to previous corresponding period. The decrease was mainly due to lower sales achieved by local subsidiaries amid weak domestic demand. However, the decrease has been partially offset by the increase sales in foreign subsidiaries.

Due to the decline in revenue, the division's results decreased substantially by 59.3% as compared to last corresponding period. The significant decline in profit was mainly attributable to the lower margin and decrease in other operating income.

3) Manufacturing Division

The revenue in Manufacturing Division has decreased by 8.4% as compared to previous corresponding period which is mainly due to lower sales demand in local and overseas market, partially offset by higher sales from inter-companies. The profit recorded a significant decrease of 78.2% which is mainly attributed to lower gross margin as a result of increased raw material and production cost.

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Financial review for current quarter and financial year to date

| | Individual Period | | | | Cumulative Period | | | |
|--|-------------------|--------|----------|--------|-------------------|---------|----------|--------|
| | 30 September | | Variance | | 30 September | | Variance | |
| | 2017 | 2016 | | | 2017 | 2016 | | |
| | RM'000 | RM'000 | RM'000 | % | RM'000 | RM'000 | RM'000 | % |
| Revenue | 79,477 | 84,213 | (4,736) | -5.6% | 252,128 | 272,765 | (20,637) | -7.6% |
| Profit before interest and tax | 1,181 | 2,770 | (1,589) | -57.4% | 4,500 | 13,355 | (8,855) | -66.3% |
| Profit before tax | 167 | 1,779 | (1,612) | -90.6% | 1,524 | 10,467 | (8,943) | -85.4% |
| Profit after tax | 167 | 1,764 | (1,597) | -90.5% | 859 | 8,585 | (7,726) | -90.0% |
| Profit/(Loss) attributable to Equity Holders of the Parent | 218 | 872 | (654) | -75.0% | 1,016 | 8,585 | (7,569) | -88.2% |

Financial review for current quarter compared with immediate preceding quarter

| | Current Quarter | Immediate Preceding Quarter | Variance | |
|--|-------------------|-----------------------------|----------|--------|
| | 30 September 2017 | 30 June 2017 | | |
| | RM'000 | RM'000 | RM'000 | % |
| Revenue | 79,477 | 90,436 | (10,959) | -12.1% |
| Profit before interest and tax | 1,181 | 2,573 | (1,392) | -54.1% |
| Profit before tax | 167 | 1,559 | (1,392) | -89.3% |
| Profit after tax | 167 | 1,027 | (860) | -83.7% |
| Profit/(Loss) attributable to Equity Holders of the Parent | 218 | 1,101 | (883) | -80.2% |

2. Variation of results against immediate preceding quarter

The Group recorded revenue of RM79.48 million for the current quarter under review, representing an decrease of 12.1% as compared to RM90.44 million in the immediate preceding quarter. Meanwhile, the Group recorded profit before tax of RM0.17 million, representing a significant decrease of 89.3% as compared to the preceding quarter of RM1.56 million.

3. Commentary on prospect

The Board of Directors noted the performance achieved in the current quarter despite softening business conditions and competitive environment.

The Board expect the Group's outlook for the year to remain challenging due to the slowdown in consumer demand and price competition. The Group will continue to embark on cost reduction and rationalisation exercises as well as improve operational efficiency. In addition, the Group will put more effort into growing and expanding its international business due to the weakening of domestic market.

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4. Profit forecast

Not applicable as no profit forecast was published.

5. Tax expense

| | Individual period | | Cumulative period | |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| | 30/09/17 RM'000 | 30/09/16 RM'000 | 30/09/17 RM'000 | 30/09/16 RM'000 |
| - Current tax expense | 35 | 603 | 402 | 2,259 |
| - Deferred tax expense | (35) | (588) | 263 | (377) |
| Total | - | 15 | 665 | 1,882 |

The group's effective tax rate for the period ended 30 September 2017 is 22.6%.

6. Status of corporate proposals

There were no corporate proposals during the current quarter.

7. 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: -

| | Foreign Currency '000 | 30/09/17 RM'000 | Foreign Currency '000 | 31/12/16 RM'000 |
|---|-----------------------------|--------------------|-----------------------------|--------------------|
| Bank Overdrafts | | | | |
| Secured | | 299 | | 198 |
| Unsecured | | 2,457 | | 3,452 |
| Banker Acceptances | | | | |
| Unsecured – denominated in Ringgit Malaysia | | 30,382 | | 23,847 |
| Unsecured – denominated in foreign currency | SGD1,546 | 4,812 | SGD845 | 2,622 |
| Revolving Credit | | | | |
| Denominated in Ringgit Malaysia | | 10,573 | | 5,704 |
| Denominated in foreign currency | SGD1,200 | 3,735 | SGD1,600 | 4,963 |
| Total | | 52,258 | | 40,786 |

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 7.22% to 8.22% (2016 – 4.99% to 7.81%) per annum. The banker acceptances bear interest at rates ranging from 2.41% to 4.96% (2016 – 3.93% to 7.95%) per annum.

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7. Borrowings and debt securities (Continued)

(b) Term Loans

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

| | Foreign Currency '000 | 30/09/17 RM'000 | Foreign Currency '000 | 31/12/16 RM'000 |
|--|-----------------------------|--------------------|-----------------------------|--------------------|
| Current Term Loans | | | | |
| Secured – Denominated in Ringgit Malaysia | | 1,815 | | 1,414 |
| Secured – Denominated in foreign currency | SGD190 | 591 | SGD191 | 593 |
| Total | | <u>2,406</u> | | <u>2,007</u> |
| Non-Current Term Loans | | | | |
| Secured – Denominated in Ringgit Malaysia | | 21,552 | | 22,018 |
| Secured – Denominated in foreign currency | SGD3,534 | 10,998 | SGD3,672 | 11,388 |
| Total | | <u>32,550</u> | | <u>33,406</u> |
| Grand Total | | <u>34,956</u> | | <u>35,413</u> |

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 | 34,956 | 2,406 | 2,373 | 7,726 | 22,451 |
| Total | <u>34,956</u> | <u>2,406</u> | <u>2,373</u> | <u>7,726</u> | <u>22,451</u> |

The term loans are secured by :-

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

The term loans bear interest at 4.57% to 5.47% (2016 – 3.79% to 5.15%) per annum.

(c) Finance lease liabilities

Details of the Group's finance lease liabilities as at the end of this reporting period:-

| | 30/09/17 RM'000 | 31/12/16 RM'000 |
|-----------------------------|--------------------|--------------------|
| Hire Purchase Creditors | 2,747 | 2,593 |
| Less: Interest in suspense | 226 | 257 |
| Balance | <u>2,521</u> | <u>2,336</u> |
| Repayable within one year | 890 | 773 |
| Repayable one to five years | 1,631 | 1,563 |
| Balance | <u>2,521</u> | <u>2,336</u> |

The finance lease liabilities bear interest at rates ranging from 1.80% to 3.50% (2016 – 2.38% to 4.46%) per annum.

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8. Material Litigation

Khind Electrical (Malaysia) Sdn Bhd (“KEMSB”), a wholly owned subsidiary of the Company had on 13 July 2015, through its solicitors, filed a winding-up petition against Maha Tenaga Jaya Technology Sdn Bhd (“MTJTSB”) at the High Court of Malaya at Kuala Lumpur as MTJTSB has failed to settle a sum of RM2,036,653.78 to KEMSB being the outstanding amount due and owing for the goods sold and delivered to MTJTSB.

Subsequent to the 2nd quarter results for the quarter ended 30 June 2017 announced on 23 August 2017, the Learned Registrar at the Kuala Lumpur High Court has directed or fixed the Defendants’ Application to amend their Defence and KEMSB’s Application to amend the Re-amended Statement of Claim respectively at the Case Management held on 23 August 2017.

The Court during the Case Management on 12 September 2017, directed the banks, Defendants and KEMSB to file and serve their affidavit in Reply (if any).

During the Case Management on 10 October 2017, the Learned Registrar has directed KEMSB and Fourth and Fifth Defendants to file and exchange the Written Submissions to further amend the Re-amended Statement of Claim and the Application for payment/cheques discovery vis-à-vis the various banks. The Defendants also directed to file and exchange the written Submissions for the First and Second Defendants’ application to amend their Defence.

On the hearing held on 27 October 2017, the First and Second Defendants and two banks have put on record that they have no objection against the Application for Discovery. The remaining two banks did not file in any affidavit to oppose the Application. KEMSB has further sought a court order to direct the banks to furnish the relevant bank statements and cheque images within 3 months from the date of Order, if granted.

Further to the hearing held on 21 November 2017, the Learned Judge has pronounced that KEMSB’s Discovery Application is allowed and the Banks are directed to furnish the requested document.

The Learned Judge has fixed 29 November 2017 for the decision of KEMSB’s application to further amend the Amended Statement of Claim and First and Second Defendants’ Application to amend their Defence.

9. Dividend

The Board of Directors does not recommend any interim dividend for the current financial year to date.

10. Earnings per share

| | Individual Period | | Cumulative Period | |
|---|-----------------------------|--|-------------------------------|-------------------------------|
| | Current Quarter 30.09.17 | Preceding year corresponding quarter 30.09.16 | Nine Months to 30.09.17 | Nine Months to 30.09.16 |
| Net profit attributable to ordinary equity holders of the parent (RM’000) | 218 | 1,764 | 1,016 | 8,585 |
| Weighted average number of ordinary shares (’000) | 40,059 | 40,059 | 40,059 | 40,059 |
| Basic earning per share (sen) | 0.54 | 4.40 | 2.54 | 21.43 |

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.

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11. Disclosure of realised and unrealised retained profits

The Group's realised and unrealised retained profits disclosures are as follows:

| | As at 30.09.17 (RM'000) | As at 31.12.16 (RM'000) |
|---|----------------------------|----------------------------|
| Total retained profits of the Company and its subsidiaries: | | |
| - Realised | 72,354 | 73,757 |
| - Unrealised | 451 | 1,786 |
| Consolidation adjustments | 8,154 | 4,400 |
| Total Group retained profits as per consolidated accounts | 80,959 | 79,943 |

12. Profit for the period is arrived at after charging/(crediting):-

| | Individual Period | | Cumulative Period | |
|---|---------------------|---------------------|--|--|
| | 30.09.17 RM '000 | 30.09.16 RM '000 | Nine Months to 30.09.17 RM '000 | Nine Months to 30.09.16 RM '000 |
| Depreciation & Amortisation | 1,380 | 1,327 | 4,029 | 3,819 |
| Net gain on disposal of property, plant and equipment | - | (18) | (14) | (18) |
| Foreign exchange loss / (gain) | (414) | 173 | 26 | (450) |