



LAY HONG BERHAD (107129-H)

PART A. EXPLANATORY NOTES PURSUANT TO FRS 134₂₀₀₄

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134₂₀₀₄: Interim Financial Reporting 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 for the year ended 31 March 2006. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 March 2006.

1.1 Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 March 2006 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 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting 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 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets

FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of FRS 2, 5, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133, 138 and 140 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

(a) FRS 3: Business Combinations and FRS 136: Impairment of Assets

The new FRS 3 has resulted in consequential amendments to accounting standard FRS 136.

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. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed.

Prior to 1 April 2006, goodwill was amortised on a straight-line basis over its estimated useful life of 25 years. This change in accounting policy has been accounted for prospectively for business combinations where the agreement date is on or after 1 January 2006. The transitional provisions of FRS 3, however, have required the Group to eliminate at 1 April 2006 the carrying amount of the accumulated amortisation of RM745,000 against the carrying amount of goodwill. The carrying amount of goodwill as at 1 April 2006 of RM 1,919,000 ceased to be amortised. This has the effect of reducing the amortisation charges by RM27,000 in the current quarter.

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 April 2006, negative goodwill was net off against the carrying amount of goodwill. In accordance with the transitional provisions of FRS 3, the negative goodwill as at 1 April 2006 of RM368,000 was derecognised with a corresponding increase in retained earnings.

(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.

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.

2. Comparatives

The following comparative amounts as at 31 March 2006 have been restated and reclassified due to adoption of new and revised FRS:

	As previously stated RM'000	FRS 3 RM'000	As restated RM'000
At 1 April 2006			
Goodwill	1,551	368	1,919
Reserves	25,888	368	26,256

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report of the previous annual financial year ended 31 March 2006 was not subject to any qualification.

4. Segmental Information

The Group's activities are primarily in one industry segment of poultry farming and are conducted in Malaysia.

5. Unusual Items due to their Nature, Size or Incidence

There were no material unusual items affecting assets, liabilities, equity, net income, or cash flow during the financial period ended 30 June 2006.

6. Changes in Estimates

The revised FRS 116: Property, Plant & Equipment ("PPE") requires a review of the residual value & remaining useful life of an item of PPE at least at each financial year end. The Group will do the necessary review and revision. For the current quarter, there are no major changes in accounting estimates.

7. Comments about Seasonal or Cyclical Factors

The Group's business operations were not affected by any seasonal and cyclical factors.

8. Dividends Paid

There were no dividends paid during the current quarter ended 30 June 2006.

9. Carrying Amount of Revalued Assets

The valuation of property, plant and equipment have been brought forward without any amendments from the financial statements for the year ended 31 March 2006.

10. Debt and Equity Securities

There were no issuances, cancellations repurchases, resale and repayment of debt and equity securities during the current financial quarter.

11. Changes in Composition of the Group

There were no changes in the composition of the Group which includes business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing of operations for the current financial quarter.

12. Subsequent Events

There were no events subsequent to 30 June 2006 that would materially affect the interim financial statement for the current quarter.

13. Changes in Contingent Liabilities

Credit facilities amounting to RM39.081 million granted to subsidiaries by financial institutions are secured by corporate guarantees from Lay Hong Berhad.

14. Capital Commitments

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 June 2006 is as follows :

	As at 30.06.06 RM'000	As at 31.03.06 RM'000
Approved and contracted for	2,293	3,680

PART B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

1. Review of Performance

Group revenue had recorded a reduction from RM61.059 million in the preceding corresponding quarter to RM48.780 million in the current quarter. This was attributed to the lower selling prices of all the group's poultry products. Resulting from the above, the pre-tax profit was also lower at RM2.044 million for the current quarter compared to pre-tax profit of RM5.063 million recorded in the preceding corresponding quarter.

2. Comparison with Immediate Preceding Quarter's Result

Compared to the immediate preceding quarter, total revenue recorded was slightly lower i.e. from RM50.496 million to RM48.780 million. However, in comparison to the nett result, the group recorded a pre-tax profit RM2.044 million for current quarter compared to a pre-tax loss of RM2.990 million in the immediate preceding quarter. Lower cost of production resulting from the cost control measures undertaken at all levels in the group have made this possible.

3. Current Year Prospects

The country had been declared free from the Avian Influenza H5N1 by the Minister of Agriculture and Agro based Industry on 21 June 2006. Following this, the ban of export of poultry products was also lifted on 2 July 2006. Barring any unforeseen circumstances, your board is confident that the performance of the remaining 3 quarters would improve.

4. Profit Forecast or Profit Guarantee

Not applicable.

5. Income Tax Expense

	Current quarter RM'000	Year-to- date RM'000
Current Tax	402	402
Deferred Tax	205	205
	<u>607</u>	<u>607</u>

The Group's effective tax rate was higher than the statutory rate as certain expenses are not allowable for tax purposes.

6. Sale of Unquoted Investments and Properties

The sales proceeds, purchase consideration and results arising from the disposal:

	Current quarter RM'000	Year-to- date RM'000
Sales Proceeds	410	410
Purchase Consideration	<u>(451)</u>	<u>(451)</u>
Loss on Disposal	<u>(41)</u>	<u>(41)</u>

Other than the above, there was no other disposal of unquoted investments/properties for the current quarter and period ending 31 March 2007.

7. Sale of Quoted Investments

There were no purchase or disposal of quoted securities during the quarter ended 30 June 2006.

Investment in quoted securities as at 30 June 2006

	RM'000
At cost	<u>6</u>
At book value	<u>1</u>
Market value as at 30 June 2006	<u>1</u>

8 Corporate Proposals

There are no outstanding corporate proposals submitted by the group for the quarter ended 30 June 2006.

9. Borrowings

	Secured RM'000	Unsecured RM'000	Total RM'000
Short Term			
Overdraft	3,431	1,578	5,009
Banker Acceptance	12,489	18,836	31,325
Hire Purchase	2,903	-	2,903
Term Loan	8,120	437	8,557
Total	<u>26,943</u>	<u>20,851</u>	<u>47,794</u>
Long Term	26,893	-	26,893
Hire Purchase	4,638	-	4,638
Term Loan	-	2,548	2,548
Total	<u>31,531</u>	<u>2,548</u>	<u>34,079</u>
Grand Total	<u>58,474</u>	<u>23,399</u>	<u>81,873</u>

10. Off Balance Sheet Financial Instruments

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

11. Changes in Material Litigation

There were no pending material litigations against the Group as at the date of this report.

12. Dividend

The board does not recommend any dividend for the current financial quarter (previous corresponding periods: nil).

13. Earnings Per Share

The basic earnings per share for the current financial quarter and cumulative quarter ended 30 June 2006 were computed by dividing the net profit for the respective periods by 42,000,000 (2006:42,000,000) ordinary shares in issue during those periods.

The fully diluted earnings per share for the Group assuming full conversion of the ESOS is not presented as it is anti-dilutive.

14. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 August 2006.