

FOREMOST HOLDINGS BERHAD
(Company No: 463440 –X)
(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM REPORT
FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2006

PART A – Explanatory Notes pursuant to Paragraph 16 of Financial Reporting Standard 134 on “Interim Financial Reporting”

A1. Accounting Policies and Method of Computation

1. Basis of preparation

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005. 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 Foremost Holdings Berhad (“FHB”) and its subsidiary companies namely, Foremost Audio Sdn. Bhd. (“FASB”), Fomak Marketing Sdn. Bhd. (“FMSB”), Star Host (M) Sdn. Bhd. (“SHMSB”), Vintage Consortium Sdn. Bhd. (“VCSB”), and YKS Roofing Solutions (M) Sdn. Bhd. (“YKS”) (hereinafter referred to as the “Group”) since the financial year ended 31 December 2005.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the financial statements for 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 Combination
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 Estimate 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	Investments 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

A2. Audit Report of the Preceding Annual Financial Statements

The audit report of the Group’s preceding year’s annual financial statements included an emphasis of matter whereby it draws attention to the audit report of the financial statements of the following subsidiaries :-

1. Yaku Shin (Malaysia) Sdn. Bhd. (“YKSM”), based on its management accounts as YKSM has been placed under receivership during the financial year. As the management accounts of YKSM have not been audited, auditors are unable to determine the possible adjustments to

the consolidated financial statements that might have been necessary should audited financial statements be made available.

2. The corporate guarantee issued by the Company to Bumiputra-Commerce Bank Berhad ("BCBB") has crystallised following the appointment of a receiver and manager for YKSM. An amount of RM7,500,000 has been provided for in the accounts. However, the ultimate amount of liability that will be payable by the Company to BCBB cannot presently be determined, and accordingly the provision for liabilities may be subject to adjustments, if any, as might have been determined to be necessary.
3. VCSB, which was qualified with an "except for" opinion on the non-provision for doubtful debt amounting to RM4,907,808.
4. Yaku Shin (JB) Sdn. Bhd. ("YKSJB"), an amount of RM36,477,528 representing the cost of sales was included in the consolidation financial statements of the Group and auditors are unable to determine whether this amount has been fairly stated.
5. Except for YKSM, YakuShin (Xiamen) Co. Ltd. ("YKSX"), Tong Giap Feedmills Sdn. Bhd. ("TGF") and TG Poultry Farming Sdn. Bhd. ("TGPF"), other subsidiaries' financial statements have been audited where YKSJB and VCSB's auditors' reports were qualified.

A3. Seasonality or Cyclicity of Operations

The business operations of the Group are affected by the cyclical factors in the speakers manufacturing industry whereby major part of the invoicing and deliveries typically takes place towards the second and third quarter of the financial year.

A4. Exceptional or Unusual Items

The following exceptional items were adjusted in the financial statements during the quarter ended 30 June 2006.

a. Reversal of Impairment Loss Amounting to RM6,499,999

Based on the findings, opinion and advice from the Company's legal adviser dated 7 August 2006 on the review and investigation into the transaction concerning the purchase of 520,200 shares in Axasupreme Sdn. Bhd. vide an agreement dated 3 November 2004, the Company had on 16 August 2006 sent a notice to repudiate, rescind and/or otherwise terminate the above agreement on, inter-alia, the following reasons:

- That there is a total failure of consideration on Axasupreme Sdn. Bhd., that Tong Giap Feedmills Sdn. Bhd. had been wound up pursuant to a Winding Up Petition presented on 5th December 2005 by Sin Heng Chan Pte. Ltd.; and/or
- That there are fundamental and material breaches of warranties contained in the SPA.

Accordingly the Company had reversed the above investment cost of RM6,500,000 and concurrently reversed the impairment loss of RM6,499,999 on 16 August 2006.

b. Reversal of Provision for Liabilities Amounting to RM7,500,000

The Company has reversed the provision for liabilities amounting to RM7.5 million as some of the directors are of the opinion that the contingent liabilities, most probably, will not materialise.

A5. Changes in Estimation

There were no changes in estimates of amounts reported in prior interim period of the current financial year or in prior financial years that have a material effect in the current financial quarter.

A6. Changes in Debt and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the financial quarter ended 30 June 2006.

A7. Dividends

There was no dividend paid or declared during the current financial quarter ended 30 June 2006.

A8. Segmental Reporting

Primary reporting format – Business Segment

The Group's primary business is that of the manufacture and sales of speakers and related products and hence, no separate disclosure is made as the segment revenue and results are as disclosed in the condensed income statement.

A9. Valuation of Property, Plant and Equipment

The valuation of property, plant and equipment has been brought forward, without amendment from the most recent annual financial statements.

A10. Material Events Subsequent to the End of the Current Interim Period

Save as disclosed below, there were no material events subsequent to the end of the quarter under review.

A11. Effect of Changes in Composition of the Group

There were no significant change in the composition of the Group for the current financial quarter and financial year to-date including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructuring or discontinuing operations, except as stated below:

- a. On 30 March 2006, the Company disposed of its 58,750 ordinary shares of RM1.00 each, representing 58.75% entire equity interest in Yaku Shin (JB) Sdn. Bhd. ("YKSJB") for cash consideration of RM1.00. With this, YKSJB ceased to be a subsidiary of FHB. The related announcement on the completion of this disposal was made on 30 March 2006.
- b. On 24 March 2006, the Penang High Court granted a winding-up order against an indirect subsidiary, Tong Giap Feedmills Sdn Berhad ("TGF") which is a 50% plus 1 share owned subsidiary of Axasupreme Sdn. Bhd.
- c. On 13 June 2006, the Kuala Lumpur High Court granted a winding-up order against a wholly owned subsidiary, Kenn Kenn Auto Accessories & Services Sdn.Bhd. This subsidiary has been under the Receiver & Manager since 20 August 2003 and has not been consolidated in the Group accounts since 1 January 2004.

Save for the above, there were no other changes in the composition of the Group for the current financial quarter and financial year to-date.

A12. Changes in Contingent Liabilities and Contingent Assets Since the Last Annual Balance Sheet Date

- a. The Company, together with Kenn Kenn Auto Accessories & Services Sdn Bhd ("KCAA") and two other defendants are contingently liable for an amount of RM765,142, being claims for breach of tenancy agreement, which was not provided for in the financial statements.
- b. The Company has issued corporate guarantees amounting to RM44.6 million (as at 31.12.2005: RM44.6 million) to various financial institutions for banking facilities granted to subsidiary companies of which approximately RM27.375 million (as at 31.12.2005: RM26.053 million) has been utilised as at 30 June 2006. Of the amount utilised, RM20.136 million was for Yaku Shin (Malaysia) Sdn. Bhd.'s banking facilities which were not reflected in the financial statements as at 30 June 2006 as it was not consolidated.

There were no material contingent assets since the date of the last annual balance sheet date.

A13. Capital commitment

Save as disclosed below, there were no Capital commitment to the end of the quarter under review.

Part B – Additional Explanatory Notes pursuant to Part A, Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad

B1. Review of the Performance of the Company and its Principal Subsidiaries

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/06/2006 RM'000	Preceding Year Corresponding Quarter 30/06/2005 RM'000	Current Year To Date 30/06/2006 RM'000	Preceding Year to date 30/06/2005 RM'000
Revenue	<u>5,975</u>	<u>34,224</u>	<u>12,492</u>	<u>56,748</u>
Profit /(Loss) before tax	<u>12,863</u>	<u>(291)</u>	<u>12,730</u>	<u>(4,716)</u>

Group revenue for the current quarter is approximately 17% of that recorded in the corresponding quarter in the previous year. The significant reduction in revenue is mainly due to de-consolidation of ASB, YKSJB and YKSM (as mentioned in A11) and discontinuance of production of low-margin and loss making products by YKSM and YKSJB in the previous year.

As YKSM had been placed under receivership since 15 November 2005, it is not consolidated in the financial quarter. YKSJB's accounts are consolidated until 30 March 2006 when it was subsequently disposed. The disposal of 58.75% equity interest in YKSJB in the current quarter had resulted in a gain of RM0.766 million and thereby led to a reduced loss in the current financial quarter as mentioned in A11(a).

Group profit for the current quarter is increase significantly were due to two exceptional items as mentioned in A4 which were reversed entries of impairment loss on investment for Axasupreme (ASB) and provision of liabilities amounting to RM6.49 million and RM7.5 million respectively.

B2. Material Changes in Quarterly Results of the Current Quarter as compared to the Results of the Immediate Preceding Quarter

	Current Quarter Ended 30/06/2006 RM'000	Immediate Preceding Quarter 31/03/2006 RM'000
Profit /(Loss) before tax	<u>12,863</u>	<u>(133)</u>

In the current quarter, the Group recorded a high profit were mainly due to the two exception item as mentioned in A4.

B3. Prospects for the Current Financial Year

The Group is optimistic that the current financial year will see a marked improvement over the previous year.

B4. Variance of Actual Profit from Forecast Profit and Profit Guarantee

Not applicable.

B5. Taxation

Taxation comprises:

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 30/6/2006 RM'000	Preceding Year Corresponding Quarter 30/6/2005 RM'000	Current Year To Date 30/6/2006 RM'000	Preceding Year To Date 30/6/2005 RM'000
Current tax expense:				
- Charge for the period	-	(160)	-	(160)

There is no taxation charge in the current quarter as it is incurring losses.

B6. Sale of Unquoted Investments and/or Properties

There were no sale of investments and/or properties outside the ordinary course of the Group's business for the financial quarter ended 30 June 2006, except for YKSJB when on 30 March 2006 the Company had disposed of its equity of 58,750 ordinary shares of RM1.00 each, representing a 58.75% equity interest for cash consideration of RM1.00. With this, YKSJB ceased to be a subsidiary of FHB.

B7. Purchase or Disposal of Quoted Securities

There were no purchases or disposal of quoted securities for the financial quarter ended 30 June 2006.

B8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 30 June 2006 (the latest practicable date which is not earlier than seven (7) days from the date of issue of this Quarterly Report).

B9. Borrowings and Debt Securities

Total Group borrowings as at 30 June 2006 were as follows:

	RM'000
a. Short Term – Secured	
Hire Purchase and Finance Lease Liabilities	7
Term Loans	-
	<u>7</u>
b. Short Term – Unsecured	
Bank Overdrafts	2,033
Bill payables	5,206
	<u>7,239</u>
c. Long Term – Secured	
Hire Purchase and Finance Lease Liabilities	-
Term Loans	-
	<u>-</u>

There were no borrowings or debt securities denominated in foreign currencies.

B10. Off Balance Sheet Financial Instruments

As at 30 June 2006, no forward exchange contracts were entered into by subsidiary companies.

The committed transactions that are hedged by forward exchange contracts are subsequently recorded in the books at the contracted foreign exchange rates. Gains or losses arising from forward exchange contracts are dealt with through the income statement upon maturity.

There is minimal credit risk as the contracts were entered into with reputable banks.

B11. Material Litigation

As at 30 June 2006, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report, the Group is engaged in the following material litigations:-

	Plaintiff(s)	Defendant(s)	Court Reference	Status as at 30 June 2006
1	Kenn Kenn Auto Accessories & Services Sdn Bhd ("KKAA") and Foremost Holdings Berhad ("FHB")	Kenn Kenn Management Sdn Bhd ("KKM")	Kuala Lumpur High Court Suit No.: D6-22-1457-2001 followed by a Winding-Up Petition under Kuala Lumpur High Court Winding-up Petition No.: D5-28-67-2005	KKAA had proceeded with a winding-up petition against KKM. However, upon receipt of the advice from the Receiver and Manager, KKAA withdrew the said winding-up petition. Instead, Foremost Audio Sdn Bhd ("FASB"), another subsidiary of the Company and a supporting creditor, managed to wind up KKM on 26 January 2006.
2	Gan Seng Biang	FHB, KKAA, Dato' Mohammed Radzi @ Mohd Radzi bin Manan, Siow You & IPO Corporation Sdn Bhd	Kuala Lumpur High Court Suit No. D1-22-1947-2002	The case is fixed for mention on 9 October 2006.
3	Scrin Technology (M) Sdn Bhd	Yaku Shin E-Tech (M) Sdn Bhd	Pulau Pinang High Court Suit No. 22-576-2003	The case is fixed for mention on 9 November 2006.
4	Alliance Merchant Bank Berhad	Foremost Holdings Berhad ("FHB")	Kuala Lumpur High Court Suit No. (5)-52-24564-05	The case is fixed for mention on 8 November 2006.
5	Vintage Consortium Sdn. Bhd.	Fabina Properties Sdn. Bhd.	Kuala Lumpur High Court	Vintage Consortium Sdn. Bhd. has sued Fabina Properties Sdn. Bhd. for the repayment of advance of RM4 million including interest and the case is fixed for mention on 8 November 2006

Note: KKAA has been wound up on 13 June 2006

B12. Profit /(Loss) Per Share

Basic Profit/(loss) per share is calculated by dividing the Group's loss after tax and minority interest by the weighted average number of ordinary shares in issue as at 30 June 2006 of 52,620,000 shares.

	Current quarter ended 30/06/2006	Corresponding quarter ended 30/06/2005	Current year to date ended 30/06/2006	Corresponding financial year to date ended 30/06/2005
Net Profit /(loss) for the period (RM'000)	12,705	(542)	12,572	(4,967)
Weighted average number of shares in issue during the quarter / year to date ('000)	52,620	52,620	52,620	52,620
Basic profit (loss) per share (sen)	24.14	(1.03)	23.89	(9.44)

The Company does not have any dilutive potential ordinary shares outstanding as at 30 June 2006. Accordingly, no diluted earnings per share is presented.

By Order of the Board

OOI CHIENG SIM
EXECUTIVE DIRECTOR

27 August 2006