1. **Review thoroughly the annual report that you have chosen.**
   1. **Name the entity understudy. How did you obtain the annual report?**

**(1mark)**

The name of entity that we choose and studies it annual report is Khind Holding’s Berhad. We obtain it from Bursa Saham Malaysia’s official website which it opens to public the annual report of Khind Holding’s Berhad.

* 1. **Based on the types of industries classified by the Malaysia Bourse, your chosen entity falls into which category? Why did it fall into such category?**

**(1mark)**

Based on the Malaysia Bourse, Khind Holdings Berhad falls intoconsumersectors. In addition, they listed in the Main Market by Bursa Malaysia. Consumer products sector is where the companies manufacture the materials or components into new products for consumer use. This definition are clearly valid with the business activity of Khind Holdings Berhad which they manufacture the electrical appliances for consumer use.

1. **Take a look at the front cover and the overall content of the annual report. Give your views regarding the following:**
   1. **What is the image your entity is likely or trying to project?**

**(2 marks)**

Khind Holdings Berhad is trying to project a vision which is “To Be a World-Class E&E Company”. This vision will be firmly supported by the five core operating values which are Teamwork, Continuously Improve, Speed Up, Innovate and Customer Focus. All these qualities and values are intended to bring Khind Holdings Berhad to be world-class company in the future. There are also a few of missions that Khind Holdings Berhad wish to achieve which Quality Mission aim to delight customers at all times, Service Mission strive to make service excellence their way of life, Branding Mission which create positive brand awareness for Khind & Mistral. The other mission will be People Development which aism to maximize their people potential to deliver result and lastly Customer Relationship Mission which aim to build a rewarding and lasting partnership.

*Refer to* [*www.khind.com*](http://www.khind.com)

* 1. **Based on the overall content of the report, how did the entity break down the information? What are the statutory and voluntary disclosures of items or information? Give examples.**

**(4 marks)**

Based on the overall content of the report, Khind Holdings Berhad breaks down the information through statutory and voluntary disclosures. Table of content is used to combine all the divided and separated part of information.

Statutory disclosures of information refer to information that needed to be disclosed by an entity required by standard and act in Malaysia such as Malaysia Financial Reporting Standard (MFRS) and the requirement of the Companies Act 1965. Statutory disclosure is a mandatory part for the entity. All the companies should disclosure the statutory part of information.

Examples for statutory of items or information are:

I. Statement on Corporate Governance

II. Statement of Corporate Responsibility

III. Audit Committee Report

IV. Independent Auditors’ Report

V. Director’s Reports

VI. Financial Report

Voluntary disclosure of item or information refers to the provision of information by a company's management beyond requirements of an act or standard. An entity voluntary disclose the information primarily outside the financial statements that is not explicitly required by act or standard. The information of voluntary disclosures is believed to be relevant to the decision-making of users of the company's annual reports. Voluntary disclosures are not a mandatory part for an entity.

Examples for voluntary disclosure of items or information are:

I. Investors’ Information

II. List of Properties Held by the Group

III. Statement on Risk Management and Internal Control

IV. Directors’ Shareholding

V. Statistic on Shareholding

VI. Notice of Annual General Meeting

*Refer to Page 5(Annual Report)*

1. **Thoroughly examine the financial statements of your chosen entity:**
   1. **What are the statements enclosed by your entity? Are they similar to what you would find in the text book? Explain.**

**(3 marks)**

The statements enclosed by the entity in the annual report 2014 of Khind Holdings Berhad are Chairman and Group CEO's Joint Statement, Corporate Structure, Corporate Information, Profile of Board of Directors, Statement on Corporate Governance, Statement on Corporate Responsibility, Statement on Risk Management and Internal Control, Audit Committee Report, Independent Auditors’ Report, Financial Statements, Statistics on Shareholdings, Directors' Shareholdings, List of Properties Held by the Group, Investors' Information, Khind Group Offices and Address and Notice of Annual General Meeting. It is similar to what I found in the textbook as there is a clear format and requirements for the entity in disclosing these statements stated in Malaysia Financial Reporting Standard (MFRS) and the requirement of the Companies Act 1965 especially for the financial statements and notes to the financial statements. Failure to follow the format of financial statements may cause the company to break the law. So far the entity has disclosed all the required statements in its annual report and gives more than what is required such as List of Properties Held by the Group, Investors' Information, Statistics on Shareholdings and Directors' Shareholdings.

*Refer Page 5(Annual Report)*

* 1. **Comment on the format of the financial statements? Is there any standard format that entity has to follow?**

**(4 marks)**

The financial statement of Khind Holding’s Berhad is prepared according to the approved standard of the accounting which is Malaysia Financial Reporting Standard (MFRS). Khind follow all the requirement and standard in terms of basis of preparing and accounting policies. Examples are all financial statements have been prepared on the historical cost basis as required by MFRS. Financial statements are prepared by providing group and company account and amount. Under each account, there are comparison between current financial year end and last financial year end. There are also numbers referring to the notes to the financial statement for further disclosure about the nature and amount of the relevant account. All financial statements are also prepared in consolidated format. When preparing the financial statements, the entity should prepared the format of the financial statement according to the MFRS 101. MFRS 101 sets out overall requirements for the presentation of financial statements in its annual report, guidelines for their structure and minimum requirements for their content. Referring to the MFRS 101, a complete set of the financial statement should comprises of all statements mentioned below and their respective general format are:

1. statement of financial position
2. statement of comprehensive income
3. statement of changes in equity
4. statement of cash flows
5. notes which consists a summary of significant accounting policies and other explanatory information
6. a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Beside this, the entity has to follow MFRS 10 - Consolidated Financial Statements and MFRS 107 - Statements of Cash Flow in preparing their financial statements. MFRS 10 establish principles and rules for the entity to present their consolidated financial statements in its annual report when they control more than one entity. MFRS 107 prescribes an entity should prepare a statement of cash flows in accordance with the requirements of this standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

* 1. **Comment on the financial information provided by the entity? Are they adequate?**

**(3 marks)**

The standard and format of financial statements that prepared by Khind Holdings Berhad is adequate and followed according to the format that MFRS set. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of a business organization that is useful to a wide range of users in making internal and external decisions. Khind provide all the financial information required by all external users in accordance to the standard and requirements by MFRS. Khind also enclosed a complete set of financial statements in the annual report which are statements of financial position as at 31 December 2014, statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, statements of cash flows and notes to the financial statements. Sufficient financial information had been included in the financial statements and the notes to the financial statements which includes the amount, account, accounting policies applied as well as the preparation basis. The information provided by the annual report had included relevant information for decision maker and assurance also given by the auditors.

*Refer Page 37- 42(Annual Report)*

* 1. **Does the entity have sound financial standing? How about the non-financial performance? Support your answers with some analysis.**

**(8 marks)**

Financial standing means how strong a person or company’s financial situation is considered to be. Khind Holdings Berhad had not sound financial standing in year 2014 compared to prior year period. This can be proved through the financial ratios that were calculated. For example, profitability, short term or long term solvency and asset management help to examine whether the company has sound financial standing. According to the annual report, the group had recorded the lower revenue of RM319,051,000 in year 2014, with an decrease of 1.84% as compared to RM325,035,000 in year 2013. The profit before tax was also decreased 26.78% that is from RM20,096,000 in 2013 to RM14,714,000 in year 2014. The Khind Holdings Berhad’s profit margin had also decreased from 5.00% to 3.81% as compared to prior year. From this point, we can say that Khind Holdings Berad is generating lesser profit year by year. Current ratio, quick ratio and cash ratio were calculated in order to measure the ability of the entity to meet its short term obligation. These three ratios were increased from 2013 to 2014 with an insignificant movement. This situation had shown that the group had no problems in repaying its current liabilities by cash or cash equivalent in the short term period.

Long term solvency ratio was used to measure the ability of the group to meet tis long run obligation. Total debt ratio showed the extent of the company’s leverage. The higher the total debt ratio, the more the financial leverage of the company and hence its financial risk was higher. For Khind Holdings Berhad, its total debt ratio was remains constant within 2 years that is at the level of 0.55. Besides that, a high debt-equity ratio indicates that the entity may not able to generate enough cash to satisfy its debt obligations. However, decreases in debt-equity ratio from 2013 to 2014 shows the company had put some effort to reduce the debts owed to outsiders in order to improve their financial standing.

Asset management ratio is also used to examine the financial situation of an entity as it can measure the turnover of company’s assets. It can show how efficiently an entity uses its assets to generate more sales. Decrease in inventory turnover shows that the ineffective inventory management was occurred throughout year 2013 to 2014. This can be proved by the decreasing inventory turnover from 3.74 in 2013 to 3.49 in 2014. Besides, the total asset turnover was also facing the decline problem which was from 1.46 in year 2013 to 1.31 in 2014. This means the company is not using its assets efficiently to generate sales. Furthermore, the company’s earnings per share also decreased to 30.36 sen in 2014 since 40.53 sen in 2013. This shows that the company had generates less profit and this brings to smaller financial standing as compared to last year.

|  |  |  |
| --- | --- | --- |
|  | 2014  (RM’000) | 2013  (RM’000) |
| Profit Margin  = | = | = |
| Short Term Solvency |  |  |
| Current Ratio  = | = | = |
| Quick Ratio  = | = | = |
| Cash Ratio  = | = | = |
| Long Term Solvency |  |  |
| Total Debt Ratio  = | = | = |
| Debt – Equity Ratio  = | = | = |
| Asset Management |  |  |
| Inventory Turnover  = | = | = |
| Total Asset Turnover  = | = | = |

As for non-financial performance, Khind are doing great in management as well as managing the company sustainability. Khind had maintains a competent and well-trained team of personnel who were able to deliver happiness to the community, environment and its employees. On 26 March of 2014, Khind had officially launched a project called Khind Starfish Foundation which aimed to manage the corporate responsibilities activities of Khind within Malaysia. The objective of this new established tax exempt foundation was launched to help improve the living conditions, provide relief to and maintain the wellbeing of poor and etc. The foundations had also launched a project called “Projects for Happiness” that provides funding to the local undergraduate students from either public or private institutions of higher learning have the opportunity to undertake various volunteer oriented community programmes. These programmes were carried out in order to help the less fortunate and socially challenged members of the society. For example, KDU International College was undertakes the mini library project in Cameron Highlands, the project of understanding the culture through Mask Making from Universiti Tunku Abdul Rahman and etc. The Khind Starfish Foundation was also organized an inaugural mini exhibition to celebrate the successful results of all these projects on 13 December 2014.

Khind had also actively involved in the local community service where Khind staff had joined the monthly community service which was organized by Tzu Chi Foundation. This project was mainly aimed to deliver happiness to the handicapped and mentally-challenged children in Klang. Besides, Khind also have a bi-monthly visit the orphanages and old folk’s home within Klang Valley. Khind staff had helps to repair, install or replace the faulty electrical items. At Sekinchan station, they visited the local children’s home and donated some daily necessities and new clothes. In order to help Kechara mobile kitchen extend their food service to urban area, Khind had donated a van to them.

Khind also not left the environment responsibilities. On 30 December 2014, Khind initiated and supported the local council to plant 100 trees in Sekinchan town. Khind also carried out the landscaping activities in a primary and a secondary school which they believed that this can help to provide a better learning environment to the students in both schools. Seven local village sites cleaning also had been done by Khind in Sekinchan area.

Khind also want to deliver happiness to its employees through the training and education assurance program which they allocated 2.5% of its annual basic payroll into an annual training budget to improve skills and knowledge of their employees. Besides of their staffs, Khind also thinks about their staff’s family. Therefore, they provide school uniform, shoes, stationery and school bags to employee’s children during the school commencement. Emplpyee’s healthy is always the main issue that a company need to concern. Therefore, Khind had organized two blood donation campaigns, fire evacuation drill, correct use of fire extinguishers and also other health and safety practices. Khind also prepared a wellness center which provides gym equipment, table tennis and a pool table to encourage to healthier lifestyles.

*Refer page 21-24(Annual Report)*

*Refer page 37(Annual Report)*

1. **Take a closer look at the entity’s Auditor’s Report:**
   1. **Did the entity enclose the report? If not, what are the reasons?**

**(1 mark)**

Yes, Khind Holding’s Berhad have enclosed the Independence Auditor’s Report. The report is divided into 4 parts, that’s report on financial statement of Khind Holding’s Berhad where the opinion of auditors are included with accordance of Standard On Auditing, the report on other legal and regulatory requirement which accordance with Company Act, other reporting responsibilities and other matters are being disclosed. In section of report on financial statement of Khind Holding’s Berhad, besides the opinion of auditors are included, it is also stated what type of financial statements are being used to audit. In this case, statement of financial position as at 31 December 2014 of Khind Holding’s Berhad, statement of profit or loss and other comprehensive income of Khind Holding’s Berhad, changes in equity and cash flow of the year of Khind Holding’s Berhad and also summary of significant accounting policies and other explanatory information is being audited. On top of that, directors’ responsibilities on financial statement and also auditor responsibilities are also stated in this section. Meanwhile on the second part of the Independence Auditor’s Report, which is the report on other legal and regulatory requirements, it is stated that the auditors are doing accordance with the Act and no fraud or any doubtful issue is being found. On the other report responsibilities segment, it disclose that the purpose of auditing to form an audit opinion and it also disclose the extended audit procedures to report on the process of compilation of information. Last but not least, in other matter segment, it is clearly stated that the report is only for the usage of members of Khind Holding’s Berhad with accordance of Company Act.

* 1. **Who audited the financial statements? Name the firm/auditor if possible.**

**(1 mark)**

The financial statement is audited by Lee Yee Keng, a chartered accountant who owns the approval number of 2880/04/15(J) and also employed by KPMG, firm number of AF 0758.

* 1. **What type of audit report was issued? Why is it so?**

**(4 marks)**

Audit report are Unqualified audit report was being issued where a clean opinion is being reported. This is because the financial report that Khind Holding’s Berhad produced had met the criteria of the following, which are

* All statements like balance sheet, income statement, statement of retained earnings, and statement of cash flow are disclosed in the financial statements.
* Three general standards have been followed on the audit engagement.
* Sufficient evidence has been collected and the auditor has conducted the audit engagement in an efficient manner that he can confirm and conclude that the three audit standards have been met.
* The financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).
* There is no requirement of additional explanatory paragraph in the report.
  1. **List out the entity’s subsidiaries. Did they have the same auditor? Were their accounts qualified?**

**(3 marks)**

Khind Holding’s Berhad’s subsidiaries are as follows:

* Khind Industries Sdn. Bhd.
* Khind Customer Service Sdn. Bhd.
* Khind-Mistral (Sabah) Sdn. Bhd.
* Khind-Mistral (Borneo) Sdn. Bhd.
* Khind Components Sdn. Bhd.
* Khind-Mistral Industries Sdn. Bhd
* Khind-Mistral (M) Sdn. Bhd.
* Khind Alliances Sdn. Bhd.
* Khind Electrical (Malaysia) Sdn. Bhd.
* Khind Properties Sdn. Bhd.
* Mayer Marketing (M) Sdn. Bhd.
* Mistral (Singapore) Pte. Ltd.
* Khind Middle East FZE
* Khind System (Singapore) Pte. Ltd.
* Khind Electrical & Environmental (Singapore) Pte. Ltd.
* Khind Electrical (Hong Kong) Limited
* Khind Electrical (Guangzhou) Limited
* Mayer Marketing Pte. Ltd.
* Mayer Marketing Sdn. Bhd.
* Khind Starfish Foundation

No, all subsidiaries didn’t use the same auditor as Khind Holding’s Berhad which is under auditor KPMG. Yes, the accounts of subsidiaries are all qualified with appropriate methods that have been disclosed in notes to financial statement – Notes 2.

1. **Search for information regarding the entity’s Audit Committee.**
   1. **Has the entity established an Audit Committee? When was it formed?**

**(1 mark)**

Khind Holding’s Berhad have established an audit committee back in year 1961, which consists of 3 members; 2 members of Independent of Non-Executive Director, who are Encik Kamil bin Datuk Hj. Abdul Rahman, the chairman of Audit Committee and Mr. Wong Chin Mun and a member of Non-Independent of Non-Executive Director named Mr. Lee Keok Hooi. Besides being the Chairman of Audit Committees, Encik Kamil bin Datuk Hj. Abdul Rahman, 66 years old Malaysian, is also an Senior Independent Non-Executive Directors of Khind Holding’s Berhad and one of the members of Nomination and Remuneration Committee. His expertise is in the aspect of corporate governance, corporate finance and risk management. Although he is holding directorship in other public listed company as well, but he has no conflict of interest with Khind Holding’s Berhad. On the other hand, Mr. Wong Chin Mun, an Independent of Non-Executive Director and a member of Audit Committees, Mr. Wong is also the Chairman of the Nomination and Remuneration Committee. As in aged of 70 years old, Mr. Wong is a Fellow of the Australian Society of Certified Practicing Accountants (FCPA) & Associate of Malaysian Institute of Accountants. Meanwhile, as being one of the member of Audit Committees and a member of Non-Independent of Non-Executive Director, Mr. Lee Keok Hooi, a 68 years old Malaysian citizen, is also a member of the Nomination and Remuneration Committee of Khind Holding’s Berhad and also being the only Chartered Accountant (Malaysia) in the Audit Committee. Currently, Mr. Lee is holding a Bachelor of Commerce degree in Accounting from University of Western Australia.

* 1. **Did the entity list out names of the members? Are they independent or non-independent members? What is your view on the composition of members?**

**(3marks)**

Yes, all the names of audit committee members are listed out in the annual report of Khind Holding’s Berhad and its stated clearly that 2 of them are Independent Non-Executive Director members and 1 of them is Non-Independent of Non-Executive Director which all of them have no conflict interest with Khind Holding’s Berhad. On my point of view, it’s a great combination of members of audit committee have been formed by Khind Holding’s Berhad as one of the committee is a member of the Malaysia Institute of Accounting (MIA). This acknowledges that the audit committees are on full access in accounting related information. On top of that, majority of the committee are an Independent Non-Executive member who means that they are free from corporate management and unable make any manipulation in the management and auditing aspects. Besides, audit committee members are made up of 2 persons and above therefore probability of making any bias decisions will be greatly reduces. And with this kind of arrangement also, I feel that the efficiency and effectiveness of the Audit Committees will increased as there are much more people to share the same amount of workload and therefore, members of Audit Committees might not feeling too stress or too burden because of the endless working hours. Hence, I believe that outcome of the audit committee are relatively objective and justice.

* 1. **Did the entity state the Audit Committee’s terms of reference or charter? Describe.**

**(2 marks)**

Yes, Khind Holding’s Berhad did state the Terms of Reference of the Audit Committee in an appropriate and understandable manner. Terms of Reference of the Audit Committee are a handbook that guideline how the audit committees are being selected and what are they responsibilities towards the company. To ensure every of the financial users know how the audit members are being selected and understand what should they do at the end of the year, a summary of the Terms of Reference of the Audit Committee is included in the annual report of Khind Holding’s Berhad approximate at page of 27, 28 and 29. In the Terms of Reference of the Audit Committee, it’s stated that the committee is at least consists of 3 persons, included the chairman of Audit Committee, who must be Non-Executive members with most of them being Independent Directors. Besides that, one of the members must be the member of Malaysia Institute Accountants (MIA) that have at least 3 years working experiences and meet any other requirements approved by Bursa Malaysia Securities Berhad. Performance of audit committee will be evaluated by the Board once in every 3 years’ time and the authority that audit committees accounted also being disclosed in the reference. On top of that, rules and regulations of every meeting held are listed in the Terms of Reference of the Audit Committee. It’s also stated inside the Terms of Reference of the Audit Committee that the quorum meeting shall be attended by any 2 of the audit committees and if the Chairman of the Audit Committee does not show up in 15 minutes of the time that the meeting is held, audit committees shall send a representative from the group who is also an Independent Non-Executive Director. Meeting of audit committees are held in at a rate of minimum 4 times and meeting is also going to happen if there is any request of external auditor to bring up any issues that are matters to the Directors and Shareholders. Notice of the audit committees meeting shall be known by everyone in the company unless it’s in emergency condition, a reasonable hand-writing notice will be accepted and send to the members that involved in the meeting according to the address that the audit committees provided or registered address in the Register of Directors. Chairman of the Audit Committees should report every meeting to the Board and questions that are going to ask in the meeting are voted by the majority of Directors beforehand and if there’s any equality votes happens, second voting will be conducted by the Chairman of the Audit Committee. Members of meeting can be included every external and internal auditors that work for Khing Holding’s Berhad and other members of Khind Holding’s Berhad could also be invited by the Audit Committees to attend meetings if necessary. Minutes of every Audit Committee meeting shall be recorded and bookkeeping at the Registered Office or any other place that the Board wanted for referring purpose and it should be signed by the Chairman of Audit Committee. The agenda of the next meeting shall be related to the previous meeting that proven by the minutes of Audit Committee meeting previously. Inside the Terms of Reference of Audit Committees, it also says that the Audit Committees are allowed to carry out resolution for Khind Holding’s Berhad in a way of circular resolution which means a written solution that should be signed by every Audit Committees’ members before its being executed. A single document or several documents may be contained in the resolution. Once Audit Committees are being selected, they are eligible to perform certain authorities’ actions to assists their tasks. For example, Audit Committees members are able to investigate any matters that are within the Terms of Reference of the Audit Committees. They will also obtain any resources that required performing their tasks and having full unrestricted access to the related information. They can have direct responses from external and internal auditors and also any independent professional to obtain professional advices. They are able to conduct meeting with external and internal auditors one on one if it’s necessary. Refers to the Terms of Reference of the Audit Committee, duties and responsibilities that should be carried out audit committees towards the company are being explained clearly to avoid confusion. They need to review on the nomination of the external auditor and their fees and decide which they need to selected as the external auditor for Khind Holding’s Berhad. They also will discuss the nature, scope, and the quality of the external audit plan or arrangement with the external auditor that have been selected. Together with the external auditor, they will do review and evaluation on the internal control system which will ease the burden of auditing later on. Audit Committees should also do review on the quarterly results and year-end financial statements of Khind Holding’s Berhad in which they will focusing on the part of whether the financial statements are compliance with accounting standards and requirement, any changes of accounting practices and policies and also significant or unusual issues or events before it’s approved by the Board. They also need to do review on the audit report or management letter that hand in by external auditor and response accordingly. Besides, they might also need to review resignation letter if there’s any external auditor wants to quit. They will consider whether there is any solid reason to judge that the external auditor is not suitable for reappointment and review on the assistance from Khind Holding’s Berhad to the external auditor. They may also need to discuss issues that arising from interim and final audits or any matters that the external auditor wants to have a talk. Audit Committees members are also need to establish accounting policies and procedure that need to assess the suitability and independence of external auditor while monitor them. Policies and procedures in governing situations for non-audit service contract entered by external auditor. Lastly, resignation and retirement of audit committees is also included in the Terms of Reference of the Audit Committee. Any of the Audit Committee members wish to be resigned should provide a sufficient written notice to Khind Holding’s Berhad before he leaves the position. The empty position shall be filled within 3 months’ time.

1. **Search for some current external information regarding your chosen entity?**
   1. **What are the economic factors that might have some influence on the performance of your entity? Explain.**

**(6marks)**

**1. Industries Competition**

### Industries competition is the economic factor that will affect a company performance because the more companies enter into the industries the more competition Khind Holdings Berhad need to face and the competition will reduce market share of Khind Holdings Berhad. The innovation of technology and products cause the competitors will produce the better products with cheaper price and it will give effect to the sales and profit of Khind Holdings berhad. New entrants into the industries will further reduce the profit of the company because more choices of products are offered to the consumers. So, the prices and marketing strategy need to adjust to attract the customers and remain the market shares owned. The example of competitors for Khind Holdings Berhad are Hitachi Asia (Malaysia) Sdn. Bhd, LG Electronics Malaysia, Singer (Malaysia) Sdn Bhd and SenHeng Electric (KL) Sdn Bhd.

### 2. Inflation rate

### In economics, inflation is a sustained increase in the general price level of goods and services in an economy over a period of time. Inflation leads to a higher cost of living with higher consumer prices and higher cost of raw materials. High inflation will cause the prices of goods increase greatly. The purchasing power of consumers reduced and cause the product produce cannot sold out. When the demand or purchasing power of consumers reduced, the sale and profit of company will be affected. If the inflation rate is greater than other country, domestic product will become less attractive compared to the other country. Thus, the export will be reduced and the performance of the company will be affect.

### 3. Cost of raw material and transportation

### Since 1 April 2015, Malaysia starts to charge Goods and Services Tax (GST) on the goods purchase and services. For the manufacturing company involves acquisition of raw material for produce final products. All of the business purchases will incur GST which is referred to input tax except for those classified as exempt or zero-rated supplies. Increase in cost of raw material will cause the profit of the company reduce. As recently, Malaysia government has cut more subsidies on the fuel price and the fuel price will fluctuate monthly according to the world oil price. Increase in fuel price could lead to an impact toward every industries. The increase of diesel fuel prices will increase the transportation cost and will increase the cost incurred on each products. The increase in the cost will decrease the profit of the company. Profitability of company affected will influence on the company performance. So the continuing increase in fuel price will affect the performance of not only Khind Holdings Berhad but also the whole industries.

* 1. **Is there any development on current local rules, regulations, acts which your entity should be concerned about?**

**(6marks)**

Khind Holdings Berhad should concern about the development of the current local rules, regulations, acts that will have an impact on the group and company. For example, the developments are established of Goods and Services Tax (GST).

1. **Amendment of MFRS that have to be followed.**

The financial statements have been prepared in accordance with Malaysian Financial Reporting Standards “MFRS” and the requirements of the companies Act, 1965 in Malaysia. The following are accounting standards, amendments and interpretations that have been issued by Malaysia Accounting Standards Board (“MASB”) but have not been adopted by the group and the company:

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014**

• Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*

• Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010-2012 Cycle)*

• Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*

• Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*

• Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*

• Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)*

• Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*

• Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*

• Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*

• Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016**

• Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*

• Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*

• 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*

• Amendments to MFRS 10, *Consolidated Financial Statements,* MFRS 12*, Disclosure of Interests in Other Entities and* MFRS 128*, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*

• Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*

• MFRS 14, *Regulatory Deferral Accounts*

• Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*

Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 138*, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*

• Amendments to MFRS 116, *Property, Plant and Equipment and* MFRS 141*, Agriculture – Agriculture: Bearer Plants*

• Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*

• Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*

• Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

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

• MFRS 15, *Revenue from Contracts with Customers*

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

• MFRS 9, *Financial Instruments (2014)*

Khind Holdings Berhad should be concern on the applying date of the amendments of MFRS to prevent any misstatement that will cause the true and fair view of the reports to be affected.

*Refer to Page 41-42(Annual Report)*

1. **Goods And Services Tax (GST Malaysia)**

GST is implemented from 1 April 2015 and fixed at 6% and it will replace the sales and services tax. All of the business purchases including importation of goods and services will incur GST which is referred to input tax except for those classified as exempt or zero-rated supplies.All supplies of goods and services of Khind Holdings Berhad will charge to the standard rate of 6%. GST will affect the term of tax reporting and calculation. So that Khind Holdings Berhad need to change in policy in the company to prevent the performance of the company to be affected.

1. **Monetary Policy**

Monetary policy impacts the money supply in an economy which the government, central bank controls the supply of money and interest rate. Monetary policy will influence business expansion, cost of loan and relative cost of consumption. If the Bank Negara Malaysia raise the interest rate, the banks will raise the interest rates to the borrowers and it will increase the cost of loan to company. On 10 July 2014, Bank Negara Malaysia decided to raise the Overnight Policy Rate (OPR) by 25 basis points to 3.25 percent. The overnight rate is interest rate that central bank charges a financial institution to borrow money overnight. The higher the overnight rate, the more expensive it is to borrow money and it has effect on employment, economic growth and inflation. So Khind Holdings Berhad should concern about the monetary policy because increase in interest rate will bring impact towards the performance of the company in paying back their loans and debts.

* 1. **Name and explain at least two (2) social factors that your chosen entity should pay attention to?**

**(6marks)**

## **Social Responsibility**

Social responsibility is a concept that an organization takes responsibility on the impact of their activities to customers, employees, environmental and communities. Khind Holdings Berhad should pay attention to the environmental protection issues by using sustainable manufacturing. Sustainable manufacturing is a creation of manufactured products that use processes that are non-polluting, conserve energy and natural resources, and are economically sound. By using sustainable manufacturing, it will enhance the safety for employees, communities, and consumers. Khind Holdings berhad should aware the social responsibility that to protect the environment by reducing the pollution. The social responsibility of business not only towards environmental protection, but it is towards the protection of the business itself. So, a business cannot try to exploit customers’ concerns to make a profit. Khind Holdings Berhad should pay attention on this because it will generate good names among consumers.

1. **Consumer Preferences**

As we know that consumer preferences often unpredictably and changeable. So Khind Holdings Berhad should focus on analyze and predict the preference of the consumers. Khind have to do the best to stay ahead of consumer buying trends. If company fail to catch the customers’ preference, customers may choose the products from competitors. Khind have to try hard to come out with something innovative that will attract the consumers and maximize benefits and satisfaction of the customers. Company have to be alert to the changes of customers’ preference in order to maintain their loyal customers. Generally, Company will make profit if customer prefer Khind’s product.

1. **Growing Popularity Of Social Media**

**Khind not only need to focus on the traditional methods, but also need to focus on the online shopping. Because social networking sites such as Facebook, Instagram have become popular among the younger people. Nowadays, most of the younger consumers are used mobile phones and computer to purchase goods online but most of the older people will perhaps purchase in the shop. For example, Khind can invest more on digital marketing which is utilize Facebook fanpage as one of the channel to connect with our stakeholders especially customers. Day by day, social media keep portraying news and any updates from Khind might help to increase the visibility of their company and also set a good reputation of the company itself. Digital campaign can be done as well to increase customers’ curious about Khind’s product. So, Khind Holding Berhad should fulfil both of the methods to increase their performance and reputation.**

1. **If you are the reader or user of the information in the annual report that your entity provided:**
   1. **What additional information would you like them to provide? Support your answer.**

**(3marks)**

**a) Financial Ratio**

The financial ratio with comparative year should be provided, so that the investor or shareholder can understand easily about the financial of the company without doing the calculation and can make decision precisely before make investment. Financial ratio will give an overall of future performance of the company to the shareholders and investors.

**b) Budget, forecast and planning**

Budget, forecast and planning for next year should be prepared inside the annual report for external users. Because the budget show the financial plan that enables the company to control the cash flow while the forecast on sales generated by the company will be made to predict the cash receipts and profit. So that, Investor or shareholder can evaluate the performance of the company and more understands the future plan of the company. All of these informations will convince the external users to invest to the company.

* 1. **Provide two suggestions on how the chosen entity may improve the quality of report?**

**(3marks)**

1. **Summarize all the statements and reports**

Due to the most of the annual report are exceed 50 pages and it is hard to give overall information to the external users and will waste their time to find the information that they needed. So, the company can summarize and classify all the related information in annual report to make the external users can understand an overall picture of the annual report. The information of annual report should be short format, simplify and complete so that the users will not feel the annual report is too long and have unnecessary information.

1. **Include more charts and graphics.**

The company can use charts, graphs, tables and pictures to present some information in the annual report. For example, Khind can use charts or graphics to design or present the financial report instead of using words only. Information summarized in charts and graphics will make it simple and easier to understand. The company also can use colours to make it nice and attractive for the users to attract them to read it.

1. **From 28th July to 8th October 2014, daily monitored the share prices of your entity. Imagine for some time, you have owned a substantial amount of shares in your chosen entity. (8 marks)**
   1. **Back with the share prices analysis (eg: share prices monitored, graphs of price fluctuations, financial ratios calculated), and previous informations gathered (Auditor Report, economic; social and legislative factors, performance analysis etc), at the end of your group project, make a collective decision, would you retain OR sell your shares? Justify your decision.**

The going concern of Khind Holdings berhad can be seen through analysis from various sectors. Here is some analysis that needed:

1. Share Price Analysis

Table of Share Price Monitored from 28 July to 8 October 2015

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Open | High | Low | Close |  | Change | % | Volume |
| Tue, 28/07/15 | 2.11 | 2.11 | 2.11 | 2.11 |  | - | - | 2600 |
| Wed, 29/07/15 | 2.11 | 2.11 | 2.11 | 2.11 |  | - | - | - |
| Thu, 30/07/15 | 2.11 | 2.11 | 2.10 | 2.10 | http://www.klse.info/images/result-arrow-down.png | -0.01 | -0.47 | 3000 |
| Fri, 31/07/15 | 2.11 | 2.11 | 2.11 | 2.11 | http://www.klse.info/images/result-arrow-up.png | 0.01 | 0.48 | 1000 |
| Mon, 3/08/15 | 2.11 | 2.11 | 2.11 | 2.11 |  | - | - | - |
| Tue, 4/08/15 | 2.11 | 2.11 | 2.11 | 2.11 |  | - | - | - |
| Wed, 5/08/15 | 2.11 | 2.11 | 2.11 | 2.11 |  | - | - | - |
| Thu, 6/08/15 | 2.13 | 2.13 | 2.13 | 2.13 | http://www.klse.info/images/result-arrow-up.png | 0.02 | 0.95 | 1000 |
| Fri, 7/08/15 | 2.12 | 2.12 | 2.12 | 2.12 | http://www.klse.info/images/result-arrow-down.png | -0.01 | -0.47 | 3000 |
| Mon, 10/08/15 | 2.10 | 2.11 | 2.10 | 2.10 | http://www.klse.info/images/result-arrow-down.png | -0.02 | -0.94 | 6600 |
| Tue, 11/08/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | - |
| Wed, 12/08/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | - |
| Thu, 13/08/15 | 2.18 | 2.18 | 2.18 | 2.18 | http://www.klse.info/images/result-arrow-up.png | 0.08 | 3.81 | 4000 |
| Fri, 14/08/15 | 2.10 | 2.10 | 2.10 | 2.10 | http://www.klse.info/images/result-arrow-down.png | -0.08 | -3.67 | 2000 |
| Mon, 17/08/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | - |
| Tue, 18/08/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | - |
| Wed, 19/08/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | 400 |
| Thu, 20/08/15 | 1.96 | 1.96 | 1.95 | 1.95 | http://www.klse.info/images/result-arrow-down.png | -0.15 | -7.14 | 6000 |
| Fri, 21/08/15 | 2.05 | 2.05 | 2.05 | 2.05 | http://www.klse.info/images/result-arrow-up.png | 0.1 | 5.13 | 2000 |
| Mon, 24/08/15 | 1.90 | 1.90 | 1.90 | 1.90 | http://www.klse.info/images/result-arrow-down.png | -0.15 | -7.32 | 5000 |
| Tue, 25/08/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | - |
| Wed, 26/08/15 | 1.86 | 1.90 | 1.80 | 1.85 | http://www.klse.info/images/result-arrow-down.png | -0.05 | -2.63 | 65100 |
| Thu, 27/08/15 | 1.85 | 1.89 | 1.80 | 1.89 | http://www.klse.info/images/result-arrow-up.png | 0.04 | 2.16 | 17500 |
| Fri, 28/08/15 | 1.86 | 1.86 | 1.86 | 1.86 | http://www.klse.info/images/result-arrow-down.png | -0.03 | -1.59 | 11000 |
| Tue, 1/09/15 | 1.90 | 1.90 | 1.90 | 1.90 | http://www.klse.info/images/result-arrow-up.png | 0.04 | 2.15 | 3500 |
| Wed, 2/09/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | 3000 |
| Thu, 3/09/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | - |
| Fri, 4/09/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | - |
| Mon, 7/09/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | - |
| Tue, 8/09/15 | 1.90 | 1.90 | 1.90 | 1.90 |  | - | - | - |
| Wed, 9/09/15 | 1.96 | 2.00 | 1.95 | 2.00 | http://www.klse.info/images/result-arrow-up.png | 0.1 | 5.26 | 36600 |
| Thu, 10/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Fri, 11/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Mon, 14/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | 1000 |
| Tue, 15/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Thu, 17/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Fri, 18/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | 8900 |
| Mon, 21/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Tue, 22/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | 21500 |
| Wed, 23/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Fri, 25/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Mon, 28/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Tue, 29/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Wed, 30/09/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Thu, 1/10/15 | 2.00 | 2.00 | 2.00 | 2.00 |  | - | - | - |
| Fri, 2/10/15 | 2.00 | 2.10 | 2.00 | 2.10 | http://www.klse.info/images/result-arrow-up.png | 0.1 | 5.00 | 10000 |
| Mon, 5/10/15 | 2.15 | 2.15 | 2.10 | 2.10 |  | - | - | 3100 |
| Tue, 6/10/15 | 2.10 | 2.10 | 2.10 | 2.10 |  | - | - | - |
| Wed, 7/10/15 | 2.15 | 2.15 | 2.15 | 2.15 | http://www.klse.info/images/result-arrow-up.png | 0.05 | 2.38 | 10000 |
| Thu, 8/10/15 | 2.15 | 2.16 | 2.15 | 2.16 | http://www.klse.info/images/result-arrow-up.png | 0.01 | 0.47 | 6900 |

Graph of Share Price Fluctuations from 28 July to 8 October 2015



Based on the share price table and graph of share price fluctuation for Khind Holdings Berhad, we can see that during the period of 28th July 2015 to 8th October 2015, the share price of Khind Holdings Berhad did not experienced a big fluctuation. For example, we can see that throughout the period the biggest increase in the company’s share price was RM0.10 per share while it may decrease in the range of RM0.15 per share. On 28th July 2015, the stock market open and close with price of 2.11. While on 8th October 2015, the stock price open at 2.15 and close at 2.16. This means the changes of stock price from 28th July until 8th October 2015 is only around 0.04 or 2.37%. Besides, Khind Holdings Berhad’s share price may remain constant for a few days according to the table and graph of share price fluctuation. We can see that Khind Holdings Berhad is certain as the changes in their share price throughout the monitored period are not significant, even have some days was remain constant. This means that the company did not have so much intention to cease the business and they are trying to maintain its own stock price at stable level.

1. Financial Ratio Analysis

|  |  |  |
| --- | --- | --- |
|  | 2014  (RM’000) | 2013  (RM’000) |
| Profit Margin  = | = | = |
| Short Term Solvency |  |  |
| Current Ratio  = | = | = |
| Quick Ratio  = | = | = |
| Cash Ratio  = | = | = |
| Long Term Solvency |  |  |
| Total Debt Ratio  = | = | = |
| Debt – Equity Ratio  = | = | = |
| Asset Management |  |  |
| Inventory Turnover  = | = | = |
| Total Asset Turnover  = | = | = |

Above are the financial ratios that calculated in order to analyse Khind Holding’s Berhad reputation and performance. The first concern is the profit that company can generate for every RM1 sales. A relatively high profit margin is desirable for every company. By calculating the profit margin, we can found that Khind’s profit margin had dropped from 5.00% to 3.81% in 2013 and 2014 respectively. This showed that the company had faced some difficulties to increase their profit.

The second thing that we need to concern is the short term solvency which can shows the company’s ability to pay their debt over the short run. The current ratio of Khind Holding’s Berhad is 1.67 at 2014 compared with 1.64 in 2013. This means that the company had more able to pay their bills in the short run although the increase of current ratio is not so significant. Besides of current ratio, quick ratio is another decision tool to determine the short term solvency of a company. Same with current ratio, the quick ratio is increased from 2013 to 2014 that is from 0.36 to 0.37 with insignificant movement. Cash ratio was used to measure how long a company can survive until it needs another round of financing which means that the company can remain in the industry. For Khind Holding’s Berhad, the increase in cash ratio is also not significant among 2013 and 2014. From the table above, we can notice that it is just 0.01 differences between the cash ratio of both years.

After considering short term solvency, long term solvency of Khind Holding’s Berhad was monitored in order to make sure it is able to meet its obligation in the long run. Total debt ratio was calculated for year 2013 and 2014 and based on the result we can see that the company’s total debt ratio remains constant at 0.55. This means that the debt of Khind Holding’s Berhad is made up of 55% of its assets. The other ratio calculated is debt-equity ratio. In 2014, the debt-equity ratio was 1.23, decreased 0.01 from 2013. The insignificant decrease showed that the ability of the company was almost the same for two years.

Asset turnover ratio is also needed when financial ratio analysis was carried out. This is because it can show how the company precisely used their assets to generate sales. The first ratio that calculated is inventory turnover, the higher the turnover, the more efficiently the company managing inventories. However, the inventory turnover of Khind Holding’s Berhad was decreased throughout 2013 and 2014. Inventory turnover at 2013 is 3.74 times, while it decreased to 3.49 times in 2014. This showed that the company faced some difficulties to increase their sales or managing their inventory. For the total asset turnover ratio also faced the same problems with asset turnover ratio, which is decline from 1.46 times in 2013 to 1.31 times in 2014.

All these ratios showing that the company was performing moderately in two years. However, it still faced some problems in increasing their sales or survive in the compete situation.

1. Audit Report

According to the independent auditor’s report in the annual report of Khind Holding’s Berhad, the auditor state that the financial statements of the company gives a true and fair view of the financial position of the Group and the Company as of 31 December 2014. Besides, their financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements in the Companies Act, 1965 in Malaysia. It is a unqualified opinion without any modification paragraph mentioning that the company is facing going concern issues. From a shareholder perspective, it can be concluded that there are no going concern issue arise from the financial statements in the annual reports.

1. Overall

Based on the analysis of the daily share price and the financial ratio analysis, we can conclude that the company did not intend to sell or cease the business as the company is generating profits. Besides, the company did not have the intention to sell off its business and close the business although its performance was slightly decreased. As a shareholder, we will retain the shares that currently hold. This is because the company still holds big market share in the sector. Although their performance was not as good as past, it may be due to the changing of market demand or other social even economic factors that caused the consumer less intention to buy the electrical products. Therefore, it is not a big issue that can cause the company into trouble. So as a shareholder, we will retain the Khind Holding’s Berhad’s share.

1. **References**