

## K.i.M MIDAS - Risk return assessment

### GROUP

Industry Code: MF  
Job Number: 1153909518

### Key Financial Strength Assessment / Dynamics

	PR	2006	2005	PR
Gross profit margin (%)	6.00	5.86%	6.17%	6.00
Operating margin (%)	6.00	3.48%	3.01%	6.00
Net profit margin (%)	6.00	1.61%	1.24%	6.00
Average PR Score (single-year)	6.0			6.0
Wtd Average PR Score (2-year)	6.0	PR = profitability rating. PR1 = Excellent profitability - PR6 = Poor profitability		

**RETURNS ARE MAINLY DRIVEN HIGH GEARING LEVELS. DESPITE IMPROVING ROEs, SHAREHOLDERS ARE NOT ADEQUATELY COMPENSATED FOR THE RISKS THAT ARE UNDERTAKEN BY THE FIRM.**

Underlying profitability is poor – pricing strategy, product mix and business model need to be significantly reviewed in terms of their effectiveness. There is high uncertainty in terms of the firm's financial health over the longer term.

With severely limited gross margin, the firm will be unable to pay its operating and other expenses and build for the future. Management needs to be highly selective of its customers, by attaining higher quality clientele and across more diversified sources.

Highly insufficient net profits experienced – operating costs overwhelmed operating revenue. Top line and underlying profitability highly vulnerable.

	SR	2006	2005	SR
Debt to equity (%)	6.00	339.11%	398.20%	6.00
Debt to Capital (%)	6.00	77.23%	79.93%	6.00
Average SR Score (single-year)	6.0			6.0
Wtd Average SR Score (2-year)	6.0	SR = solvency rating. SR1 = Very low risk - SR6 = Very high risk		

Extremely high risk in terms of the level of borrowings by the firm relative to its equity base. Proportion of debts is significantly much higher than its equity base. Balance sheet and earnings are highly vulnerable to economic and industry shocks.

### Profitability drivers

	2006	2005
Returns to shareholders /	15.32%	13.83%

Net profit margin (net profit/sales)	Asset turnover: Sales/total assets	Equity multiplier: Total Assets/Equity
<u>2006</u> 1.61%	<u>2006</u> 1.91	<u>2006</u> 5.00
<u>2005</u> 1.24%	<u>2005</u> 1.83	<u>2005</u> 6.09

There was an improvement in terms of returns to shareholders for the period, amounting to 15.32% compared 13.83% in the previous period. From the results, it can be suggested that the firm's profitability, through margins and sales, would generate returns 3.06% while an estimated portion of the ROE 12.26% was due to returns earned on the debt at work in the business.

For the previous period, this would translate to return on 2.27% through and sales, while an estimated portion of the ROE 11.56% was due to returns on the debt at work in the business.

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### *In-depth risk assessment*

	2006	2005
Working capital / total	31.97%	26.78%
Retained earnings/total	3.06%	2.27%
Profits before tax/total	3.09%	2.39%
Estim equity value/total	24.98%	19.65%
Sales to total	190.61%	183.11%

### **MODEST IMPROVEMENTS CAN BE SEEN BUT SOMEWHERE CHALLENGING FINANCIAL POSITION IN TERMS OF EARNINGS RETENTION AND ADEQUACY OF CAPITAL RELATIVE TO BALANCE SHEET STRENGTH.**

For the 2006, GROUP posted a risk score of 2.58 vs 2.38 previously. There is an improvement in the risk rating, signifying improved risk position compared with previous period.

The firm posted a positive working capital position, signifying that its current assets is generally adequate to cover its short-term obligations but greater scrutiny needs to be applied in terms of the liquidity of the assets.

In this regard, its working capital during the period greater than the previous amount of 49,299,154 - the current period's position 58,253,724. This figure represents circa 31.97% of total assets as compared to the previous position 26.78%.

Business risks for the firm have decreased in relative terms. It can be suggested that the way it handles competition has improved and have been generally able to efficiently using its assets to generate sales compared with the previous period.

Sales as a percentage of total assets, an indicator of business risks, 190.61% for the current period of assessment, 183.11% in 2005.

Meanwhile, the firm posted a slight decline in asset growth, at a -1.04% or -1,908,876 compared to the amount of sales change 10,171,702. As a result, the firm's asset turnover higher than the previous period.

In this instance, a higher asset turnover implies that the firm has been more successful in utilizing its assets to generate revenue.

ie. for every dollar of asset invested by the firm, it generates a revenue 1.91. This is higher compared to the previous period 1.83.

This is an immediate need for the firm to deleverage its position ie. By reducing its overall debt exposure and improve its earnings position. Modest improvements across several risk indicators can be seen over the period, but this needs to be consistently achieved. Any improvements and strong growth going forward, needs to be underscored by improvements in its cash and debt position.