

ES CERAMICS TECHNOLOGY BHD
Company no. 627117-P
(Incorporated in Malaysia)

UNAUDITED FINANCIAL REPORT FOR THE FIRST QUARTER
ENDED 31 AUGUST 2006

NOTES TO THE INTERIM FINANCIAL REPORT

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD (“FRS”) 134 INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with FRS 134 “Interim Financial Reporting” (formerly known as MASB 26) and the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the MESDAQ Market (“Listing Requirements”).

The interim financial report should be read in conjunction with the latest audited financial statements of ES Ceramics Technology Bhd (“ESCTB or Company”) and its subsidiaries (“Group”) for the financial year ended 31 May 2006.

A2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 May 2006 except for the adoption of the new / revised Financial Reporting Standards (“FRS”) effective for financial period beginning 1 June 2006.

The adoption of new / revised FRSs does not have significant financial impact on the Group except for the FRSs disclosed as follows:

(a) Employee Share Option Scheme (FRS 2 : Share Based Payment)

FRS 2 requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the employees of the Group, ESCTB Employee Share Options Scheme (“ESOS”). Prior to 1 June 2006, no compensation expense was recognized in profit or loss for share options granted. With the adoption of FRS 2, the compensation expenses relating to share options are recognized in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognized as compensation expenses is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using the weighted average price of the share options prior to grant date. At every balance sheet date, the Group revises its estimates of the number of share options that are to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

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Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and has not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 May 2006 are restated and the opening balance of retained earnings as at 1 June 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is as follows:

	As at 1 June 2006 RM
Decrease in retained earnings	(79,560)
Increase in capital reserve	79,560

	Current quarter ended		Cumulative quarter ended	
	31.8.2006	31.8.2005	31.8.2006	31.8.2005
	RM	RM	RM	RM
Decrease in profit for the period	18,636	19,890	18,636	19,890

A3. Qualification of Financial Statements

The auditor's report on the preceding financial statements of ESCTB for the financial year ended 31 May 2006 was not subject to any audit qualification.

A4. Seasonal or Cyclical Factors

The results of the Group were not materially affected by any seasonal or cyclical factors during the current quarter under review.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group during the current quarter under review.

A6. Material Changes in Estimates

There were no changes in estimates that have a material effect in the current quarter results.

A7. Debts and Equity Securities

There were no issuance and repayment of debts and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares for the current quarter and under review.

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On 10 March 2006 and 4 May 2006, a total of 1,200,000 Employees Share Option Scheme (“ESOS”) Options were offered to the executive directors and eligible employees of the Group. Each option gives the holder the right to subscribe for one ordinary share of RM0.10 each of the Company at the exercise price of RM0.19 and RM0.22 respectively. The scheme is to be in force for a period of 5 years from the date of implementation until year 2010. The number of options vested as at the date of the current quarter is 229,000 options.

A8. Dividend

There were no dividends paid for the quarter under review.

A9. Segmental Information

No segmental analysis is prepared as the business of the Group is principally carried out in Malaysia and operates within one business.

A10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current quarter under review.

A11. Material Events Subsequent To The End of The Quarter

There are no material events subsequent to the end of the quarter under review.

A12. Changes in Composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

A13. Contingent Assets or Liabilities

There were no contingent assets or contingent liabilities for the current quarter under review.

A14. Capital Commitments

There were no material capital commitments for the current quarter under review.

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B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Review of Performance

For the financial period ended 31 August 2006, the Group recorded revenue and profit before taxation ("PBT") of approximately RM1.92 million and RM0.16 million respectively. Correspondingly the profit after taxation ("PAT") is approximately RM0.22 million.

B2. Comparison with Preceding Quarter's Results

The Group recorded a turnover of RM1.92 million for the current quarter under review as compared to RM2.53 million in the preceding quarter ended 31 May 2006 whereas the Group's profit before tax recorded RM0.16 million as compared to RM0.68 million in the preceding quarter ended 31 May 2006. The decrease in the profit before tax for the current quarter was attributable to the lower sales generated and higher energy costs in the Group's production.

B3. Current Year's Prospect

The Group will continue to focus on its core activities and barring any unforeseen circumstances, the Directors anticipate that the performance of the Group will be satisfactory in the financial year ending 31 May 2007.

B4. Variance on Profit Forecast/Profit Guarantee

The Group has not issued any profit forecast/profit guarantee for the current period and financial year to-date.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31.08.2006	31.08.2005	31.08.2006	31.08.2005
	RM	RM	RM	RM
Current year	64,930	51,053	64,930	51,053
Deferred taxation	(129,000)	(3,900)	(129,000)	(3,900)
	(64,070)	47,153	(64,070)	47,153

The effective tax rate of the Group's current tax charge for the period was lower than statutory tax rate mainly due to tax incentives enjoyed by subsidiary companies.

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B6. Profit on Sales of Unquoted Investment and/or Properties

There were no disposals of unquoted investments and/or properties by the Group for the current quarter under review.

B7. Quoted Securities

There was no purchase or disposal of quoted securities by the Group for the current quarter under review.

B8. Status of Corporate Proposal

Save as disclosed below, there are no corporate proposals announced or completed except for the followings: -

- (a) The Company had raised RM6.05 million from the public issue and as at 31 August 2006, the details of the utilization of the proceeds are as follows:-

	Proposed Utilisation	Actual Utilisation As at 31.08.2006	Balance
	RM'000	RM'000	RM'000
Repayment of bank borrowings	1,520	1,480	40
Research & Development	1,000	1,072	(72)
Purchase of plant and machinery for production	600	600	-
Working capital	1,730	1,730	-
Estimated listing expenses	1,200	1,200*	-
TOTAL	6,050	6,082	

Note:-

* *Total listing expenses was RM1.28 million, of which RM1.20 million was charged against the proceeds raised from the public issue and the difference funded by internally generated funds.*

- (b) On 20 July 2006, the Company announced that on the even date, the Company entered into the following conditional sale and purchase agreements:-
- (i) sale and purchase agreement to acquire the entire equity interest in GTR Ceramics Sdn Bhd ("GTRM") comprising 3,000,000 ordinary shares of RM1.00 each from Tan Boon Thiam, Tan Boon Sing and Tan Boon Heng ("GTRM Vendors") for a cash consideration of RM7,000,000; and

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- (ii) sale and purchase agreement to acquire the entire equity interest in GTR Ceramics Co. Ltd. ("GTRT") comprising 2,100,000 ordinary shares of THB10 each from Tan Boon Thiam, Tan Boon Sing, Tan Boon Heng, Montri Benjadanai, Ng Lay Peck, Stella Teo Moi Lin and Tan Yoke Bee ("GTRT Vendors") for a cash consideration of RM2,000,000 ("GTRT SPA").

(collectively referred to as "Proposed Acquisitions")

In conjunction with the Proposed Acquisitions, the substantial shareholders of ESCTB, namely, Wong Fook Choy, Choy Swee Lan and Wong Fook Lin ("Substantial Shareholders") have also on even date entered into the following agreements with the GTRM Vendors for the purchase of up to 28.5% equity interest in ESCTB by the GTRM Vendors from the Substantial Shareholders:-

- (i) a conditional sale and purchase agreement for the GTRM Vendors to purchase 8,000,000 ordinary shares of RM0.10 each in ESCTB ("ESCTB Shares" or "Shares") from the Substantial Shareholders for a cash consideration of RM2,800,000; and
- (ii) a call and put option agreement whereby:-
- (a) the Substantial Shareholders have agreed to grant the right to the GTRM Vendors to require the Substantial Shareholders to sell to them 7,000,000 ESCTB Shares ("Option Shares") for a cash consideration of RM2,450,000 ("Option Price"); and
- (b) the GTRM Vendors have agreed to grant the right to the Substantial Shareholders to require the GTRM Vendors to purchase from the Substantial Shareholders the Option Shares at the Option Price.

Subsequently, on 18 September 2006, the Company announced that it had on even date entered into a supplemental agreement to vary the terms of the GTRT SPA. Pursuant to the supplemental agreement, ESCTB will now acquire 99.99% equity interest in GTRT comprising 2,099,994 GTRT Shares from GTRT Vendors for a cash consideration of RM2,000,000.

- (c) On 15 September 2006, the Company announced that it proposes to make amendments to certain provisions of the existing Bye-Laws governing the Company's existing ESOS.

The main amendments to be made to the Bye-Laws are to increase the maximum number of ESCTB Shares that may be issued under the ESOS from 3.82% to 15% of the issued and paid-up share capital of ESCTB at any one time.

Other amendments are in respect of eligibility, maximum entitlement and basis of allotment and other amendments in relation to the administration of the ESOS.

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B9. Borrowings and Debt Securities

There were no borrowings or debt securities in the Group for current quarter under review.

B10. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments.

B11. Material Litigation

There is no pending material litigation as at the date of this quarterly report.

B12. Dividend

Interim dividend has not been declared.

B13. Earnings Per Share

The basic earnings per share for the current quarter ended 31 August 2006 has been calculated based on the net profit attributable to ordinary shareholders of ESCTB of RM225,787 divided by the weighted average number of ordinary shares of RM0.10 each in issue of 52,475,333 shares for the quarter ended 31 August 2006.

The diluted earnings per share for the current quarter ended 31 August 2006 has been calculated based on the the net profit for the period attributable to ordinary equity holders of the parent of RM225,787 divided by the weighted average number of ordinary shares in issue during the period which have been adjusted for the dilutive effects of all potential ordinary shares, i.e share options granted to employees of 52,592,145 Shares.