

# **Genetec Technology Berhad**

**(Company No.: 445537-W)**

(Incorporated in Malaysia)

Interim Report for the

Third Quarter Ended

31 December 2006

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The figures have not been audited

**CONDENSED CONSOLIDATED INCOME STATEMENTS**

	Note	Individual Quarter		Cumulative Quarter	
		Current Year Quarter 31/12/2006 RM'000	Preceding Year Corresponding Quarter 31/12/2005 RM'000	Current Year To-date 31/12/2006 RM'000	Preceding Year Corresponding Period 31/12/2005 RM'000
Revenue		3,039	9,071	15,046	28,313
Operating expenses		(4,846)	(8,395)	(17,940)	(25,943)
Share based-payment under ESOS		-	-	(1,225)	-
Other operating income		24	20	30	47
(Loss)/Profit from operations		(1,783)	696	(4,089)	2,417
Finance costs		(83)	(114)	(199)	(279)
(Loss)/Profit before taxation		(1,866)	582	(4,288)	2,138
Taxation	21	-	(25)	-	(50)
Net (loss)/profit for the financial period		<u>(1,866)</u>	<u>557</u>	<u>(4,288)</u>	<u>2,088</u>
Attributable to:					
Equity holders of the parent		(1,866)	557	(4,288)	2,088
Minority shareholders' interests		-	-	-	-
		<u>(1,866)</u>	<u>557</u>	<u>(4,288)</u>	<u>2,088</u>
(Loss)/Earnings per share (sen) :-	30				
Basic		<u>(1.55)</u>	<u>0.52</u>	<u>(3.57)</u>	<u>2.98</u>

The Condensed Consolidated Income Statements should be read in conjunction with the Audited Financial Statements for the financial year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited) As at end of current quarter <u>Note</u> 31/12/2006 RM'000	(Audited) As at preceding financial year ended 31/3/2006 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	6,686	3,901
Prepaid lease payments	836	849
Goodwill	251	251
<b>Current assets</b>		
Inventories	4,565	4,720
Trade receivables	5,578	13,774
Other receivables	1,597	566
Tax recoverable	279	229
Amount due from an associate	843	888
Cash and cash equivalents	6,938	6,794
	<u>19,800</u>	<u>26,971</u>
<b>TOTAL ASSETS</b>	<u><u>27,573</u></u>	<u><u>31,972</u></u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	12,014	12,000
Reserves	7,025	10,060
<b>Equity attributable to equity holders of the parent</b>	<u>19,039</u>	<u>22,060</u>
Minority shareholder's interest	-	-
<b>Total equity</b>	<u>19,039</u>	<u>22,060</u>
<b>Non-current liabilities</b>		
Hire purchase liabilities	1,159	203
Deferred taxation liabilities	92	92
	<u>1,251</u>	<u>295</u>
<b>Current liabilities</b>		
Trade payables	1,666	4,943
Other payables	1,858	1,128
Borrowings	3,079	3,416
Hire purchase liabilities	680	130
	<u>7,283</u>	<u>9,617</u>
	<u><u>27,573</u></u>	<u><u>31,972</u></u>
<b>Net assets per share (RM)*</b>	<u><u>0.16</u></u>	<u><u>0.18</u></u>

Note:

\* Net assets per share attributable to shareholders of the Company : Equity attributable to equity holders of the parent /Number of issued and paid-up ordinary shares

**The Condensed Consolidated Balance Sheets should be read in conjunction with the Audited Financial Statements for the financial year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial statements.**

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The figures have not been audited

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share Capital RM'000	Non Distributable		Retained Profits RM'000	Total RM'000	Minority Interest RM'000	Total RM'000
		Share Premium RM'000	Other Reserve RM'000				
<b><u>9 months ended 31 December 2005</u></b>							
Balance at 1 April 2005	1,000	-	-	6,901	7,901	-	7,901
Issuance of shares	11,000	6,000	-	(3,800)	13,200	-	13,200
Share issue expenses	-	(1,651)	-	-	(1,651)	-	(1,651)
Net profit for the financial period	-	-	-	2,088	2,088	-	2,088
<b>Balance at 31 December 2005</b>	<b>12,000</b>	<b>4,349</b>	<b>-</b>	<b>5,189</b>	<b>21,538</b>	<b>-</b>	<b>21,538</b>
<b><u>9 months ended 31 December 2006</u></b>							
Balance at 1 April 2006	12,000	4,191	-	5,869	22,060	-	22,060
Prior year adjustment - effect of adopting FRS 2	-	-	875	(875)	-	-	-
Balance at 1 April 2006 (restated)	12,000	4,191	875	4,994	22,060	-	22,060
Effect of adopting FRS 2	-	-	1,225	-	1,225	-	1,225
Issuance of shares	14	28	-	-	42	-	42
Net profit for the financial period	-	-	-	(4,288)	(4,288)	-	(4,288)
<b>Balance at 31 December 2006</b>	<b>12,014</b>	<b>4,219</b>	<b>2,100</b>	<b>706</b>	<b>19,039</b>	<b>-</b>	<b>19,039</b>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the financial year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>(Unaudited)</b> <b>9 months</b> <b>ended</b> <b>31/12/2006</b> <b>RM'000</b>	<b>(Audited)</b> <b>12 months</b> <b>ended</b> <b>31/3/2006</b> <b>RM'000</b>
<b>Operating Activities</b>		
Net (loss)/profit before tax	(4,288)	2,473
<b>Adjustment for :-</b>		
Depreciation and amortisation	614	738
Other non-cash items	128	247
Share based-payment under ESOS	1,225	-
Non-operating items	(119)	21
<b>Operating (loss)/profit before changes in working capital</b>	<b>(2,440)</b>	<b>3,479</b>
<b>Changes in working capital</b>		
Net change in current assets	7,299	(2,035)
Net change in current liabilities	(2,548)	(6,245)
<b>Net cash generated from/(used in) operating activities</b>	<b>2,311</b>	<b>(4,801)</b>
<b>Investing Activities</b>		
Other investments	207	144
Purchase of property, plant and equipment	(1,794)	(1,747)
<b>Net cash used in investing activities</b>	<b>(1,587)</b>	<b>(1,603)</b>
<b>Financing Activities</b>		
Proceeds from issue of shares	42	13,200
Payment of listing expenses	-	(1,809)
Net drawdown of bank borrowings	(337)	(521)
Repayment of hire purchase creditors	(285)	(175)
Interest paid	-	(242)
<b>Net cash (used in)/generated from financing activities</b>	<b>(580)</b>	<b>10,453</b>
Net change in cash and cash equivalents	144	4,049
Cash and cash equivalents at beginning of period/year	6,794	2,745
Cash and cash equivalents at end of period/year	<u>6,938</u>	<u>6,794</u>

**The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Audited Financial Statements for the financial year ended 31 March 2006 and the accompanying explanatory notes attached to the interim financial statements.**

## **NOTES TO THE INTERIM FINANCIAL REPORT**

The figures have not been audited

### **1 BASIS OF PREPARATION**

The interim financial report has been prepared in accordance with the requirements of the Financial Reporting Standard ("FRS") 134: Interim Financial Reporting (previously known as MASB 26) issued by the Malaysian Accounting Standards Board ("MASB") and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market.

The interim financial report should be read in conjunction with the audited financial statements of Genetec Technology Berhad ("Genetec" or "the Company") for the year ended 31 March 2006.

These explanatory notes attached to the interim financial report provides an explanation of the events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 March 2006.

Details of these changes in accounting policies are set out in Note 2.

### **2 ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS**

The accounting policies and methods of computation adopted by Genetec and its subsidiary companies ("Genetec Group" or "the Group") in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 March 2006, except for the adoption of all the 18 new and revised FRS issued by the MASB that are relevant to its operations effective from accounting periods beginning on 1 January 2006.

In addition to the above, the Group has also taken the option of early adoption of FRS 117 and FRS 124 for the financial period beginning 1 January 2006. The impact of these new FRS and changes in accounting policies is disclosed in Note 3.

### **3 SUMMARY OF NEW FRS AND CHANGES IN ACCOUNTING POLICIES**

The adoption of these new and revised FRS has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current period or prior years:

#### **a. FRS 2: Share-based Payments**

FRS 2 requires the recognition of equity-settled share-based payments at fair value at the date of grant. Prior to the adoption of FRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled.

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The Company operates an equity-settled, share based compensation plan for the employees of the Group, the Genetec's Employee Share Options Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised as profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised as profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense 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 the vesting date. The fair value of the share option is computed using the Black Scholes model.

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

	<b>As at 1 April 2006 RM'000</b>	
Decrease in retained earnings		(875)
		<u>875</u>
		<u>875</u>
	<b>9 months and Year-to-date ended</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Decrease in profit for the period	(1,225)	-
	<u>          </u>	<u>          </u>

**b. FRS 3: Business Combinations and FRS 136: Impairment of Assets**

With effect from 1 January 2006, in accordance with FRS 3 and FRS 136, the Group no longer amortises its goodwill. Goodwill is tested annually for impairment, as well as when there are indications of impairment including in the year of its initial recognition. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

As FRS 3 has been applied prospectively, there has been no restatement of comparative amounts with the cumulative amount of amortisation as of 1 April 2006 being offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the nine months ended 31 December 2006.

**c. FRS 101: Presentation of Financial Statements**

The adoption of 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 presentation of minority interest in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

**d. FRS 117: Leases**

The adoption of FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold lands. The up-front payments made for the leasehold lands represent prepaid lease payments and are amortised on a straight-line basis over the lease term. Prior to 1 January 2006, leasehold lands were classified as property, plant and equipment and were stated at cost less accumulated depreciation and impairment loss.

Upon the adoption of FRS 117 on 1 January 2006, the unamortised cost amount of leasehold lands are retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold lands as prepaid lease payments has been accounted for retrospectively and comparative amounts as at 31 March 2006 have been restated.

**4 COMPARATIVES**

The following comparative amounts have been restated due to the adoption of new FRS:

<b>As At 31 March 2006</b>	<b>Previously stated RM'000</b>	<b>FRS 2 RM'000</b>	<b>FRS 117 RM'000</b>	<b>Restated RM'000</b>
Property, plant and equipment	4,750	-	(849)	3,901
Prepaid lease payments	-	-	849	849
Other reserve	-	875	-	875
Retained profits	5,869	(875)	-	4,994

**5 AUDIT REPORT OF THE PRECEDING ANNUAL FINANCIAL STATEMENTS**

There were no audit qualifications on the annual financial statements of the Company and its subsidiaries for the financial year ended 31 March 2006.

**6 SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS**



The business of the Group is not affected by any significant seasonal or cyclical factors for the current quarter under review.

**7 UNUSUAL ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS**

During the current quarter under review, there were no items or events that arose, which affected assets, liabilities, equity, net income or cash flows that are unusual by reasons of their nature, size or incidence.

**8 MATERIAL CHANGE IN ESTIMATES**

There were no material changes in the nature and amount of estimates reported that have a material effect on the results for the current quarter under review.

**9 ISSUANCES, CANCELLATIONS, REPURCHASES, RESALE AND REPAYMENTS OF DEBT AND EQUITY SECURITIES**

There were no cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter under review other than the issuance of 30,000 and 110,000 new ordinary shares of RM0.10 each in Genetec on 24 November 2006 and 27 December 2006 respectively pursuant to the share options exercised by eligible employees of Genetec pursuant to the Employees' Share Option Scheme.

**10 DIVIDEND PAID**

There was no dividend paid during the current quarter under review.

**11 SEGMENT INFORMATION**

Business segment information is not presented as the Group is primarily engaged in one business segment which is designing and building of customised factory automation equipment and integrated vision inspection systems from conceptual design, development of prototype to mass replication of equipment.

**12 PROPERTY, PLANT AND EQUIPMENT**

There was no revaluation on any of the Group's property, plant and equipment during the current quarter under review.

**13 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE INTERIM REPORTING PERIOD**

There is no material event affecting the Group subsequent to the current quarter ended 31 December 2006.

**14 CHANGES IN THE COMPOSITION OF THE GROUP**

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There was no change in the composition of the Group for the current quarter under review.

**15 CONTINGENT LIABILITIES OR CONTINGENT ASSETS**

There were no contingent liabilities or contingent assets as at 31 December 2006 and up to the date of this report.

**16 CAPITAL COMMITMENTS**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 December 2006 are as follows:

	RM'000
Property, plant and equipment Approved and contracted for	<u>1,652</u>
Leasing commitments Due within 12 months	<u>179</u>

**17 REVIEW OF PERFORMANCE**

The Group revenue for the financial period ended 31 December 2006 was RM15.05 million with net loss of RM4.29 million. As compared to the preceding year's corresponding period, the revenue and net profit have decreased by RM13.27 million (47%) and RM6.38 million (305%) respectively. The decrease was mainly due to lower replication of prototypes which has resulted in a lower volume of sales. This, coupled with a charge of RM1.23 million arising from the adoption of FRS 2: Share-based Payments, had also contributed to the loss for the period of RM4.29 million.

**18 COMPARISON WITH PRECEDING QUARTER'S RESULTS**

The Group revenue for the financial quarter under review was RM3.04 million compared to the preceding quarter's revenue of RM5.84 million, which represents a decrease of RM2.80 million or 48% as compared to the preceding quarter. With the decrease in revenue, the Group has incurred a net loss of RM1.87 million in this quarter as compared against a loss of RM0.84 million for the preceding quarter.

**19 PROSPECTS FOR THE CURRENT FINANCIAL YEAR**

The Directors of the Group anticipate a challenging year ahead as the Group seeks out new market segments whilst maintaining its strength in the Hard Disk Drive Industry.

**20 VARIANCE ON PROFIT FORECAST/PROFIT GUARANTEE**

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Not applicable as Genetec has not issued any profit forecast or profit guarantee in a public document.

**21 TAXATION**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31.12.06 RM'000	Preceding Year Corresponding Quarter 31.12.05 RM'000	Current Year To-date 31.12.06 RM'000	Preceding Year Corresponding Period 31.12.05 RM'000
Malaysian income tax:				
- current taxation	-	25	-	50

The effective tax rate of the Group for the financial period ended 31 December 2005 was lower than the statutory tax rate due to availability of pioneer status tax incentive.

**22 PROFIT ON SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There was no sale of unquoted investment and/or properties during the current financial period under review.

**23 QUOTED SECURITIES**

There were no purchases or disposals of quoted securities during the current quarter and financial year to date under review.

**24 STATUS OF CORPORATE PROPOSAL**

Save as disclosed below, as at the last practicable date, there is no corporate proposal announced but not completed:

On 28 July 2006, Genetec announced that the Company had entered into a conditional sale and purchase agreement with KVC Industrial Supplies Sdn Bhd (*formerly known as KVC Electric (M) Sdn Bhd*), a wholly-owned subsidiary of its substantial shareholder, ATIS Corporation Berhad, to acquire a vacant piece of leasehold land held under Title No. HS(D) 52707 No. PT 40856 in the Town of Bandar Baru Bangi, District of Hulu Langat, State of Selangor for a cash consideration of RM1,835,000 ("Proposed Acquisition"). The Proposed Acquisition is subject to the following approvals being obtained:

- (i) State Authority for the sale and transfer of the property from KVC Industrial Supplies Sdn Bhd to Genetec to be obtained by KVC Industrial Supplies Sdn Bhd, which was obtained on 21 December 2006;

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- (ii) shareholders of Genetec at a general meeting, which was obtained on 29 September 2006;
- (iii) shareholder of KVC Industrial Supplies Sdn Bhd, namely ATIS Corporation Berhad, which was obtained on 29 September 2006;
- (iv) shareholders of ATIS Corporation Berhad at a general meeting, which was obtained on 29 September 2006; and
- (v) other relevant authorities or parties, if necessary.

**25 UTILISATION OF PROCEEDS**

As per Genetec's prospectus dated 29 September 2005, the gross proceeds raised from the Initial Public Offering (IPO) amounted to RM11.06 million.

The utilisation of the proceeds from the IPO as at 31 December 2006 is shown in the table below:

<b>Purpose</b>	<b>Proposed Utilisation RM'000</b>	<b>Actual Utilisation as at 31 December 2006 RM'000</b>	<b>Balance RM'000</b>
Working capital	9,858	(8,458)	1,400
Estimated listing expenses	1,200	(1,200)	-
<b>TOTAL</b>	<b>11,058</b>	<b>(9,658)</b>	<b>1,400</b>

**26 BORROWINGS**

Details of the Group's short term borrowings as at 31 December 2006 are as follows:

<b>Current – Unsecured</b>	<b>RM</b>
Trade bills	<u>3,079,000</u>

**27 OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no financial instruments with off balance sheet risk as at 21 February 2007 (being the latest practicable date which is not earlier than 7 days from the date of issuance of this interim report) except for the following:

<b>Currency</b>	<b>Contract amount in FCY'000</b>	<b>Date of contract</b>	<b>Value date of contract</b>	<b>Equivalent amount in RM'000</b>
USD	1,600	7.6.2006	30.5.2007	5,746

As the above foreign currency contracts are entered into to cover the Group's commitments in foreign currencies, the contracted rates will be used to translate the underlying foreign currency transactions into Ringgit Malaysia. The above contracts are entered into with licensed banks.

The Company does not foresee any significant credit and market risks posed by the above off balance sheet financial instruments.

There is no cash requirement as the Company uses fixed forward foreign exchange contracts as its hedging instrument.

The accounting policies for the off balance sheet financial instruments is as follows:-  
 The Group enters into foreign currency forward contracts as a hedge against foreign trade receivable. Market value gains and losses are recognised and the resulting credit or debit offsets foreign exchange gains or losses on those receivables.

**28 MATERIAL LITIGATIONS**

Neither the Company nor its subsidiaries is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiaries and the Board of Directors does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiaries.

**29 DIVIDENDS**

The Directors do not propose any dividend for the financial period under review.

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**30 (LOSS)/EARNINGS PER SHARE**

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31.12.06 RM	Preceding Year Corresponding Quarter 31.12.05 RM	Current Year To-date 31.12.06 RM	Preceding Year Corresponding Period 31.12.05 RM
<b>Basic (loss)/earnings per share (LPS)/EPS</b>				
Net (loss)/profit attributable to shareholders	(1,866,242)	557,237	(4,287,834)	2,087,539
Weighted average number of ordinary shares in issue	120,018,370	107,608,696	120,006,145	70,080,000
Basic (LPS)/EPS (sen)	(1.55)	0.52	(3.57)	2.98

By Order of the Board  
**Genetec Technology Berhad**

Tan Kon Hoan  
 Finance Manager  
 Selangor Darul Ehsan  
 28 February 2007