



**N2N CONNECT BERHAD (523137-K)**

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**A NOTES TO THE INTERIM FINANCIAL REPORT**

**A1 Basis of preparation**

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standard ("FRS") No. 134: Interim Financial Reporting, and Part K Rule 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market.

The interim financial statements are prepared based on the historical cost convention and in compliance with the applicable Approved Accounting Standards in Malaysia.

The consolidated financial statements should be read in conjunction with the Annual Audited Financial Statements of the Group for the financial year ended 31 December 2009.

**A2 Significant accounting policies**

The accounting policies and methods of computation adopted by the Group in the preparation of this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2009. The Directors anticipate that the application of the following new/revised FRSs, Issues Committee ("IC") Interpretations, amendments to FRSs and IC Interpretations, issued by the Malaysian Accounting Standards Board ("MASB"), which are mandatory and will be effective for the financial periods as stated below, will have no material impact on the financial statements of the Group and of the Company:

|   |  | <u>Effective date for<br/>financial periods<br/>beginning on or after</u> |
|---|--|---|
| FRS 8   | Operating Segments   | 1 July 2009   |
| FRS 4   | Insurance Contracts  | 1 January 2010  |
| FRS 7   | Financial Instruments: Disclosures   | 1 January 2010  |
| FRS 101   | Presentation of Financial Statements   | 1 January 2010  |
| FRS 123   | Borrowing Costs  | 1 January 2010  |
| FRS 139   | Financial Instruments: Recognition and Measurement   | 1 January 2010  |
| Amendments to FRS 2   | Share-based Payment - Vesting Conditions and Cancellations   | 1 January 2010  |
| Amendments to FRS 132   | Financial Instruments: Presentation  | 1 January 2010  |
| IC Interpretation 9   | Reassessment of Embedded Derivatives   | 1 January 2010  |
| IC Interpretation 10  | Interim Financial Reporting and Impairment   | 1 January 2010  |
| IC Interpretation 11  | FRS 2 - Group and Treasury Share Transactions  | 1 January 2010  |
| IC Interpretation 13  | Customer Loyalty Programmes  | 1 January 2010  |
| IC Interpretation 14  | FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2010  |
| Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |  | 1 January 2010  |
| Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives                                    |  | 1 January 2010  |
| Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"   |  | 1 January 2010  |



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**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**A NOTES TO THE INTERIM FINANCIAL REPORT (Cont'd)**

**A2 Significant accounting policies (Cont'd)**

|                                  |  | <u>Effective date for<br/>financial periods<br/>beginning on or after</u> |
|----------------------------------|--|---|
| FRS 1                            | First-time Adoption of Financial Reporting Standards         | 1 July 2010   |
| FRS 3                            | Business Combinations  | 1 July 2010   |
| FRS 127                          | Consolidated & Separate Financial Statements                 | 1 July 2010   |
| Amendments to FRS 2              | Share-based Payment  | 1 July 2010   |
| Amendments to FRS 5              | Non-current Assets Held for Sale and Discontinued Operations | 1 July 2010   |
| Amendments to FRS 138            | Intangible Assets  | 1 July 2010   |
| IC Interpretation 12             | Service Concession Arrangements                              | 1 July 2010   |
| IC Interpretation 15             | Agreements for Construction of Real Estate                   | 1 July 2010   |
| IC Interpretation 16             | Hedges of a Net Investment in a Foreign Operation            | 1 July 2010   |
| IC Interpretation 17             | Distributions of Non-cash Assets to Owners                   | 1 July 2010   |
| Amendment to IC Interpretation 9 | Reassessment of Embedded Derivatives                         | 1 July 2010   |

(a) FRS 8: Operating segments

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group's segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any impact on the financial position and results of the Group.

(b) FRS 7: Financial Instruments: Disclosures

FRS 7 requires disclosures in financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments to which an entity is exposed and how these risks are managed. This standard requires both qualitative disclosures describing management's objectives, policies and processes for managing those risks, and quantitative disclosures providing information about the extent to which an entity is exposed to risk, based on information provided internally to the entity's key management personnel.

(c) FRS 139: Financial Instruments: Recognition and Measurement (Revised)

FRS139 establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting.



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For The Quarter and Year-To-Date Ended 30 June 2010**

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**A2 Significant accounting policies (Cont'd)**

**(d) FRS 101: Presentation of Financial Statements (Revised)**

FRS 101 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. FRS 101 does not have any impact on the Group's and the Company's financial position or results.

As at the date of this report, the Group has applied the transitional provision in FRS 7 Financial Instruments: Disclosure and FRS 139 Financial Instruments: Recognition and Measurement which exempt entities from disclosing the possible impact arising from initial application of the respective standards on the financial statements of the Group and of the Company.

**A3 Seasonal or cyclical factors**

The Group's operations are not materially affected by seasonal or cyclical changes during the current quarter under review.

**A4 Unusual items affecting assets, liabilities, equity, net income or cash flows**

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

**A5 Material changes in estimates**

There were no changes in estimates of amounts reported in prior financial years, which have a material effect in the current quarter under review.

**A6 Debt and equity securities**

Save for the issuance of 118,600 new N2N Shares pursuant to the exercise of ESOS, there were no other issuances, cancellations, repurchases, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current quarter under review.

**A7 Dividend paid**

No dividend has been paid in the current quarter under review.

**A8 Segmental information**

Business segment

The principal businesses of the Group are carrying on the business as researcher and developer of software package and provision of design, programming, consultancy services and related services which are substantially within a single business segment, and therefore, segmental reporting is deemed not necessary.



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**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**A NOTES TO THE INTERIM FINANCIAL REPORT (Cont'd)**

**A8 Segmental information (Cont'd)**

Geographical segment

In determining the geographical segments of the Group, segment revenue is based on the geographical location of customers.

|           | INDIVIDUAL QUARTER         |   | CUMULATIVE QUARTER         |  |
|-----------|----------------------------|---|----------------------------|--|
|           | Current<br>Year<br>Quarter | Preceding<br>Year<br>Corresponding<br>Quarter | Current<br>Year<br>To date | Preceding<br>Year<br>Corresponding<br>Period |
|           | 30 Jun 2010<br>RM'000      | 30 Jun 2009<br>RM'000                         | 30 Jun 2010<br>RM'000      | 30 Jun 2009<br>RM'000                        |
| Malaysia  | 2,821                      | 2,203   | 6,167                      | 5,824  |
| Singapore | 458                        | 725   | 919                        | 915  |
| Vietnam   | -                          | -   | 59                         | -  |
| Indonesia | 84                         | -   | 135                        | -  |
|           | <u>3,363</u>               | <u>2,928</u>                                  | <u>7,280</u>               | <u>6,739</u>                                 |

**A9 Other receivables**

|  | Current Year<br>2nd Quarter As At<br>30 Jun 2010<br>RM'000 | Audited as at<br>31 Dec 2009<br>RM'000 |
|--|--|--|
| Other receivables                        | 206  | 364                                    |
| Deposits                                 | 292  | 280                                    |
| Prepayments                              | 1,071  | 1,028                                  |
| Amount due from ultimate holding company | 13   | 12                                     |
|  | <u>1,582</u>   | <u>1,684</u>                           |

The Company regards N2N Connect Holdings Sdn Bhd, a company incorporated in Malaysia, as the holding company.

**A10 Other payables**

|                | Current Year<br>2nd Quarter As At<br>30 Jun 2010<br>RM'000 | Audited as at<br>31 Dec 2009<br>RM'000 |
|----------------|--|--|
| Other payables | 38   | 28                                     |
| Accruals       | 1,240  | 1,286                                  |
|                | <u>1,278</u>   | <u>1,314</u>                           |



**N2N CONNECT BERHAD (523137-K)**

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**A NOTES TO THE INTERIM FINANCIAL REPORT (Cont'd)**

**A11 Valuation of property, plant and equipment**

There were no changes in the valuation of the property, plant and equipment reported in the previous audited financial statements that will have an effect in the current quarter under review.

**A12 Material events subsequent to the end of the quarter**

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

**A13 Changes in the composition of the Group**

There were no changes in the composition of the Group for the current quarter under review. However, the Board of Directors of the Company had on 29 July 2010 announced that the Company has approved and would make an application to the Registrar of Companies for the striking off of its wholly-owned subsidiary, namely Getemo Sdn. Bhd., which has been dormant, pursuant to Section 308 of the Companies Act, 1965.

The Directors of the Company are of the opinion that the exercise of striking off of the abovesaid wholly owned subsidiary company is in the best interest of the Group and it has no material financial impact on the Company.

None of the Directors or substantial shareholders of the Company or persons connected to them have any interest, direct or indirect in the above striking off except to the extent of the interests held via the Company.

**A14 Contingent liabilities**

The Directors are of the opinion that the Group has no contingent liabilities which, upon crystallisation would have a material impact on the financial position and business of the Group as at 24 August 2010 (the latest practicable date which is not earlier than 7 days from the date of issue of this financial results).

**A15 Capital commitments**

As at 30 June 2010, the Group has no material capital commitment in respect of property, plant and equipment.

**A16 Significant related party transactions**

There were no related party transactions in the current quarter under review.

**A17 Cash and cash equivalents**

|                        | <b>Current Year<br/>2nd Quarter As At<br/>30 Jun 2010<br/>RM'000</b> | <b>Audited as at<br/>31 Dec 2009<br/>RM'000</b> |
|------------------------|--|---|
| Cash and bank balances | <u>4,347</u>   | <u>5,357</u>                                    |



**N2N CONNECT BERHAD (523137-K)**

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**B ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS**

**B1 Review of performance**

**2<sup>nd</sup> Quarter 2010 versus 2<sup>nd</sup> Quarter 2009**

For the current quarter under review, the Group recorded revenue of approximately RM3.363 million, 14.86% higher compared to that achieved in the preceding year corresponding quarter of RM2.928 million. The Group also recorded a loss attributable to the equity holders of the Company of approximately RM1.557 million (profit before depreciation of RM0.414 million), 59.45% lower as compared to RM3.840 million (loss before depreciation of RM1.559 million) recorded in the preceding year corresponding quarter. This was mainly attributable to the following:

- (i) additional income from implementation of eBrokerConnect™ application of a new panel broker in Indonesia as well as increased matched trade fees generated in Malaysia;
- (ii) no provision for doubtful debts was identified and provided for in the current quarter under review, whilst the provision for doubtful debts for the preceding year corresponding quarter amounted to RM2.226 million; and
- (iii) decrease in depreciation expenses as some of the computer equipments have been fully depreciated in the year 2009. Depreciation for the current quarter under review amounted to RM1.971 million as compared to preceding year corresponding quarter of RM2.281 million.

There are no other material factors which have affected the revenue and loss attributable to the equity holdes of the Company for the current quarter/financial year-to-date.

**B2 Material changes in the quarterly results as compared with the preceding quarter**

The Group recorded a loss before taxation of RM1.557 million in the current quarter under review as compared to loss before taxation of RM0.485 million in the immediate preceding quarter. Loss before taxation was higher in the current quarter under review mainly due to increase in personnel expenses as a result in payment of salary increment and quarterly bonuses in the current quarter under review.

**B3 Prospects**

Barring any unforeseen circumstances, the Directors of N2N believe that the Group's performance for the upcoming financial year ending 31 December 2010 will rebound favourably following the global capital market recovery.

**B4 Variation of actual profit from forecast profit**

Not applicable as no profit forecast was published.

**B5 Taxation**

|  | <b>Current Year<br/>Quarter<br/>30 Jun 2010<br/>RM'000</b> | <b>Current Year<br/>To date<br/>30 Jun 2009<br/>RM'000</b> |
|--|--|--|
| Deferred tax:                                    |  |  |
| Relating to origination of temporary differences | 33   | 33   |

There is no taxation charge for the current quarter under review mainly due to the tax exemption for Multimedia Super Corridor ("MSC") qualifying activities under pioneer status pursuant to the Promotion of Investments Act, 1986 in Malaysia.



**N2N CONNECT BERHAD (523137-K)**

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**B ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS (Cont'd)**

**B6 Unquoted investments and properties**

There were no changes in the unquoted investments and properties of the Group during the current quarter under review.

**B7 Quoted securities**

|  | <b>Current Year</b>      | <b>Audited as at</b> |
|--|--------------------------|----------------------|
|  | <b>2nd Quarter As At</b> | <b>31 Dec 2009</b>   |
|  | <b>30 Jun 2010</b>       | <b>31 Dec 2009</b>   |
|  | <b>RM'000</b>            | <b>RM'000</b>        |
| At cost  |                          |                      |
| Quoted shares  | 1,813                    | 1,775                |
| Quoted unit trusts *                                   | 9,327                    | 10,206               |
|  | <u>11,140</u>            | <u>11,981</u>        |
| Impairment losses, included in administration expenses |                          |                      |
| Quoted shares in Malaysia                              | (1,300)                  | (1,296)              |
|  | <u>9,840</u>             | <u>10,685</u>        |

Note \* : This relates to previous withdrawal of the Company's fixed deposit with a licensed bank which was subsequently placed into money market funds, namely AmCash Management and AmIncome due to the flexibility of the accounts for withdrawal of money, fixed capital investments, as well as higher yields as the returns are exempted from corporate tax and management fees.

There were no acquisitions or disposals of quoted securities during the current quarter under review except for net redemption of some units of the quoted unit trusts. However, an allowance for diminution in value of quoted shares amounting to RM4,000 was made during the current quarter under review.

**B8 Group's borrowings and debt securities**

As at 30 June 2010, the Group does not have any borrowings.

**B9 Off balance sheet financial instruments**

There were no financial instruments with off balance sheet risk as at the date of this announcement applicable to the Group.

**B10 Material litigation**

Neither the Company nor its subsidiary 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 subsidiary 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 subsidiary.

**B11 Dividends**

No dividends have been paid or declared in respect of the current quarter under review.



**N2N CONNECT BERHAD (523137-K)**

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 June 2010**

**B ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS (Cont'd)**

**B12 Earnings per share**

|   | INDIVIDUAL QUARTER                        |  | CUMULATIVE QUARTER                        |   |
|---|---|--|---|---|
|   | Current<br>Year<br>Quarter<br>30 Jun 2010 | Preceding<br>Year<br>Corresponding<br>Quarter<br>30 Jun 2009 | Current<br>Year<br>To date<br>30 Jun 2010 | Preceding<br>Year<br>Corresponding<br>Period<br>30 Jun 2009 |
| <b>(a) Basic earnings per share</b>                           |   |  |   |   |
| Loss after taxation (RM'000)                                  | (1,557)                                   | (3,840)  | (2,042)                                   | (8,047)   |
| Weighted average number of ordinary shares<br>in issue ('000) | 298,791                                   | 298,439  | 298,791                                   | 298,439   |
| Basic loss per share (sen)                                    | (0.52)                                    | (1.29)   | (0.68)                                    | (2.70)  |
| <b>(b) Diluted earnings per share</b>                         |   |  |   |   |
| Loss after taxation (RM'000)                                  | (1,557)                                   | (3,840)  | (2,042)                                   | (8,047)   |
| Weighted average number of ordinary shares                    | 298,791                                   | 298,439  | 298,791                                   | 298,439   |
| Adjusted for:   |   |  |   |   |
| Assumed exercise of ESOS at no<br>consideration ('000)        | 25,451                                    | 25,821   | 25,451                                    | 25,821  |
| Adjusted number of ordinary shares ('000)                     | 324,242                                   | 324,260  | 324,242                                   | 324,260   |
| Diluted loss per share (sen)                                  | (0.48)                                    | (1.18)   | (0.63)                                    | (2.48)  |

As at the end of the quarter, there was only one (1) class of shares in issue and they rank pari passu with each other.

**B13 Status of corporate proposals**

There were no other corporate proposals/developments announced but not yet completed as at the date of this announcement.

**B14 Audit report of preceding annual financial statements**

There were no audit qualifications on the annual audited financial statements for the year ended 31 December 2009.

**B15 Authorisation for issue**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 24 August 2010.

By Order of the Board

Tiang Boon Hwa  
Managing Director

Date : 24 August 2010