



N2N CONNECT BERHAD (523137-K)

QUARTERLY REPORT ON CONSOLIDATED RESULTS For The Quarter and Year-To-Date Ended 31 March 2011

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 2010.

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 2010. 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, except as disclosed below:

		Effective date for financial periods beginning on or after
Amendments to FRS 132	Financial Instruments: Presentation - paragraphs 11, 16 and 97E	1 March 2010
FRS 1	First-time Adoption of Financial Reporting Standards (revised)	1 July 2010
FRS 3	Business Combinations (revised)	1 July 2010
FRS 127	Consolidated & Separate Financial Statements (revised)	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 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
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 7	Improving Disclosures about Financial Instruments	1 January 2011
IC Interpretation 4	Determining Whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18	Transfers of Assets from Customers	1 January 2011
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"		1 January 2011
IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2012
Amendments to IC Interpretation 14	Prepayments of a Minimum Funding Requirement	1 July 2012



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

A2 Significant accounting policies (Cont'd)

		Effective date for financial periods <u>beginning on or after</u>
IC Interpretation 15	Agreements for Construction of Real Estate	1 January 2012
FRS 124	Related Party Disclosures (revised)	1 January 2012

(a) FRS 3: Business Combinations (revised)

- (i) This revised standard allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree;
- (ii) It changes the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss;
- (iii) It requires the recognition of a settlement gain or loss where the business combination in effect settles a pre-existing relationship between the Group and the acquiree; and
- (iv) It requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the business combination.

Upon adoption, this Standard will be applied prospectively and therefore, no restatements will be required in respect of transactions prior to the date of adoption.

(b) FRS 127: Consolidated and Separate Financial Statements (revised)

The revised Standard will affect the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. Previously, in the absence of specific requirements in FRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, where appropriate; for decreases in interests in existing subsidiaries regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.



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

A2 Significant accounting policies (Cont'd)

Under the FRS 127 (revised), increases or decreases in ownership interests in subsidiaries are dealt with in equity and attributed to the owners of the parent, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, FRS 127 (revised) requires that the Group derecognise all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

Upon adoption, this Standard will be applied prospectively and therefore, no restatements will be required in respect of transactions prior to the date of adoption.

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

There were no 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 by business segment is deemed not necessary. Accordingly, the information regarding its financial position and results is represented by the financial statements as a whole.



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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 Year Quarter	Preceding Year Corresponding Quarter	Current Year To date	Preceding Year Corresponding Period
	31 Mar 2011 RM'000	31 Mar 2010 RM'000	31 Mar 2011 RM'000	31 Mar 2010 RM'000
Malaysia	3,220	3,346	3,220	3,346
Hong Kong	7	-	7	-
Indonesia	136	51	136	51
Singapore	530	461	530	461
Vietnam	-	59	-	59
	<u>3,893</u>	<u>3,917</u>	<u>3,893</u>	<u>3,917</u>

A9 Other receivables

	Current Year 1st Quarter As At 31 Mar 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Other receivables	355	369
Deposits	1,061	313
Prepayments	209	81
Amount due from ultimate holding company	10	13
	<u>1,635</u>	<u>776</u>

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

A10 Other payables

	Current Year 1st Quarter As At 31 Mar 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Other payables	93	656
Accruals	578	492
	<u>671</u>	<u>1,148</u>



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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.

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 25 May 2011 (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 31 March 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

	Current Year 1st Quarter As At 31 Mar 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Cash and bank balances	<u>2,538</u>	<u>2,723</u>



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B ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS

B1 Review of performance

1st Quarter 2011 versus 1st Quarter 2010

For the current quarter under review, the Group recorded revenue of approximately RM3.893 million, 0.61% lower compared to that achieved in the preceding year corresponding quarter of RM3.917 million. The Group also recorded a loss attributable to the equity holders of the Company of approximately RM1.172 million (profit before depreciation of RM0.838 million), 141.65% higher as compared to RM0.485 million (profit before depreciation of RM1.490 million) recorded in the preceding year corresponding quarter. The 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 whilst the payment of salary increment and quarterly bonuses were not paid out yet in the preceding year corresponding quarter as well as higher one-time implementation cost of sales being incurred in the current quarter under review.

There are no other material factors which have affected the revenue and loss attributable to the equity holders 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 RM1.172 million in the current quarter under review as compared to profit before taxation of RM0.105 million in the immediate preceding quarter. There was a profit before taxation generated in the preceding quarter mainly due to higher revenue generation and lower cost of sales as a result of a cost write back in the preceding quarter.

B3 Prospects

Barring any unforeseen circumstances, the Directors of N2N believe that the Group's performance for the upcoming financial year ending 31 December 2011 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

	Current Year Quarter 31 Mar 2011 RM'000	Current Year To date 31 Mar 2010 RM'000
Deferred tax:		
Relating to origination of temporary differences	<u>29</u>	<u>33</u>

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.

B6 Unquoted investments and properties

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



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

B7 Quoted securities

	Current Year 1st Quarter As At 31 Mar 2011 RM'000	Audited as at 31 Dec 2010 RM'000
At cost		
Quoted shares	567	567
Quoted unit trusts *	10,814	11,734
	<u>11,381</u>	<u>12,301</u>
Impairment losses, included in administration expenses		
Quoted shares in Malaysia	-	-
	<u>11,381</u>	<u>12,301</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.

Save for net redemption of some units of the quoted unit trusts, there were no other acquisitions or disposals of quoted securities during the current quarter under review.

B8 Group's borrowings and debt securities

As at 31 March 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.



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

B12 Earnings per share

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 31 Mar 2011	Preceding Year Corresponding Quarter 31 Mar 2010	Current Year To date 31 Mar 2011	Preceding Year Corresponding Period 31 Mar 2010
(a) Basic earnings per share				
Loss after taxation (RM'000)	(1,172)	(485)	(1,172)	(485)
Weighted average number of ordinary shares in issue ('000)	298,939	298,761	298,939	298,761
Basic loss per share (sen)	(0.39)	(0.16)	(0.39)	(0.16)
(b) Diluted earnings per share				
Loss after taxation (RM'000)	(1,172)	(485)	(1,172)	(485)
Weighted average number of ordinary shares	298,939	298,761	298,939	298,761
Adjusted for:				
Assumed exercise of ESOS at no consideration ('000)	25,391	25,569	25,391	25,569
Adjusted number of ordinary shares ('000)	324,330	324,330	324,330	324,330
Diluted loss per share (sen)	(0.36)	(0.15)	(0.36)	(0.15)

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 2010.

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 25 May 2011.

By Order of the Board

Tiang Boon Hwa
Managing Director

Date : 25 May 2011