



N2N CONNECT BERHAD (523137-K)

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

		<u>Effective date for financial periods beginning on or after</u>
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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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 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.

A4 Seasonal or cyclical factors

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

A6 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.

A7 Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities for the current quarter under review except for the following:-

Treasury Shares

During the current quarter under review, the Company repurchased 1,183,000 of its ordinary shares from the open market at an average price of RM0.2438 per share.

As at 30 June 2011, the total number of shares repurchased and held as treasury shares were 1,183,000. There were no share cancellation and resale of treasury shares during the current quarter under review.

A8 Dividend paid or proposed

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



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

A9 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.

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
	30 June 2011 RM'000	30 June 2010 RM'000	30 June 2011 RM'000	30 June 2010 RM'000
Malaysia	3,728	2,821	6,948	6,167
Hong Kong	4	-	11	-
Indonesia	385	84	521	135
Singapore	533	458	1,063	919
Vietnam	-	-	-	59
	<u>4,650</u>	<u>3,363</u>	<u>8,543</u>	<u>7,280</u>

A10 Other receivables

	Current Year 2nd Quarter As At 30 June 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Other receivables	347	369
Deposits	4,241	313
Prepayments	992	81
Amount due from ultimate holding company	19	13
	<u>5,599</u>	<u>776</u>

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



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

A11 Other payables

	Current Year 2nd Quarter As At 30 June 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Other payables	77	656
Accruals	682	492
	<u>759</u>	<u>1,148</u>

A12 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.

A13 Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the current quarter under review except for the following:

The Board of Directors of the Company had on 6 June 2011 announced that the Company had on 3 June 2011, entered into a sale and purchase agreement with Bangsa Istimewa Sdn Bhd to acquire an 11-storey office building known as Block 6 (Type G), The Horizon (Phase 1), Bangsar South with postal address Tower 2, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, held under part of the master title Pajakan Negeri 46338, Lot No. 58190, Mukim Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur ("Building") for a cash consideration of RM36,000,000 ("Proposed Acquisition").

A14 Changes in the composition of the Group

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

A15 Contingent liabilities

Save for the Proposed Acquisition and the relocation costs and renovation works to be incurred for the Building, 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 2011 (the latest practicable date which is not earlier than 7 days from the date of issue of this financial results).

A16 Capital commitments

As at 30 June 2011, save for the Proposed Acquisition and the relocation costs and renovation works to be incurred for the Building, the Group has no material capital commitment in respect of property, plant and equipment.

A17 Significant related party transactions

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



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

A18 Cash and cash equivalents

	Current Year 2nd Quarter As At 30 June 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Cash and bank balances	<u>3,101</u>	<u>2,723</u>

B ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS

B1 Review of performance

2nd Quarter 2011 versus 2nd Quarter 2010

For the current quarter under review, the Group recorded revenue of approximately RM4.650 million, 38.27% higher compared to that achieved in the preceding year corresponding quarter of RM3.363 million. The Group also recorded a lower loss attributable to the equity holders of the Company of approximately RM0.154 million (profit before depreciation of RM1.774 million), 90.11% lower as compared to RM1.557 million (profit before depreciation of RM0.414 million) recorded in the preceding year corresponding quarter. This is mainly due to additional income from the implementation of TCPro application as well as increased matched trade fees generated in Malaysia, Singapore and Indonesia.

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 RM0.154 million in the current quarter under review as compared to loss before taxation of RM1.172 million in the immediate preceding quarter. Loss before taxation was lower by 86.86% in the current quarter under review mainly due to additional one-time implementation revenue generated 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 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.



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

B5 Taxation

	Current Year Quarter 30 June 2011 RM'000	Current Year To date 30 June 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.

B7 Quoted securities

	Current Year 2nd Quarter As At 30 June 2011 RM'000	Audited as at 31 Dec 2010 RM'000
At cost		
Quoted shares	698	567
Quoted unit trusts *	<u>7,464</u>	<u>11,734</u>
	<u>8,162</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.

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 and impairment losses for quoted shares written back amounted to RM0.131 million.

B8 Group's borrowings and debt securities

As at 30 June 2011, 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.



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

B11 Earnings per share

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30 June 2011	Preceding Year Corresponding Quarter 30 June 2010	Current Year To date 30 June 2011	Preceding Year Corresponding Period 30 June 2010
(a) Basic earnings per share				
Loss after taxation (RM'000)	(154)	(1,557)	(1,326)	(2,042)
Weighted average number of ordinary shares in issue ('000)	298,939	298,791	298,939	298,791
Basic loss per share (sen)	(0.05)	(0.52)	(0.44)	(0.68)
(b) Diluted earnings per share				
Loss after taxation (RM'000)	(154)	(1,557)	(1,326)	(2,042)
Weighted average number of ordinary shares Adjusted for:	298,939	298,791	298,939	298,791
Assumed exercise of ESOS at no consideration ('000)	25,391	25,451	25,391	25,451
Adjusted number of ordinary shares ('000)	324,330	324,242	324,330	324,242
Diluted loss per share (sen)	(0.05)	(0.48)	(0.41)	(0.63)

B12 Disclosure of realised and unrealised profits

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, was as follows:

	Current Year 2nd Quarter As At 30 June 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Total retained profits		
Realised	3,683	5,071
Unrealised	-	(29)
	3,683	5,042
Add: Consolidation adjustments	89	56
Total retained profits as per consolidated statement of financial position	3,772	5,098



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

B13 Status of corporate proposals

There were no corporate proposals/developments announced but not yet completed as at the date of this announcement save for the Proposed Acquisition of the Building.

B14 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 2011.

By Order of the Board

Tiang Boon Hwa
Managing Director

Date : 24 August 2011