



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

**QUARTERLY REPORT ON CONSOLIDATED RESULTS  
For The Quarter and Year-To-Date Ended 30 September 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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**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 395,000 of its ordinary shares from the open market at an average price of RM0.2395 per share.

As at 30 September 2011, the total number of shares repurchased and held as treasury shares were 1,578,000. 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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**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 Sep 2011 RM'000	30 Sep 2010 RM'000	30 Sep 2011 RM'000	30 Sep 2010 RM'000
Malaysia	5,561	2,732	12,510	8,899
Singapore	642	408	1,705	1,327
Indonesia	154	244	674	379
Hong Kong	4	6	15	6
Saudi Arabia	-	40	-	40
Vietnam	-	-	-	59
	<u>6,361</u>	<u>3,430</u>	<u>14,904</u>	<u>10,710</u>

**A10 Other receivables**

	Current Year 3rd Quarter As At 30 Sep 2011 RM'000	Audited as at 31 Dec 2010 RM'000
Other receivables	364	369
Deposits	4,148	313
Prepayments	306	81
Amount due from ultimate holding company	29	13
	<u>4,847</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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**A11 Other payables**

	<b>Current Year 3rd Quarter As At 30 Sep 2011 RM'000</b>	<b>Audited as at 31 Dec 2010 RM'000</b>
Other payables	118	656
Accruals	555	492
	<u>673</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 28 October 2011 announced that the Company had on 25 October 2011 received a letter of offer from AmBank (M) Berhad for the financing of up to RM23,400,000 in relation to the Proposed Acquisition ("Financing Facility").

Based on the sale and purchase agreement dated 3 June 2011 between the Company and Bangsa Istimewa Sdn Bhd (the "Seller") and after having obtained its shareholders' approval at the extraordinary general meeting convened on 26 August 2011, N2N had up to 26 September 2011 to complete the Proposed Acquisition ("Completion Date"). Subsequently, the Completion Date was extended to 26 October 2011 ("Original Extension of Time") as announced on 27 September 2011.

In view of the delay in securing the Financing Facility, N2N had earlier requested and subsequent accepted, vide its solicitors' (Messrs. Wong Beh & Toh) letter dated 27 October 2011, the conditions set out by the Seller to further extend the Completion Date for a further two (2) months up until 26 December 2011 ("Further Extension of Time"). The Further Extension of Time is subject to N2N fulfilling the conditions as detailed in the announcement dated 28 October 2011.

**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 3 November 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 September 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.



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

**A17 Significant related party transactions**

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

**A18 Cash and cash equivalents**

	<b>Current Year 3rd Quarter As At 30 Sep 2011 RM'000</b>	<b>Audited as at 31 Dec 2010 RM'000</b>
Cash and bank balances	<u>4,523</u>	<u>2,723</u>

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

**B1 Review of performance**

**3<sup>rd</sup> Quarter 2011 versus 3<sup>rd</sup> Quarter 2010**

For the current quarter under review, the Group recorded revenue of approximately RM6.361 million, 85.45% higher compared to that achieved in the preceding year corresponding quarter of RM3.430 million. The Group also recorded a lower loss attributable to the equity holders of the Company of approximately RM0.589 million (profit before depreciation of RM0.834 million), 87.02% lower as compared to RM4.537 million (loss before depreciation of RM2.552 million) recorded in the preceding year corresponding quarter. This was mainly due to the following:

- (i) additional income from the implementation of TCPro application as well as increased matched trade fees generated in Malaysia, Singapore and Indonesia; and
- (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 RM2.906 million.

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 RM0.381 million in the current quarter under review as compared to loss before taxation of RM0.154 million in the immediate preceding quarter. Loss before taxation was higher by 147.40% in the current quarter under review mainly due to higher cost of sales charged out.

**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**

	<b>Current Year Quarter 30 Sep 2011 RM'000</b>	<b>Current Year To date 30 Sep 2011 RM'000</b>
Income tax:		
Current year	8	8
Prior year	200	200
Deferred tax:		
Current year	-	-
Prior year	-	-
	208	208

The effective tax rate of the Group for the current quarter was lower than the statutory tax rate of 25% mainly due to no taxation charge for the current quarter under review 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**

	<b>Current Year 3rd Quarter As At 30 Sep 2011 RM'000</b>	<b>Audited as at 31 Dec 2010 RM'000</b>
At cost		
Quoted shares	-	567
Quoted unit trusts *	7,242	11,734
	7,242	12,301

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 the following:

- (i) The disposal of all quoted shares due to an unconditional take-over offer of quoted shares during the current quarter for a cash offer price of RM0.65 per offer share for 1,090,908 shares held; and
- (ii) net redemption of some units of the quoted unit trusts.

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

As at 30 September 2011, the Group does not have any borrowings.



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

**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 Earnings per share**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current Year Quarter 30 Sep 2011	Preceding Year Corresponding Quarter 30 Sep 2010	Current Year To date 30 Sep 2011	Preceding Year Corresponding Period 30 Sep 2010
<b>(a) Basic earnings per share</b>				
Loss after taxation (RM'000)	(589)	(4,537)	(1,915)	(6,579)
Weighted average number of ordinary shares in issue ('000)	298,939	298,821	298,939	298,821
Basic loss per share (sen)	(0.20)	(1.52)	(0.64)	(2.20)
<b>(b) Diluted earnings per share</b>				
Loss after taxation (RM'000)	(589)	(4,537)	(1,915)	(6,579)
Weighted average number of ordinary shares	298,939	298,821	298,939	298,821
Adjusted for:				
Assumed exercise of ESOS at no consideration ('000)	25,391	25,451	25,391	25,451
Adjusted number of ordinary shares ('000)	324,330	324,272	324,330	324,272
Diluted loss per share (sen)	(0.18)	(1.40)	(0.59)	(2.03)

**B12 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.



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

**B13 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:

	<b>Current Year</b> <b>3rd Quarter As At</b> <b>30 Sep 2011</b> <b>RM'000</b>	<b>Audited as at</b> <b>31 Dec 2010</b> <b>RM'000</b>
Total retained profits		
Realised	3,094	5,071
Unrealised	-	(29)
	<u>3,094</u>	<u>5,042</u>
Add: Consolidation adjustments	89	56
Total retained profits as per consolidated statement of financial position	<u><u>3,183</u></u>	<u><u>5,098</u></u>

**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 3 November 2011.

By Order of the Board

Tiang Boon Hwa  
Managing Director

Date : 3 November 2011































