

## 12. ACCOUNTANTS' REPORT



### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.3 CASH FLOW STATEMENTS OF BCT TECH GROUP AND BCT TECH

	Note	FPE2005	
		The Group RM	The Company RM
<u>Cash flows for operating activities</u>			
Profit before taxation		5,996,705	3,259,174
<u>Adjustments for:-</u>			
Allowance for doubtful debts		1,566,626	-
Allowance for impairment on goodwill		98,676	-
Amortisation of development costs		219,174	-
Depreciation of equipment		209,615	525
Development costs written off		1,053,528	-
Interest expense		118,022	-
Interest income		(11,766)	-
Operating profit before working capital changes		9,250,580	3,259,699
Increase in inventories		(193,237)	(7,850)
Increase in trade and other receivables		(15,223,100)	(6,129,184)
Increase in trade and other payables		4,405,681	69,142
Decrease in amount owing by subsidiaries		-	1,974,508
Cash for operations		(1,760,076)	(833,685)
Interest paid		(118,022)	-
Interest received		11,766	-
Net cash for operating activities		(1,866,332)	(833,685)
<u>Cash flows for investing activities</u>			
Purchase of equipment		(60,651)	(9,000)
Acquisition of a subsidiary	6.1.27	(483,100)	-
Development costs paid		(2,798,316)	-
Net cash for investing activities		(3,342,067)	(9,000)
<u>Cash flows from financing activities</u>			
Net drawdown of bank borrowings		231,441	-
Repayment of finance lease obligations		(74,269)	-
Advances from directors		202,430	56,015
Advances to subsidiaries		-	(3,740,341)
Proceeds from issuance of ordinary shares		28,002	28,002
Proceeds from issuance of RCPS		4,500,000	4,500,000
Net cash from financing activities		4,887,604	843,676
Net (decrease)/increase in cash and cash equivalents		(320,795)	991
Effects of foreign exchange translation on cash and cash equivalents		(5,602)	-
Cash and cash equivalents at end of the financial period	6.1.28	(326,397)	991

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.4 STATEMENTS OF CHANGES IN EQUITY OF BCT TECH GROUP AND BCT TECH

The Group	Share capital RM	RCPS RM	Share premium RM	Foreign exchange translation reserve RM	Negative goodwill RM	Retained profit RM	Total RM
Balance at 11.10.2004 (Date of incorporation)	2	-	-	-	-	-	2
Issuance of ordinary shares pursuant to							
- the acquisition of a subsidiary	350,000	-	-	-	-	-	350,000
- the exercise of ESOS I Options	28,000	-	-	-	-	-	28,000
Issuance of RCPS	-	450,000	4,050,000	-	-	-	4,500,000
Negative goodwill arising from the acquisition of a subsidiary	-	-	-	-	2,531,177	-	2,531,177
Currency exchange translation differences	-	-	-	(86,891)	-	-	(86,891)
Profit for the financial period	-	-	-	-	-	5,996,705	5,996,705
Balance at 31.12.2005	378,002	450,000	4,050,000	(86,891)	2,531,177	5,996,705	13,318,993

The Company	Share capital RM	RCPS RM	Share premium RM	Retained profit RM	Total RM
Balance at 11.10.2004 (Date of incorporation)	2	-	-	-	2
Issuance of ordinary shares pursuant to					
- the acquisition of a subsidiary	350,000	-	-	-	350,000
- the exercise of ESOS I Options	28,000	-	-	-	28,000
Issuance of RCPS	-	450,000	4,050,000	-	4,500,000
Profit for the financial period	-	-	-	3,259,174	3,259,174
Balance at 31.12.2005	378,002	450,000	4,050,000	3,259,174	8,137,176

##### 6.1.5. REVENUE

Revenue of the Group and of the Company represent the invoiced value of goods sold and services rendered, less trade discounts, returns and service tax.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.6. PROFIT FOR THE FINANCIAL PERIOD

	THE GROUP RM	THE COMPANY RM
Profit for the financial period is arrived at after charging/(crediting):-		
Allowance for doubtful debts	1,566,626	-
Amortisation of development costs	219,174	-
Audit fee	58,136	12,000
Depreciation of equipment	209,615	525
Development costs written off	1,053,528	-
Impairment loss on goodwill	98,676	-
Realised loss on foreign exchange	291,113	-
Directors' remuneration	486,749	139,216
Interest expense		
- bank borrowings	113,293	-
- lease	4,729	-
Rental of premises	297,556	102,400
Staff costs	2,095,247	90,508
Fixed deposit interest	(11,766)	-
	<u>                    </u>	<u>                    </u>

##### 6.1.7. TAXATION

The Company was granted pioneer status under the Promotion of Investments Act, 1986 for the period from 1 December 2004 to 30 November 2014 whereby 100% of the pioneer statutory income is tax-exempt.

Subject to agreement with the tax authorities, at the balance sheet date, the Group has unutilised tax losses and unabsorbed capital allowances of approximately RM4,968,000 and RM118,000 respectively, available to be carried forward for offset against future taxable business income. No deferred tax assets are recognised in respect of these items.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.7. TAXATION (CONT'D)

A reconciliation of income tax expense applicable to the profit for the financial period at the statutory tax rate to income tax expense at the effective tax rate of the Group and of the Company is as follows:-

	THE GROUP RM	THE COMPANY RM
Profit for the financial period	5,996,705	3,259,174
Tax at the statutory tax rate of 28%	1,679,077	912,569
Tax effects of:-		
Differential in tax rates	(228,723)	-
Non-deductible expenses	84,782	5,124
Tax-exempt pioneer income	(917,083)	(917,084)
Deferred tax liability not recognised during the financial period	(609)	(609)
Utilisation of previously unrecognised tax losses and capital allowances during the financial period	(617,444)	-
Tax for the financial period	-	-

##### 6.1.8 INVESTMENT IN A SUBSIDIARY

	THE COMPANY RM
Unquoted shares, at cost	350,000

Details of the subsidiaries are as follows:-

Name of Company	County of Incorporation	Effective Equity Interest 31.12.2005	Principal Activities
BlueChips Technology Pte. Ltd.	Singapore	100%	Design and supply of integrated circuits, the distribution of software solutions, provisions of design related services and the licensing of intellectual property in integrated circuits related fields.

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#### 6.1 BCT TECH (CONT'D)

##### 6.1.8 INVESTMENT IN A SUBSIDIARY (CONT'D)

Name of Company	County of Incorporation	Effective Equity Interest 31.12.2005	Principal Activities
Blue-Chips Semiconductors (M) Sdn. Bhd. #	Malaysia	100%	Distribution of software solutions and the provision of related services.
Bluechips Technology (HK) Limited #	Hong Kong	100%	Provision of product design, manufacturing of semiconductors integrated circuits and related services.

# Interest held by BlueChips Technology Pte. Ltd.

##### 6.1.9 EQUIPMENT

	OFFICE EQUIPMENT RM	FURNITURE AND FITTINGS RM	COMPUTERS RM	RENOVATIONS RM	TOTAL RM
THE GROUP					
NET BOOK VALUE					
At 11.10.2004	-	-	-	-	-
Acquisition of a subsidiary	27,510	44,191	190,408	38,932	301,041
Additions	-	10,108	50,543	-	60,651
Depreciation charge	(5,631)	(8,311)	(189,662)	(6,011)	(209,615)
Foreign exchange translation difference	(575)	(987)	(3,383)	(950)	(5,895)
At 31.12.2005	21,304	45,001	47,906	31,971	146,182
At 31.12.2005					
Cost	59,587	85,939	1,705,791	60,530	1,911,847
Accumulated depreciation	(38,283)	(40,938)	(1,657,885)	(28,559)	(1,765,665)
Net book value	21,304	45,001	47,906	31,971	146,182

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#### 6.1 BCT TECH (CONT'D)

##### 6.1.9 EQUIPMENT (CONT'D)

THE COMPANY	FURNITURE AND FITTINGS RM
NET BOOK VALUE	
At 11.10.2004	-
Addition	9,000
Depreciation charge	(525)
At 31.12.2005	<u>8,475</u>
At 31.12.2005	
Cost	9,000
Accumulated depreciation	(525)
	<u>8,475</u>

##### 6.1.10 DEVELOPMENT COSTS

	THE GROUP RM
Development costs	
At 11 October 2004 (Date of incorporation)	-
Acquisition of a subsidiary	2,396,587
Additions for the financial period	2,798,316
	5,194,903
Accumulated amortisation	
At 11 October 2004 (Date of incorporation)	-
Acquisition of a subsidiary	(53,150)
Amortisation charge for the financial period	(219,174)
	(272,324)
	4,922,579
Write-off during the financial period	(1,053,528)
Foreign exchange translation difference	(73,670)
	<u>3,795,381</u>

Development costs represent direct expenses and related overheads incurred for the development of semiconductor integrated circuits.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.10 DEVELOPMENT COSTS (CONT'D)

The following items have been capitalised under development costs during the financial period:-

	THE GROUP RM
Directors' non-fee emoluments	195,383
Rental of premises	101,291
Software lease rental	331,484
Staff costs	1,555,764
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##### 6.1.11 GOODWILL ON CONSOLIDATION

	THE GROUP RM
Acquisition of a subsidiary	100,400
Impairment loss on goodwill	(98,676)
Foreign exchange translation difference	(1,724)
	<hr/>
	-
	<hr/>

##### 6.1.12 INVENTORIES

	THE GROUP RM	THE COMPANY RM
AT COST:-		
Work-in-progress	702,015	-
Finished goods	518,314	7,850
	<hr/>	<hr/>
	1,220,329	7,850
	<hr/>	<hr/>

None of the inventories is carried at net realisable value.

##### 6.1.13 TRADE RECEIVABLES

	THE GROUP RM	THE COMPANY RM
Trade receivables	17,323,502	5,548,000
Allowance for doubtful debts	(1,566,626)	-
	<hr/>	<hr/>
	15,756,876	5,548,000
	<hr/>	<hr/>

The Group's normal trade credit term is 30 days. Other credit terms are assessed and approved on a case-by-case basis.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.13 TRADE RECEIVABLES (CONT'D)

The foreign currency exposure profile of trade receivables is as follows:-

	THE GROUP RM
Hong Kong Dollar	22,938
Singapore Dollar	202,189
United States Dollar	9,950,734
	<u>9,975,861</u>

##### 6.1.14 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP RM	THE COMPANY RM
Other receivables	33,839	-
Deposits	83,257	30,800
Prepayments	775,468	550,384
	<u>892,564</u>	<u>581,184</u>

The foreign currency exposure profile of other receivables, deposits and prepayments is as follows:-

	THE GROUP RM
Singapore Dollar	247,732
United States Dollar	36,604
	<u>284,336</u>

##### 6.1.15 AMOUNT OWING BY SUBSIDIARIES

	THE COMPANY RM
Trade balance	(1,974,508)
Non-trade balance	3,740,341
	<u>1,765,833</u>

The Company's normal trade credit term is 30 days.

The non-trade balance is unsecured, interest-free and not subject to fixed terms of repayment.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.15 AMOUNT OWING BY SUBSIDIARIES (CONT'D)

The foreign currency exposure profile of the amount owing by subsidiaries is as follows:-

	THE COMPANY RM
Hong Kong Dollar	13,112
Singapore Dollar	1,530,611
	<hr/>

##### 6.1.16 FIXED DEPOSIT WITH A LICENSED BANK

The fixed deposit of the Group has been pledged to a licensed bank for banking facilities granted to the Group.

The fixed deposit of the Group bore an effective interest rate of 1.7% per annum at the balance sheet date. The fixed deposit has a maturity period of 7 months and is denominated in Singapore Dollar.

##### 6.1.17 CASH AND BANK BALANCES

The foreign currency exposure profile of cash and bank balances is as follows:-

	THE GROUP RM
Hong Kong Dollar	1,148
Singapore Dollar	17,676
United States Dollar	151,051
	<hr/>

##### 6.1.18 TRADE PAYABLES

The normal trade credit terms granted to the Group range from 30 to 60 days.

The foreign currency exposure profile of trade payables is as follows:-

	THE GROUP RM
Singapore Dollar	137,008
United States Dollar	6,401,069
	<hr/>

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.19 OTHER PAYABLES AND ACCRUALS

	THE GROUP RM	THE COMPANY RM
Other payables	10,940	9,492
Accruals	822,568	59,650
	833,508	69,142

The foreign currency exposure profile of other payables and accruals is as follows:-

	THE GROUP RM
Hong Kong Dollar	3,419
Singapore Dollar	659,980
United States Dollar	93,817
	757,216

##### 6.1.20 AMOUNT OWING TO DIRECTORS

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

The foreign currency exposure profile of the amount owing to directors is as follows:-

	THE GROUP RM
Singapore Dollar	146,415
	146,415

##### 6.1.21 SHORT-TERM BANK BORROWINGS

	THE GROUP RM
Bridging loan (Note 6.1.26)	29,106
Short-term loan	532,560
	561,666

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.21 SHORT-TERM BANK BORROWINGS (CONT'D)

The weighted average effective interest rates at the balance sheet date were as follows:-

	% per annum
Bridging loan	2.6
Short-term loan	9.3

The bridging and short-term loans are secured by way of:-

- (i) a pledge of the Group's fixed deposit; and
- (ii) the joint and several guarantees of the directors of the subsidiary.

The short-term loan has an average maturity period of 120 days and is denominated in Singapore Dollar.

##### 6.1.22 BANK OVERDRAFTS

The bank overdrafts bore a weighted average effective interest rate of 7.2% per annum at the balance sheet date, are secured in the same manner as the bridging and short-term loans as disclosed in Note 6.1.21 and are denominated in Singapore Dollar.

##### 6.1.23 SHARE CAPITAL

	THE COMPANY	
	Number Of Ordinary Shares	RM
<b>ORDINARY SHARES OF RM0.10 EACH</b>		
<b>AUTHORISED</b>		
At 11.10.2004 (Date of incorporation)	1,000,000	100,000
Creation during the financial period	4,500,000	450,000
At 31.12.2005	5,500,000	550,000
<b>ISSUED AND FULLY PAID-UP</b>		
At 11.10.2004 (Date of incorporation)	20	2
Allotment during the financial period pursuant to:		
- the acquisition of a subsidiary	3,500,000	350,000
- the exercise of ESOS I Options	280,000	28,000
At 31.12.2005	3,780,020	378,002

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#### 6.1 BCT TECH (CONT'D)

##### 6.1.23 SHARE CAPITAL (CONT'D)

During the financial period,

- (a) the Company increased its authorised share capital from RM100,000 to RM550,000 by the creation of 4,500,000 new ordinary shares of RM0.10 each; and
- (b) the Company increased its issued and paid-up share capital from RM2 to RM378,002 by the allotment of 3,780,000 new ordinary shares of RM0.10 each. 280,000 ordinary shares were issued for cash consideration at an issue price of RM0.10 per share pursuant to the ESOS I and 3,500,000 ordinary shares were issued for the acquisition of a 100% equity interest in BlueChips Technology Pte. Ltd. The new shares issued rank pari passu in all respects with the existing shares of the Company.

##### 6.1.24 REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS")

	THE COMPANY	
	NUMBER OF RCPS	RM
REDEEMABLE CONVERTIBLE PREFERENCE SHARES OF RM0.10 EACH		
AUTHORISED	4,500,000	450,000
ISSUED AND FULLY PAID-UP	4,500,000	450,000

On 23 February 2005, the Company issued 4,500,000 RCPS of RM0.10 each at an issue price of RM1.00 per share for the purpose of working capital.

The salient terms of the RCPS are as follows:-

- (a) the Company is obliged to redeem all or any of the RCPS at the redemption price as defined under Article 12.22 of the Articles of Association of the Company together with all accrued dividend payable at any time after the 2nd anniversary of the date of issuance of the RCPS, upon receipt of a redemption notice from the holder of the RCPS;
- (b) the Company is obliged to convert all or any of the RCPS at the conversion price as set-out in Article 12.23 of the Articles of Association of the Company at any time upon the Company being granted the approval to list its entire issued and paid-up share capital on Bursa Securities or upon occurrence of events as set-out under Article 12.23(a)(ii) under the Articles of Association of the Company, upon receipt of a conversion notice from the holder of the RCPS;
- (c) in the event of any liquidation, dissolution, winding up or other repayment of capital of the Company, the RCPS holders shall rank in priority to other class of shareholders of the Company; and

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.25 RESERVES

	THE GROUP RM	THE COMPANY RM
Non-distributable:		
- Share premium	4,050,000	4,050,000
- Exchange fluctuation reserve	(86,891)	-
- Negative goodwill	2,531,177	-
	6,494,286	4,050,000
Distributable:		
- Retained profit	5,996,705	3,259,174
	<u>12,490,991</u>	<u>7,309,174</u>

The share premium is not distributable by way of cash dividends and may be utilised only in the manner set out in Section 60(3) the Companies Act, 1965.

Subject to agreement with the tax authorities, and based on tax-exempt income account available, the entire retained profits of the Company are distributable by way of dividends without the Company incurring further tax liabilities.

##### 6.1.26 LONG-TERM BANK BORROWINGS

The bridging loan is repayable as follows:-

	THE GROUP RM
Current portion:	
- repayable within one year (Note 6.1.21)	29,106
Non-current portion:	
- repayable between one and two years	30,261
	<u>59,367</u>

The bridging loan of a subsidiary is repayable by 48 equal monthly instalments of RM2,682 with effect from December 2003.

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.1 BCT TECH (CONT'D)

##### 6.1.27 ACQUISITION OF A SUBSIDIARY

On 20 January 2005, the Company acquired 1,343,483 new ordinary shares of SGD 1.00 each representing a 100% equity interest in BlueChips Technology Pte. Ltd. for a purchase consideration of RM350,000 via the issuance of 3,500,000 ordinary shares of RM0.10 each of the Company at an issue price of RM0.10 per share.

The details of net assets acquired and cash flow arising from the acquisition of the subsidiary are as follows:-

	THE GROUP RM
Equipment	301,041
Development costs	2,343,437
Goodwill	100,400
Inventories	1,027,092
Trade and other receivables	2,992,966
Fixed deposit with a licensed bank	794,956
Cash and bank balances	201,137
Trade and other payables	(2,965,904)
Lease payables	(74,269)
Bank borrowings	(360,486)
Bank overdrafts	(1,479,193)
Fair values of net assets acquired	2,881,177
Negative goodwill arising on consolidation	(2,531,177)
Total purchase consideration	350,000
Cash and cash equivalents acquired	483,100
	833,100
Purchase consideration satisfied through the issuance of shares	(350,000)
Cash outflow on acquisition of a subsidiary	483,100

The effects of the acquisition on the financial position of the Group at the end of the financial period are as follows:-

	RM
Equipment	137,707
Development costs	3,795,381
Inventories	1,212,479
Trade and other receivables	12,472,883
Fixed deposit with a licensed bank	783,756
Cash and bank balances	212,134
Trade and other payables	(11,045,800)
Bank borrowings	(591,927)
Bank overdrafts	(1,323,278)
Group's share of net assets	5,653,335

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#### 6.1 BCT TECH (CONT'D)

##### 6.1.27 ACQUISITION OF A SUBSIDIARY (CONT'D)

The effects of the acquisition on the financial results of the Group during the financial period are as follows:-

	RM
Revenue	16,671,733
Cost of sales	(7,075,138)
Gross profit	9,596,595
Other operating income	12,561
	<u>9,609,156</u>
Administrative expenses	(3,274,303)
Other operating expenses	(3,324,435)
	<u>(6,598,738)</u>
	3,014,418
Finance costs	(151,369)
	<u>2,859,049</u>

##### 6.1.28 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the following:-

	THE GROUP RM	THE COMPANY RM
Fixed deposit with a licensed bank	783,756	-
Cash and bank balances	213,125	991
Bank overdrafts	(1,323,278)	-
	<u>(326,397)</u>	<u>991</u>

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### 6. AUDITED FINANCIAL STATEMENTS (CONT'D)

#### 6.2 BCT

##### 6.2.1 INCOME STATEMENTS OF BCT GROUP

	NOTE	FYE2003 RM	FYE2004 RM
Revenue	6.2.5	3,288,916	10,377,442
Cost of sales		(2,079,450)	(5,026,621)
Gross profit ("GP")		1,209,466	5,350,821
Other operating income		181,780	57,402
Operating overheads		1,391,246	5,408,223
(Loss)/Profit before taxation ("LBT")/"PBT")		(6,861,195)	1,239,285
Amortisation of development costs		317,716	52,618
Depreciation of equipment		395,770	381,048
Interest expense		77,569	125,092
Interest income		(2,774)	(4,159)
(Loss)/Earnings before interest, depreciation, tax and amortisation		(6,072,914)	1,793,884
Amortisation of development costs		(317,716)	(52,618)
Depreciation of equipment		(395,770)	(381,048)
Interest expense		(77,569)	(125,092)
Interest income		2,774	4,159
(LBT)/PBT	6.2.6	(6,861,195)	1,239,285
Taxation	6.2.7	201,767	-
(Loss)/Profit after taxation ("LAT")/"PAT")		(6,659,428)	1,239,285
<i>GP margin (%)</i>		37	52
<i>PBT margin (%)</i>		(209)	12
<i>PAT margin (%)</i>		(202)	12
<i>Effective tax rate (%)</i>		(3)	N/A
<i>Interest coverage (times)</i>		(87)	11
<i>Weighted average number of ordinary shares in issue of SGD1.00 each # ('000)</i>		513	1,080
<i>Gross (loss)/earning per share ("LPS")/"EPS") * (sen)</i>		(1,337.5)	114.7
<i>Net (LPS)/EPS * (sen)</i>		(1,298.1)	114.7

Horwath Offices in Malaysia:

Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang • Prai