

SANICHI TECHNOLOGY BERHAD

Company No. 661826-K
(Incorporated in Malaysia)

A. EXPLANATORY NOTES IN ACCORDANCE WITH FRS 134

A1. Basis of Preparation

The unaudited condensed interim financial statements for the second quarter ended 31 December 2009 have been prepared in accordance with the Financial Reporting Standards ("FRS") No. 134 - Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the ACE Market ("ACE Listing Requirements"). The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of Sanichi Technology Berhad ("Sanichi" or "Company") and its subsidiary companies (collectively known as "Sanichi Group" or "Group") for the financial year ended ("FYE") 30 June 2009.

Changes in Accounting Policies

The accounting policies and presentations adopted by the Group for these interim condensed financial statements are consistent with the most recent audited financial statements for the FYE 30 June 2009 except for the adoption of FRS 8 Operating Segments during the financial period. The adoption of the FRS 8 only impacts presentation and disclosure. It does not have any financial impact on the Group.

Besides, the Group has changed the accounting estimation of its economic useful lives of plant and machineries with effect from 1st July 2009 in order to better reflect the economic useful lives of its plant and machineries. The change is a prospective adjustment in accordance with FRS 108 and it had significant impact which disclosed under Section B1.

A2. Seasonality or Cyclical Factors

The Group's operations for the current quarter under review were not significantly affected by any seasonal or cyclical factors.

A3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

During the quarter, there were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.

A4. Material Change in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the results for the quarter under review.

A5. Issuances, Repurchases and Repayments of Debt and Equity Securities

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During the quarter, there were no issuances, repurchases and repayments of debt and equity securities.

A6. Dividend Paid

There was no dividend paid during the quarter under review.

A7. Segmental Information

The board views the Group has a single operation segment from the geographic perspective. The reportable segments are Malaysia and Thailand which both segments are in design and fabrication of precision moulds and tooling.

The Group 31 December 2009	Malaysia RM'000	Thailand RM'000	Eliminations RM'000	Consolidated RM'000
Revenue				
External sales	11,397	-	-	11,397
Inter segment sales	<u>1,166</u>	<u>-</u>	<u>(1,166)</u>	<u>-</u>
Total Revenue	<u>12,563</u>	<u>-</u>	<u>(1,166)</u>	<u>11,397</u>
Results				
Profit/(Loss) from operations	3,340	(262)	-	3,078
Finance cost	(658)	-	-	(658)
Income from other investment	-	-	-	-
Profit before tax				<u>2,420</u>
Income tax expenses	(8)	-	-	<u>(8)</u>
Net profit for the period			<u>2,412</u>	
Other information				
Additional of fixed assets	1,028	-	-	1,028
Depreciation and Amortisation	1,215	104	-	1,319
Consolidated Balance Sheet Assets				
Segment assets	52,876	1,499	-	54,375
Segment liabilities	29,147	3,403	-	32,550

The Group 31 December 2008	Malaysia RM'000	Thailand RM'000	Eliminations RM'000	Consolidated RM'000
Revenue				
External sales	9,779	-	-	9,779

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Inter segment sales	730	-	(730)	-
Total Revenue	<u>10,509</u>	<u>-</u>	<u>(730)</u>	<u>9,779</u>
Results				
Loss from operations	(873)	(290)	-	(1,163)
Finance cost	(765)	-	-	(765)
Income from other investment	-	-	-	-
Loss before tax				<u>(1,928)</u>
Income tax expenses	(24)	-	-	<u>(24)</u>
Net loss for the period			<u>(1,952)</u>	
Other information				
Additional of fixed assets	2,785	157	-	2,942
Depreciation and Amortisation	2,391	139	-	2,530
Consolidated Balance Sheet Assets				
Segment assets	55,834	2,259	-	58,093
Segment liabilities	26,769	3,014	-	29,783

Segment sales

	Current Quarter 31.12.2009 RM'000	Preceding Year Corresponding Quarter to 31.12.2008 RM'000
Malaysia	2,944	2,050
European countries	990	805
Other countries in Asia Pacific	1,364	90
	<u>5,298</u>	<u>2,945</u>

Segment sales

	Current Year To date 31.12.2009 RM'000	Preceding Year Corresponding Period to 31.12.2008 RM'000
Malaysia	5,706	5,679
European countries	1,166	1,896
Other countries in Asia Pacific	4,525	2,204
	<u>11,397</u>	<u>9,779</u>

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A8. Material Events Subsequent to the End of the Quarter under Review

Save for the Private Placement which was completed on 12 January 2010, there was no material event subsequent to the end of the quarter under review up to the date of this report which has not been reflected in the financial statements for the quarter under review. The status of the proceeds arising from the Private Placement is disclosed in Section B8 herein.

A9. Changes in the Composition of the Group

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

A10. Changes in Contingent Liabilities or Contingent Assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date up to the date of this report.

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B. ADDITIONAL INFORMATION REQUIRED BY ACE LISTING REQUIREMENTS (APPENDIX 9B)

B1. Review of Group's Results for the Current Quarter and Year-to-Date Ended 31 December 2009

The Group recorded a revenue of RM5.298 million and RM11.397 million for the second financial quarter and year-to-date period ended 31 December 2009. Advance Precision Injection Mould ("APIM") contributed RM2.007 million, representing approximately 37.9% of the revenue for the quarter under review. The Group's profit before tax ("PBT") and profit after tax ("PAT") for the quarter was RM0.777 million and RM0.772 million respectively.

The Group's revenue of RM11.397 million for the quarter ended 31 December 2009 represents an increase of approximately 16.5% as compared to the preceding year corresponding period. In addition, the Group generated PBT and PAT of RM2.420 million and RM2.412 million respectively for the quarter ended 31 December 2009, as compared to a loss before tax ("LBT") of RM1.928 million and loss after tax ("LAT") of RM1.952 million for the preceding year corresponding quarter ended 31 December 2008. The reasons for the improvement in the Group's financial performance were mainly due to the following:

- (a) The Group's total cumulative depreciation charge is RM1.303 million for the 6-month quarter ended 31 December 2009 as compared to RM2.516 million for preceding year corresponding quarter ended 31 December 2008; and
- (b) The Group had obtained better pricing for both automotive and electronic market following the competitive pricing strategy in the first half of the financial year ended 30 June 2009.

B2. Variation of Results for the Current Quarter Ended 31 December 2009 against Immediate Preceding Quarter

The Group recorded a decrease of approximately 13.1% in its revenue to RM5.298 million for the quarter ended 31 December 2009 against RM6.099 million for the immediate preceding quarter ended 30 September 2009. As a result thereof, the Group registered a PBT of RM0.777 million for the quarter ended 31 December 2009 as compared to a PBT of RM1.643 million in the immediate preceding quarter ended 30 September 2009.

The decrease in revenue by approximately RM0.801 million for the current quarter under review compared to preceding quarter ended 30 September 2009 was mainly due to the decrease in demand from countries in Asia Pacific for electronics industries as a result of the strong recovery in 1st quarter ended 30 September 2009 and excessive stock held which reduced the order for 2nd quarter ended 31 December 2009.

The decrease in higher margin products i.e. Advance Precision Injection Mould ("APIM") by 52.2% had cause the further decrease the profit before tax for the current quarter compared to the previous quarter.

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The Group maintained the sales margin for the quarter under review and that the Group managed to keep its fixed overhead rate to be consistent as the previous quarter.

B3. Group's Prospects for FYE 30 June 2010

The Group is confident that the results for the financial year ending 30 June 2010 will improve due to the market recovery. There has been an increase in demand from both the local and overseas market, both from consumer electronic industry and automotive industry. The encouraging sentiment is mainly due to recovery of the global economy which has seen returning confidence in the consumer market. It is expected that the sales of moulds and tooling to the consumer electronics industry will increase in the financial year ending 30 June 2010.

The Group expects that the increase in the prices such as oil, metal and copper recently might have impact the prices of major raw material costs. The Board of Directors of Sanichi will continue to monitor the cost cutting measures presently being undertaken by the management to improve the Group's results for the financial year ending 30 June 2010.

The Board is of the view that the Group's operational results for the current financial year will be satisfactory, barring any unforeseen circumstances.

B4. Variance of Profit Forecast

The Group did not publish any profit forecast for the period/year under review.

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B5. Tax Expenses

Taxation comprises the following:-

	Individual quarter ended		Cumulative quarter ended	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
	RM'000	RM'000	RM'000	RM'000
In respect of the current period:-				
Current taxation	(5)	11	(8)	(24)
Deferred taxation	-	29	-	-
	<u>(5)</u>	<u>40</u>	<u>(8)</u>	<u>(24)</u>
In respect of the previous period:-				
Taxation	-	-	-	-
Deferred taxation	-	3	-	-
Net tax charge	<u>(5)</u>	<u>43</u>	<u>(8)</u>	<u>(24)</u>

The Group's effective tax rate for this quarter under review was lower mainly due to the Group has sufficient business losses to set-off current quarter profit. The tax expense for the cumulative year to date was incurred at the holding company.

B6. Profit/(Losses) on Sale of Unquoted Investments and Properties

There was no disposal of unquoted investments and properties during the quarter under review and financial year-to-date.

B7. Purchase and Disposal of Quoted and Marketable Securities

There was no purchase or disposal of quoted and marketable securities during the quarter under review and financial year-to-date.

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B8. Status of Corporate Proposals Announced

(i) Utilisation Of Proceeds From Private Placement

The Private Placement which was announced on 15 September 2009 has been completed on 12 January 2010. The gross proceeds of RM5,000,000 raised from the Private Placement of 50,000,000 new ordinary shares of RM0.10 each in Sanichi ("Placement Shares") at an issue price of RM0.10 per share has been utilized as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance Utilisation RM'000	%	Explanations	Expected time frame for utilisation of proceeds from date of listing of Placement Shares
General working capital for the Sanichi Group	2,850	850	2,000	70	To be utilized over next four (4) months	Within 6 months
Repayment of bank borrowings	2,000	2,000	-	-	-	Within 3 months
Estimated expenses relating to the Private Placement	150	150	-	-	-	Within 3 months
TOTAL	5,000	5,000	2,000	70	-	

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(ii) Utilisation Of Proceeds Received From Public Issue

As at 31 December 2009, the status of utilisation of the gross proceeds of RM15.86 million raised from the public issue of 30,499,980 new ordinary shares of RM0.10 each in Sanichi at an issue price of RM0.52 per share in conjunction with the listing of Sanichi on the ACE Market of the Bursa Securities is as follows:

	Proposed Utilisation as per Prospected dated 15 August 2006 RM'000	Revised Proposed Utilisation on 21 October 2009 (i) RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	%	Explanations	Timeframe for Utilisation
Purpose							
Capital expenditure	4,000	4,000	4,000	-	-	-	-
Research & Development ("R&D")	2,000	1,782	1,782	-	-	(i)	-
Repayment of bank borrowings	4,000	4,000	4,000	-	-	-	-
Working Capital	4,160	4,378	4,343	35	0.8	(i)	By 7 September 2010
Estimated Listing Expenses	1,700	1,700	1,700	-	-	-	-
TOTAL	15,860	15,860	15,825	35	0.8		

Notes:

- (i) The Company had on 21 October 2009, announced to Bursa Securities that the Company will allocate the unutilized balance of RM218,000 as at 30 September 2009, which was earmarked for R&D, for the Working Capital of the Group. The Working Capital will be utilised within twelve (12) months from 7 September 2009.

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B9. Group Borrowings and Debt Securities

The Group's borrowings, all repayable in Ringgit Malaysia and secured, as at the end of the quarter under review are as follows:

	RM'000
<u>Short Term Borrowings</u>	
Term Loans	2,138
Hire Purchase Payables	1,842
Trade Financing	9,281
Bank overdraft	1,491
	<u>14,752</u>
<u>Long Term Borrowings</u>	
Term Loans	9,062
Hire Purchase Payables	2,672
	<u>11,734</u>
Total	<u>26,486</u>

The Group does not have any foreign borrowings and debt securities as at the date of this report.

B10. Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at the date of this report.

B11. Material Litigation

The Group is not engaged in any material litigation either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group as at the date of this report.

B12. Dividend Proposed

No dividend was declared and recommended for payment during the quarter under review.

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B13. Earnings Per Share ("EPS") / Loss Per Share ("LPS")

Basic EPS/(LPS)

	Current quarter ended		Cumulative quarter ended	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Net profit/(loss) for the period (RM'000)	772	(1,334)	2,412	(1,952)
Weighted average number of shares in issue ('000)	113,500	113,500	113,500	113,500
Basic EPS/(LPS) (sen)	0.7	(1.2)	2.1	(1.7)

Basic EPS/(LPS) is calculated by dividing the net profit/(loss) attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

Diluted EPS

Diluted EPS is equal to the basic EPS as there were no convertible or option outstanding which can be potentially converted into ordinary shares in both the previous and current financial periods.

B14. Audit Report of Preceding Annual Financial Statements

The audited financial statements of the Company and its subsidiary companies for the FYE 30 June 2009 were not subject to any qualification.