

Unaudited financial results of MClean and its subsidiaries (the “Group”) for period ended 30 September 2012.

Explanatory notes to the quarterly report and for the financial period ended 30 September 2012

1. Basis of preparation and Changes in Accounting Policies

1.1 Basis of preparation

The interim financial statements is unaudited and have been prepared in compliance with Malaysia Financial Reporting Standards (MFRS) 134 - Interim Financial Reporting, issued by the Malaysian Accounting Standard Board (“MASB”) and Part A of Appendix 9B of the Listing Requirements of Bursa Securities Berhad (“BMSB)

The same accounting policies and methods of computation are allowed in the quarterly financial statements as compared with annual financial statements of the Group for the year ended 31 December 2011.

Apart from the above, the quarterly financial statements are to be read in conjunction with Annual Financial Statements for the year ended 31 December 2011.

1.2 Significant Accounting Policies

Significant accounting policies adopted by the Group in these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2011.

The Group has adopted the Malaysian Financial Reporting Standards (“MFRS”) framework issued by MASB with effect from 1 January 2012. This MFRS framework was introduced by MASB in order to fully converge Malaysia’s existing Financial Reporting Standards (“FRS”) framework with the International Financial Reporting Standards (“IFRS”) framework issued by the International Accounting Standards Board. There has been no material impact upon the adoption of the MFRS on the financial statements of the Group.

The Group has also adopted all the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January 2012. The adoption of these new and revised MFRS and IC Interpretation have not resulted in any material impact upon the financial statements of the Group.

MFRS and IC Interpretation that were issued but are not yet effective have not been early adopted by the Group.

2. Audit Report of the Preceding Audited Financial Statements

The auditors have expressed an unqualified opinion on the Company’s statutory consolidated financial statements for the financial year ended 31 December 2011 in their report dated 25 April 2012.

3. Seasonal or Cyclical Factors

Our Group’s revenue is not significantly affected by the seasonal or cyclical factors for the quarter under review. Demand usually increases during the second half of the year.

4. Unusual Items

There was no item which is unusual because of its nature, size, or incidence that has affected the assets, liabilities, equity, net income or cash flow of the Group for the current financial quarter under review.

5. Material Changes in Estimates

The were no changes in estimate of amounts reported that has a material impact in the current financial quarter under review.

6. Changes in Debts and Equity Securities

There were no issuance and repayment of debt and equity securities, share buy-backs and share cancellation, for the current financial quarter under review.

7. Dividend Paid

There were no dividends paid during the quarter under review.

8. Segmental Reporting

The segmental result of the Group for the current and previous financial year-to-date under review is set out below:

Geographical information		
Revenue information based on the geographical location of customers are as follows:-		
Location	9 Months Ended 30.09.2012	9 Months Ended 30.09.2011
	RM'000	RM'000
People's Republic of China	5,684	5,280
Malaysia	2,745	5,047
Singapore	18,009	16,184
Others	1,932	1,441
	28,370	27,952

Operating Segment				
(i) Business segment				
Current quarter ended 30.09.2012	Plastic Injection Moulding	Precision Cleaning	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
Revenue:-				
External customers	663	7,267	-	7,930
Inter segment	-	1,723	(1,723)	-
Total revenue	663	8,990	(1,723)	7,930
Results:-				
Segment results	(63)	821	-	758
Unallocated amounts:				
Other income				84
Other corporate expenses				(2,708)
Loss before tax				(1,866)

**MCLEAN TECHNOLOGIES BERHAD (“MCLEAN” OR THE COMPANY”)
(Company No: 893631-T)**

Operating Segment				
(i) Business segment				
Previous corresponding quarter ended 30.09.2011	Plastic Injection Moulding	Precision Cleaning	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
Revenue:-				
External customers	1,441	9,040	-	10,481
Inter segment	-	1,965	(1,965)	-
Total revenue	1,441	11,005	(1,965)	10,481
Results:-				
Segment results	291	2,371	-	2,662
Unallocated amounts:				
Other income				471
Other corporate expenses				(2,650)
Profit before tax				483

Operating Segment				
(i) Business segment				
Cumulative quarter ended 30.09.2012	Plastic Injection Moulding	Precision Cleaning	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
Revenue:-				
External customers	2,395	25,975	-	28,370
Inter segment	-	5,958	(5,958)	-
Total revenue	2,395	31,933	(5,958)	28,370
Results:-				
Segment results	(136)	5,935	-	5,799
Unallocated amounts:				
Other income				476
Other corporate expenses				(7,796)
Loss before tax				(1,521)

Operating Segment				
(i) Business segment				
Cumulative quarter ended 30.09.2011	Plastic Injection Moulding	Precision Cleaning	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
Revenue:-				
External customers	3,168	24,784	-	27,952
Inter segment	-	6,154	(6,154)	-
Total revenue	3,168	30,938	(6,154)	27,952
Results:-				
Segment results	607	8,432	-	9,039
Unallocated amounts:				
Other income				836
Other corporate expenses				(9,411)
Profit before tax				464

It was not practicable to separate out the segment assets and liabilities for its business segments as the assets and liabilities were jointly used by both business segments.

9. Valuation of Property, Plant and Equipment

The Group does not own any properties or real estate. As at 30 September 2012, all the Group's plant and equipment were stated at cost less accumulated depreciation.

10. Material Events Subsequent to the End of the Current Financial Quarter

There were no material events subsequent to the end of the reporting quarter that have not been reflected in the quarter under review.

11. Changes in the Composition of the Group

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

12. Contingent Liabilities and Contingent Assets

(a) Contingent liabilities

There were no contingent liabilities as at the end of current financial quarter.

(b) Contingent assets

There were no contingent assets as at the end of current financial quarter.

13. Capital Commitment

Capital commitments as at 30 September 2012 are as follows:

	RM'000
Capital expenditure:	
Contracted but not provided for in the financial results	110

14. Review of Performance

Comparison between Current Financial Quarter Ended 30 September 2012 and Previous Corresponding Quarter Ended 30 September 2011

A summary of the Group’s performance is set out below:-

	3 Months Ended					
	30.09.2012			30.09.2011		
	Plastic Injection Moulding	Precision Cleaning	Total	Plastic Injection Moulding	Precision Cleaning	Total
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
Revenue	663	7,267	7,930	1,441	9,040	10,481
Gross (loss)/profit	(63)	821	758	291	2,371	2,662
(Loss)/profit before tax			(1,866)			483

Plastic Injection Moulding Division

Revenue from plastic injection moulding was approximately 54% lower than previous corresponding quarter due to significantly lower orders for the Group’s mould manufacturing. The Group’s plastic injection moulding division comprises plastic injection moulding, which is revenue recurring in nature and mould manufacturing, which is non-revenue recurring in nature.

The plastic injection moulding division incurred a gross loss of RM63,000 for the current quarter as compared with a gross profit in the previous corresponding quarter of RM291,000 mainly due to the loss of contribution from mould sales.

Precision Cleaning Division

Revenue from precision cleaning was approximately 20% lower than preceding year corresponding quarter due to lower orders from the Group’s customers.

The gross profit margin (“**GP margin**”) for the precision cleaning division however decreases from approximately 26% to 11%, due primarily to the following:-

- (a) A change in terms of trade whereby MClean Singapore now bears the ocean freight charges of approximately RM280,000 for shipment of cassettes from China to Singapore as its inward freight costs (as Cost of Sales) instead of Techsin Wuxi bearing the ocean freight charges as its Distribution Costs (under Selling & Distribution expenses in the income statement); and
- (b) Amortisation of intangible assets in the current quarter of RM100,000; and
- (c) the effect of reduced revenue over fixed factory overheads such as rent, depreciation and amortization expenses

Other Income was RM 84,000 as compared with RM 654,000 in the preceding year corresponding quarter. This reduction is mainly due to :

- 1) in the current quarter we incurred an foreign exchange loss of RM 124,000 as compared with a foreign exchange gain of RM 430,000 in the previous corresponding quarter
- 2) a reduction in rental income of RM 70,000 from the non-renewal of lease by a tenant

Overall, the Group reported a loss before tax of RM1.87 million as compared with a profit before tax of RM483,000 in the previous year corresponding quarter.

Comparison between Current Financial Year-to-date Ended 30 September 2012 and Previous Corresponding Financial Year-to-date Ended 30 September 2011

	9 Months Ended					
	30.09.2012			30.09.2011		
	Plastic Injection Moulding	Precision Cleaning	Total	Plastic Injection Moulding	Precision Cleaning	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,395	25,975	28,370	3,168	24,784	27,952
Gross (loss)/profit	(136)	5,935	5,799	607	8,432	9,039
(Loss)/profit before tax			(1,521)			464

Plastic Injection Moulding Division

Revenue from plastic injection moulding was approximately 24% lower than previous corresponding financial year-to-date due to significantly lower orders for the Group’s mould manufacturing. The Group’s plastic injection moulding division comprises plastic injection moulding, which is revenue recurring in nature and mould manufacturing, which is non-revenue recurring in nature.

The plastic injection moulding division incurred a gross loss of RM136,000 for the current financial year-to-date as compared with a gross profit in the previous corresponding financial year-to-date of RM607,000 mainly due to the loss of contribution from mould sales and the effect of reduced revenue over fixed factory overheads such as rent and depreciation expenses

Precision Cleaning Division

Revenue from precision cleaning was approximately 5% higher than previous corresponding financial year-to-date.

The gross profit margin (“**GP margin**”) for the precision cleaning division however decreases from approximately 34% to 23%, due primarily to the following:-

- (a) A change in terms of trade whereby MClean Singapore now bears the ocean freight charges of approximately RM1.09 million for shipment of cassettes from China to Singapore as its inward freight costs (as Cost of Sales) instead of Techsin Wuxi bearing the ocean freight charges as its Distribution Costs (under Selling & Distribution expenses in the income statement).
- (b) Increase in labour costs as a result of increase in headcount and salary increase
- (c) Increased in fixed factory overheads such as rent, depreciation and amortization expenses

Overall, the Group reported a loss before tax of RM1.52 million as compared with a profit before tax of RM464,000 in the preceding year corresponding financial year to-date.

15. Material Changes in the Quarterly Results as Compared with the Immediate Preceding Quarter

	3 Months Ended					
	30.09.2012			31.06.2012		
	Plastic Injection Moulding	Precision Cleaning	Total	Plastic Injection Moulding	Precision Cleaning	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	663	7,267	7,930	853	9,648	10,501
Gross (loss) / profit	(63)	821	758	(14)	2,357	2,343
(Loss)/profit before tax			(1,866)			10

Plastic Injection Moulding Division

Revenue from plastic injection moulding was approximately 22% lower than immediate preceding quarter. The plastic injection moulding division incurred a gross loss of RM63,000 for the current financial quarter as compared with a gross loss of RM 14,000 in the immediate preceding quarter.

Precision Cleaning Division

The Group’s revenue from Precision Cleaning has decreased by 25% in the current financial quarter as compared to the immediate preceding quarter.

The gross profit margin (“**GP margin**”) for the precision cleaning division however decreases from approximately 24% to 11%, primarily due to the following:-

- (a) the effect of reduced revenue over fixed factory overheads such as rent, depreciation and amortization expenses, especially from the low utilization of the Techsin Wuxi plant as a result of reduction in volume demand from our customers.
- (a) Amortisation of intangible assets in the current quarter of RM100,000

Taking into account the abovementioned, the Group incurred a loss before tax of approximately RM1.87 million as compared to a profit before tax of approximately RM10,000 in the immediate preceding quarter.

16. Future Prospects

The continuing weakening demand for PCs and the slow global growth are weighing on Hard Disk Drive (HDD) manufacturers.(as reported in Business Week on 23 October 2012) . Companies are also curbing spending on technology due to the uncertainty over the health of the world economy.

HDD manufacturers have reduced their forecast for the next few quarters and they do not anticipated volume to pick up until middle of 2013. As such our company will continue to face challenges ahead as we are still heavily reliant on the HDD industry.

The Group in the meantime has started exploring opportunities in other industries and we expect to realize some of these opportunities in 2013.

17. Variance of Profit Forecast and Shortfall in Profit Guarantee

The Group has not issued any profit forecast or profit guarantee for the current financial quarter .

18. Tax Expense

The tax expense for the financial quarter and the year-to-date ended 30 September 2012 is as follows:

	Current Quarter Ended 30.09.2012 RM’000	Current financial year- to-date ended RM’000
Estimated current tax expense	4	44
Under provision of tax in prior year	-	
Utilization of deferred tax assets on temporary differences not recognized in previous year	-	(34)
	<u>4</u>	<u>10</u>

The Group’s average effective tax rate for the current financial year to date ended 30 September 2012 of approximately 0.65% was lower than the statutory tax rate of 25% in Malaysia and 17% in Singapore mainly due to the additional tax deductions allowed under the Productivity & Innovation Scheme in Singapore.

19. (i) Status of Corporate Proposals

There is no corporate proposal announced but not completed as at the date of this report.

(ii) Status of Utilisation of Proceeds

The status of utilization of proceeds raised from the Company’s initial public offering in 2011 (“**IPO**”) as at 30 September 2012 is set out as follows:-

Description	Proposed Utilisation RM’000	Utilised RM’000	Balance Unutilised //(Overutilised) RM’000	Intended Timeframe for utilisation	Deviation	Explanation
Capital expenditure	2,400	2,036	364	Within 2 years from the date of listing	-	N/a
Working capital	3,265	3,012	253	Within 2 years from the date of listing	-	N/a
Estimated listing expenses	2,343	2,960	(617)	Within 2 months from the date of listing	-	The deficit will be funded out of the portion allocated for working capital pursuant to the Company’s prospectus dated 21 April 2011
Total	8,008	8,008	-		-	

20. Group Borrowings and Debt Securities

The Group does not have any borrowings and debt securities as at 30 September 2012.

21. Realised and Unrealised Retained Profits

	Cumulative year to date ended 30/09/2012 RM'000	Cumulative year to date ended 31/12/2011 RM'000
Total retained profits of the Group:		
- Realised	4,579	5,581
- Unrealised	(66)	503
	<u>4,513</u>	<u>6,084</u>
Consolidated adjustments	2,296	2,256
	<u>6,809</u>	<u>8,340</u>
Total Group retained profits	6,809	8,340

22. Off Balance Sheet Financial Instruments

As at 30 September 2012, the Group is a party to a foreign currency forward contract of USD200,000 at a rate of SGD1.2240. Had the contract been settled at the financial position date, the effect on the exchange exposure is a decrease in the profit of RM 2,000.

23. Material Litigation

There was no pending material litigation from 1 January 2012 up to the date of this quarterly announcement.

24. Dividend Payable

There was no dividend payable or proposed during the current quarter ended 30 September 2012.

25. Earnings Per Share (“EPS”) / Loss Per Share (“LPS”)

Basic

The calculation of the basic EPS is based on the net profit divided by the weighted average number of ordinary shares of RM0.25 each in issue.

	3rd Quarter Ended		Cumulative Quarter Ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Net profit / (loss) for the period attributable to owners of the parent (RM'000)	(1,870)	307	(1,531)	314
Weighted average number of ordinary shares in issue ('000)	117,400	110,123	117,400	110,123
Basic EPS / (LPS) (sen)	(1.59)	0.28	(1.30)	0.29

Diluted

The calculation of the diluted EPS is based on the net profit divided by the weighted average number of ordinary shares after adjustments for the effects of all dilutive potential ordinary shares of RM0.25 each arising from the exercise of 58,700,000 Warrants-in-issue .

	3rd Quarter Ended		Cumulative Quarter Ended	
	30.09.2012	30.09.2011	30.09.2012	30.09.2011
Weighted average number of ordinary shares in issue ('000)	176,100	165,185	176,100	165,185
Diluted EPS (sen)	Not applicable ⁽¹⁾	0.19	Not applicable ⁽¹⁾	0.19

(1) Not applicable as, due to the losses, there is an anti-dilutive effect from the assumed exercise of the Warrants-in-issue.

26. Notes to the Condensed Consolidated Statement of Comprehensive Income

Profit before tax is arrived at after charging/ (crediting) the following items:-

	Current Quarter Ended 30 September 2012 RM'000	Year-to-date Ended 30 September 2012 RM'000
(a) Interest income	(3)	(17)
(b) Other income including investment income	(80)	(372)
(c) Interest expenses	-	-
(d) Depreciation and amortization	676	1,982
(e) Provision for and write off of receivables	-	-
(f) Provision for and write off of inventories	-	-
(g) Gain or loss on disposal of quoted or unquoted investment or properties	-	-
(h) Impairment of assets	-	-
(i) Foreign exchange (gain) or loss	124	101
(j) Gain or loss on derivatives	-	-
(k) Exceptional item	-	-