SILVER BIRD GROUP BERHAD

(Company No. 277977-X)
(Incorporated in Malaysia)

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

Referring to the disclosure of financial irregularities pertaining to the affairs of the Silver Bird Group Berhad for the financial year ended 31 October 2011, and the continuation of such financial irregularities affecting the financial results of the Group for the three months ended 30 April 2012, the interim financial statements of the Group have been prepared subject to such financial irregularities. These financial irregularities continue into the month of February 2012, when all appropriate adjustments were made to reflect a true and fair financial position of the Silver Bird Group Berhad.

Accordingly, the financial report for the quarter ended 30 April 2012 must be read in the above light.

The interim financial statements have been prepared under the historical cost convention.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 October 2011 and the 29 February 2012 financial position announced on 27 April 2012. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 October 2011.

The Company is classified as an Affected Listed Issuer pursuant to Practice Note 17 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad as has been announced on 29 February 2012.

2. CHANGES IN ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), accounting principles generally accepted in Malaysia and the provisions of Companies Act, 1965.

The significant accounting policies adopted by the Group and the Company are consistent with those adopted in previous year except as follows:

2. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

On 1 November 2011, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 November 2011.

- FRS 127, Consolidated and separate Financial Statements
- FRS 3, Business Combinations
- Amendment to FRS 3, Business Combinations
- Amendment to FRS 7, Improving Disclosures about Financial Instruments
- Amendment to FRS 7, Financial Instruments: Disclosures.
- Amendment to FRS 101, Presentation of Financial Statements
- Amendment to FRS 121, The effects of changes in Foreign Exchange Rates
- Amendment to FRS 128, Investments in Associates
- Amendment to FRS 131, Interest in Joint Venture
- Amendment to FRS 132, Financial Instrument: presentation.
- Amendment to FRS 134, Interim Financial Reporting
- Amendment to FRS 139 Financial Instruments: Recognition and Measurement
- Amendment to FRS 7, Financial Instruments: Disclosure –Improving Disclosures about Financial Instruments

Except for the new disclosure required arising from the adoption of the amendment to FRS 7, the adoption of the other standards and interpretations did not have any effect on the financial performance or position of the Group and of the Company.

<u>Amendment to FRS 7, Financial Instruments: Disclosures</u>

Amendments to the FRS 7 introduce additional disclosures to improve the information about the fair value measurements and liquidity risk.

(a) Fair value hierarchy

The Group and the Company shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. If there has been a change in valuation technique, the Group and the Company shall disclose that change and the reason for making it.

In addition, the Group and the Company shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(iii) Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level3).

2. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

(b) Liquidity risk

The Group and the Company shall disclose:

(i) A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;
(ii) A maturity analysis for the derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
(iii) A description of how it manages the liquidity risk inherent in (i) and (ii) above.

The Group and the Company has not adopted the following standards and interpretations that have been issued but are not yet effective:

FRS/Interpretations	**Effective for the financial periods beginning on or after**
FRS which are relevant to its operations:	
FRS 9, Financial Instruments	1 January 2013
FRS 10, Consolidated Financial Statements	1 January 2013
FRS 12, Disclosure of Interest in Other Entities	1 January 2013
FRS 13, Fair Value Measurement	1 January 2013
FRS 119, Employee Benefits	1 January 2013
FRS 124, Related Party Disclosures	1 January 2012
FRS 127, Separate Financial Statements	1 January 2013
FRS 128, Investment in Associated and Joint Ventures	1 January 2013
Amendment to FRSs:	
FRS 7, Financial Instruments: Disclosure-transfer of financial assets	1 January 2012
FRS101, Presentation of Financial Statements – Presentation of items of other Comprehensive Income	1 July 2012
FRS 112, Income Taxes-Deferred Tax: Recovery of Underlying Assets	1 January 2012

Except for the new disclosures required under the Amendments to FRS 7, and subject to the findings of the forensic investigation into the financial irregularities, the Directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

Following the issuance of Malaysian Financial Reporting Standards ("MFRS") and IC Interpretation by the Malaysian Accounting Standard Board on 19 November 2011, the Group's and the Company's next set of financial statements will be prepared in accordance with the International Financial Reporting Standards Framework. The change of the financial framework is not expected to have any significant impact on the financial position and performance of the Group and the Company.

3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 October 2011 contained a disclaimer of opinion on the financial statements due to certain Exceptional Items (reference as Appendix I).

4. SEGMENTAL INFORMATION

The segmental information of the Group is as follows:

	3 months ended		6 months ended	
	30.04.2012	30.04.2011	30.04.2012	30.04.2011
	RM'000	RM'000	RM'000	RM'000
Segment Revenue				
Revenue from continuing operations:				
Consumer food	30,553	46,724	74,545	93,412
Telecommunication products	215	1,018	797	2,318
Total revenue from continuing operations	30,768	47,742	75,342	95,730
Revenue from discontinued operation	-	-	-	-
Total	30,768	47,742	75,342	95,730

The details of the net telecommunication revenue are as follows:

	3 months ended		6 months ended	
	30.04.2012	30.04.2011	30.04.2012	30.04.2011
	RM'000	RM'000	RM'000	RM'000
Telecommunication products				
- Revenue	31,006	95,314	127,980	203,243
- Cost of sales	(30,791)	(94,296)	(127,183)	(200,925)
Net revenue arising from telecommunication sales	215	1,018	797	2,318

	3 months ended		6 months ended	
	30.04.2012	30.04.2011	30.04.2012	30.04.2011
	RM'000	RM'000	RM'000	RM'000
Segment Results				
Results from continuing operations:				
Consumer food	(293,784)	1,818	(307,457)	2,432
Telecommunication products	(1,512)	109	(1,395)	422
Total results from continuing operations	(295,296)	1,927	(308,852)	2,854
Results from discontinued operation	(57)	(12)	(59)	(14)
Total	(295,353)	1,915	(308,911)	2,840

The segmentation included the financial irregularities identified in the forensic report. No adjustment had been made except for the total impact on the financial position as an extraordinary item in the statement of comprehensive income.

5. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no other unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 30 April 2012, other than the financial irregularities of which the adjustments had been duly announced on 28 May 2012.

6. CHANGES IN ESTIMATES

There were no changes in estimates that have had a material effect in the current quarter results that has been brought to the attention of the Board, other than the effects arising from the adjustments made due to the financial irregularities announced on 28 May 2012.

7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The demand for certain bakery products are seasonal in nature. On the other hand, the sales of telecommunication products are not significantly affected by seasonal and cyclical factors. The distribution of the Maxis telephone cards however ceased on 15 March 2012, but which have since been replaced by the distribution of the U-Mobile telephone cards which commenced on 28 May 2012.

8. DIVIDENDS PAID

There was no dividend paid for the current quarter.

9. CARRYING AMOUNT OF REVALUED ASSETS

Property, plant and equipment are stated at valuation/cost less accumulated depreciation and impairment losses. During the current period, plant and machinery and motor vehicles are carried at valuation.

10. DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities during the current quarter that has been brought to the attention of the Board.

11. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the quarter under review that has been brought to the attention of the Board.

12. DISCONTINUED OPERATIONS

The Group's investment in its seven subsidiaries (i.e. Madeleine Café Sdn Bhd, Madeleine Foods Sdn Bhd, Madeleine Bakery Sdn Bhd, Madeleine Property Sdn Bhd, Standard Food R&D Lab Sdn Bhd, Stanson Distribution Sdn Bhd and Inforaire Sdn Bhd), are dormant and have been classified as discontinued operations.

The revenue, results and cash flows of these subsidiaries were as follows:

	3 months ended		6 months ended	
	30.04.2012	30.04.2011	30.04.2012	30.04.2011
	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-
Loss before tax	(57)	(12)	(59)	(14)
Income tax expense	-	-	-	-
Loss for the period from a discontinued operation	(57)	(12)	(59)	(14)
Cash flows used in operating activities	-	-	-	-
Cash flows used in investing activities	-	-	-	-
Cash flows used in financing activities	-	-	-	-
Total cash flows	-	-	-	-

The major classes of assets and liabilities of the seven subsidiaries classified as discontinued operations as at 30 April 2012 are as follows:

	RM'000
Assets:	
Investment	4,800
Fixed assets	1
Cash and bank balances	9
Assets of dormant group	4,810
Liabilities:	
Amount owing to Holding/Related companies	4,505
Other payables and accruals	26
Tax payable	168
Liabilities directly associated with the assets classified as dormant	4,699
Net assets attributable to discontinued operations	111

13. CAPITAL COMMITMENTS

There was no commitment for the purchase of property, plant and equipment as at 30 April 2012 that has been brought to the attention of the Board.

14. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

During the financial period ended 30 April 2012, the contingent liabilities are as follows:-

(i) the Company had given corporate guarantees amounting to approximately RM187 million to secure banking facilities granted to certain subsidiaries;

(ii) BK Fleet Management Sdn Bhd is claiming against Stanson Marketing Sdn Bhd for 173 vehicles under fleet management contracts; and

(iii) In a letter dated 27 March 2012, KPFQ is claimimg against Stanson Marketing Sdn Bhd for recovery of debt amounting to RM24,797,145 arising from purported sales of foodstuff to Stanson Marketing Sdn Bhd.

15. SUBSEQUENT EVENTS

On 28 May 2012, the Group commenced the distribution of U-Mobile telephone cards.

On 13 June 2012, had received a notice from Maxis stated that Maxis do not wish to purchase back all remaining undistributed Maxis Products amounted to RM661,016 as at 30 April 2012.

There was no other material event subsequent to the quarter under review that has been brought to the attention of the Board.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

16. PERFORMANCE REVIEW

The Group registered total revenue of RM31 million in the quarter ended April 2012 (2Q 12) as compared with RM48 million in the corresponding period of the previous year, a decline of 35%, whilst the current quarter recorded a loss before tax of RM295 million, a turnabout from the profit of RM1.9 million from the corresponding period of the previous year.

(a) Consumer Food

The Consumer Food Division recorded revenues of RM31 million for the current quarter, a decline of 34% when compared with RM47 million in the corresponding period of the previous year.

(b) MultiCom Division

The telecommunication business recorded a 79% decline in revenue to RM0.2 million in the current quarter from RM1.0 million in the corresponding period of the previous year.

No adjustment had been made except for the total impact on the financial position as an extraordinary item in the statement of comprehensive income.

17. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION

The Group's recorded a loss before taxation of RM309 million for the financial period ended 30 April 2012, mainly derived from the consumer food division as mentioned in Note 4.

The loss before taxation included adjustment made for the financial irregularities identified in the forensic report.

18. COMMENTARY ON PROSPECTS

The Board is in the process of evaluating the prospects of the Group in the light of the financial irregularities, removal of its Managing Director, Executive Director, and its General Manager – Accounts and Finance, the PN17 status of the Group as well as the termination of the distribution agreement between Maxis Mobile Services Sdn Bhd and Stanson Marketing Sdn Bhd.

Due to the matters mentioned above, the Board is not able to comment on the prospects of the Group at this point in time, save for the continuance of the consumer food division, which it deems to be profitable and the commencement of distribution of U-Mobile telephone cards.

19. PROFIT FORECAST OR PROFIT GUARANTEE

The Group did not issue any profit forecast or profit guarantee for the year that has been brought to the attention of the Board.

20. INCOME TAX EXPENSE

The details of the income tax expense of the Group are as follows:

	3 months ended		6 months ended	
	30.04.2012	30.04.2011	30.04.2012	30.04.2011
	RM'000	RM'000	RM'000	RM'000
Current tax:				
Malaysian income tax	87	-	247	-
Total income tax expense	87	-	247	-

The income tax expense relates to the tax instalments of Stanson Marketing Sdn Bhd.

21. CORPORATE PROPOSALS

The Company is still in the midst of evaluating various options in its endeavour to formulate a plan to regularise the Company's financial condition ("Regularisation Plan").

22. BORROWINGS

The details of the borrowings of the Group are as follows:

	As at 30.04.2012 RM'000	As at 31.10.2011 RM'000
Short term borrowings		
Secured	47,432	24,335
Unsecured	115,353	101,897
	162,785	126,232
Long term borrowings		
Secured	-	21,738
Unsecured	-	-
	-	21,738
	162,785	147,970

23. CHANGES IN MATERIAL LITIGATION

The details of material litigation of the Group are as follows:-

(i) On 28 May 2012, a Writ of Summons and Statement Claim dated 24 May 2012 was served against Standard Confectionery Sdn Bhd ("SCSB"), a wholly-owned subsidiary of the Company, as First Defendant, and the Company, as Second Defendant, by Malaysia Building Society Berhad claiming against SCSB and the Company for RM19,635,639 due as at 31 March 2012 with interest thereon and cost; and

(ii) SCSB had on 15 June 2012 been served with a Writ of Summons and Statement of Claim in the High Court of Malaya dated 4 June 2012 in respect of the suit filed by AmIslamic Bank Berhad for a claim of RM4,503,107.

24. DIVIDEND PAYABLE

No interim ordinary dividend has been declared for the financial period ended 30 April 2012 (31 October 2011: Nil).

25. REALISED AND UNREALISED PROFITS/(LOSSES)

The details of the realised and unrealised profits or losses of the Group are as follows:

	As at 30.04.2012 RM'000	**As at 31.10.2011 RM'000**
Total accumulated losses:		
- Realised	(352,143)	(43,374)
- Unrealised	(884)	(764)
	(353,027)	(44,138)

26. EARNINGS PER SHARE

(a) Basic

Basic earnings per share amounts are calculated by dividing (loss)/profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of RM0.50 each in issue during the period.

The basic earnings per share are as follows:

	3 months ended		6 months ended	
	30.04.2012	**30.04.2011**	**30.04.2012**	**30.04.2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
(Loss)/Profit from continuing operations attributable to ordinary equity holders of the parent	(295,296)	1,927	(308,852)	2,854
Loss from discontinued operation attributable to ordinary equity holders of the parent	(57)	(12)	(59)	(14)
(Loss)/Profit attributable to ordinary equity holders of the parent	(295,353)	1,915	(308,911)	2,840

	3 months ended		6 months ended	
	30.04.2012	**30.04.2011**	**30.04.2012**	**30.04.2011**
	'000	**'000**	**'000**	**'000**
Weighted average number of ordinary shares in issue	406,682	386,682	406,682	386,682

	3 months ended		6 months ended	
	30.04.2012	**30.04.2011**	**30.04.2012**	**30.04.2011**
	Sen	**Sen**	**Sen**	**Sen**
Basic earnings per share for:				
(Loss)/Profit from continuing operations	(72.61)	0.50	(75.94)	0.74
Loss from discontinued operation	(0.01)	(0.00)	(0.01)	(0.00)
(Loss)/Profit for the period	(72.63)	0.50	(75.96)	0.73

(b) Diluted

Diluted earnings per share were not presented as there were no potential dilutive ordinary shares.

27. EXTRA ORDINARY ITEMS

The extra ordinary items are the adjustments made based on the findings in the forensic report. The breakdown of the extra ordinary items is as follows:-

	RM'000
Property,plant and equipment impairment	87,752
Goodwill impairment	36,730
Receivabless impairment	75,449
Cash deterioration	93,113
Inventory deterioration	2,460
Payable adjustment	(19,153)
Increase in bank borrowings	1,928
Impairment of investment in associate	2,250
Others	1,371
	281,901
Continuing operations	281,862
Discountinued operations	39
	281,901

28. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors.

By order of the Board
Tai Yit Chan
Company Secretary
Petaling Jaya