

# **SILVER BIRD**

## **SILVER BIRD GROUP BERHAD**

**(Company No. 277977-X)**

**(Incorporated in Malaysia)**

### **PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134**

#### **1. BASIS OF PREPARATION**

The condensed consolidated interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 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 2012 and the accompanying explanatory notes attached to this interim financial report.

The Group has adopted the MFRS framework issued by the MASB with effect from 1 November 2012. The consolidated condensed interim financial statements are the Group’s first MFRS condensed consolidated interim financial statements for part of the period covered by the Group’s first MFRS annual financial statements for the year ending 31 October 2013 and hence MFRS 1, First-Time Adoption of Malaysia Financial Reporting Standards (“MFRS 1”) had been applied. The adoption of MFRS 1 has no significant impact on the financial statements.

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 announced on 29 February 2012.

#### **2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted by the Group in these quarterly financial statements are consistent with those adopted in the financial statements for the financial year ended 31 October 2012. The adoption of the MFRS framework does not have any material impact on the financial statements of the Group.

### 3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited financial statements for the financial year ended 31 October 2012 contained a disclaimer of opinion on the financial statements. As extracted from the auditor's report, the basis of disclaimer opinion is set out below, together with the Board of Directors' commentary thereof, after clarifications were made with the auditors:

*"a. As disclosed in Note 2 to the financial statements, the financial statements of the Group and Company have been prepared on the assumption that the Group and the Company will continue as going concerns. The application of the going concern basis is based on the assumption that the Group and the Company will be able to realise their assets and liquidate their liabilities in the normal course of business.*

*During the financial year, the Group and the Company incurred net losses amounting to RM334,516,000/- and RM275,542,000/- and recorded negative operating cash flows of RM41,738,000/- and RM4,348,000/- respectively. As at 31 October 2012, the Group's and the Company's current liabilities exceeded its current assets by RM218,534,000/- and RM33,820,000/- and recorded capital deficiencies of RM121,229,000/- and RM26,274,000/- respectively, thereby indicating the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's abilities to continue as going concerns.*

*The Group and the Company have defaulted on their entire borrowings and have been served with Writ of Summons by licensed banks and financial institutions for the recovery of principal, interest and other costs as stated in Note 17 to the financial statements.*

*In addition, the Company and certain subsidiaries have pending material litigations with bankers as detailed in Note 37 to the financial statements.*

*The ability of the Group and of the Company to continue as going concerns is dependent upon:*

- (i) the timely and successful formulation and implementation of the Proposed Regularisation Plan;*
- (ii) the continuing support from its lenders;*
- (iii) the Group and the Company achieving sustainable and viable operations; and*
- (iv) the Group and the Company generating adequate cash flows for its operating activities.*

*Should the Proposed Regularisation Plan not be successfully formulated and concluded, the entire borrowings may become repayable immediately and the application of the going concern accounting concept may be inappropriate and adjustments may be required to, inter alia, write down assets to their realisable values, reclassify all long term assets and liabilities as current and to provide for any further costs which may arise.*

*We were unable to obtain sufficient appropriate audit evidence regarding the ability of the Group and the Company to achieve sustainable and viable operations and to generate adequate cash flows for its operating activities. The timely formulation and implementation of the Proposed Regularisation Plan, including obtaining the support from the lenders remain uncertain at this stage."*

The financial statements of the Group and Company were prepared on the assumption that they will continue as going concerns, despite the existence of the going concern

uncertainty, as certain key subsidiaries within the Group are still in operations and the Company had submitted the Proposed Regularisation Plan to Bursa Malaysia on 28 February 2013 and that is currently pending approval. The going concern of the Group and Company is dependent on the timely and successful formulation and implementation of the Proposed Regularisation Plan, the continuing support from lenders, the Group and the Company achieving sustainable and viable operations, and generating adequate cash flows for its operations.

*“b. As disclosed in Note 21 to the financial statements, the Company had on 26 February 2012 appointed the Forensic Accountants to conduct a forensic review into the affairs of the Company on the basis of information and records that are made available by the Board of Directors and the management of the Company.*

*Based on the Forensic Accounting Review Report, the directors made certain adjustments to the financial information for the financial year ended 31 October 2012 as disclosed in Note 21 to the financial statements. No prior year adjustments to the previous year comparative information were made.*

*We were unable to obtain sufficient appropriate audit evidence on these adjustments made to the financial statements and the related disclosures in the financial statements.”*

Arising from the Forensic Accounting Review Report, corrective adjustments were made to the results of the current financial year ended 31 October 2012. These adjustments were not reflected in the prior year comparative information as they included impairment and write-offs to irregular account balances and transactions that spanned a number of years, and which were not attributable to just the current or prior year.

*“c. As disclosed in Note 21 (xii) to the financial statements, according to the Forensic Accounting Review Report, evidence of destroyed documents were uncovered, as were the evidence of computer file deletion and physical damage to the computer hard drive.*

*We were unable to carry out certain audit procedures or to obtain information we considered necessary.*

*We were unable to obtain sufficient appropriate audit evidence on the effects of adjustments, if any, on the financial statements of the Group and the Company as at 31 October 2012.”*

Evidence of destroyed documents were uncovered, as were the evidence of computer file deletion and physical damage to the computer hard drive, according to the Forensic Accounting Review Report, rendering the inability of the auditors to carry out certain of their audit procedures or to obtain information necessary for their assurance on the effects of adjustments, if any, on the financial statements.

*“d. As disclosed in Note 39 to the financial statements, the statutory financial statements for the financial year ended 31 October 2011 were audited by another auditors whose report dated 28 February 2012 expressed a disclaimer of opinion on those financial statements.*

*As disclosed in Note 6 to the financial statements, the audited financial statements of a subsidiary for the financial year ended 31 October 2011 have yet to be finalised.*

*We were unable to obtain sufficient appropriate audit evidence on the comparative information and whether the opening balances contain misstatements that materially affect the current year's financial statements."*

The financial statements for the previous financial year were audited by another auditor who expressed a disclaimer of opinion, and the audited financial statements of a subsidiary for the previous financial year have yet to be finalised, rendering the inability of the auditors to obtain assurance on the comparative information and whether the opening balances contain material misstatements that affect the current year's financial statements.

*"e. As disclosed in Note 21(iii) to the financial statements for which disclosed the Forensic Accounting Review Report on the Sweetened Creamer.*

*The Group recognised the revenue and purchases on sweetened creamer amounting to RM13.28 million and RM13.04 million for the financial year ended 31 October 2012.*

*We were unable to obtain sufficient appropriate audit evidence on the revenue and cost of sales in relation to sweetened creamer amounting to RM13.28 million and RM13.04 million respectively during the financial year."*

The auditors were unable to obtain assurance on the revenue and purchases of sweetened creamer amounting to RM13.28 million and RM13.04 million respectively as was highlighted in the Forensic Accounting Review Report.

*"f. We were unable to obtain the confirmations from the financial institutions in relation to the following amounts included in the statements of financial position as at 31 October 2012:*

- (i) The carrying amount of cash and bank balances of the Group of RM5,718/-;*
- (ii) The carrying amount of short term deposits with a financial institution of the Group and of the Company of RM87,249/- as disclosed in Note 13 to the financial statements; and*
- (iii) The carrying amount of certain loan and borrowings of the Group of RM88,938,292/- as disclosed in Note 17 to the financial statements.*

*We were unable to obtain sufficient appropriate audit evidence in respect of the recorded and unrecorded balances with financial institutions in the Group's and the Company's financial statements for the financial year ended 31 October 2012.*

*g. As disclosed in Note 19 to the financial statements, the Group and the Company have not carried out a proof of debt exercise to confirm the amount owing to the creditors as at 31 October 2012.*

*As disclosed in Note 37 to the financial statements, the Group and the Company have pending legal suits with certain creditors.*

*We were unable to obtain sufficient appropriate audit evidence in respect of the recorded and unrecorded liabilities with the payables in the Group's financial statements for the financial year ended 31 October 2012.*

- h. *As disclosed in Note 17 to the financial statements, the Group and the Company have defaulted on their entire loans and borrowings and have been served with Writ of Summons by financial institutions for the recovery of the principal, interest and other costs as disclosed in Note 37 to the financial statements. Accordingly, the entire loans and borrowings have been reclassified to current liabilities. The penalty interest and other possible costs which may arise from the defaults cannot be ascertained at this juncture. However, a 1% penalty interest on the defaulted amounts have been provided in the financial statements.*

*We were unable to obtain sufficient appropriate audit evidence in respect of the loans and borrowings, penalty interest and other possible costs recorded and unrecorded in the Group's and the Company's financial statements for the financial year ended 31 October 2012."*

The auditors were unable to obtain assurance on the completeness and appropriateness of certain liabilities and payables in the financial statements, given certain audit procedures could not be concluded *under the circumstances*, which included receiving confirmations from certain financial institutions in respect of certain cash and bank balances, deposits and the carrying amount of certain loans and borrowings, proof of debt exercise confirming creditor balances, and inability to determine outcome of pending legal suits with certain creditors as at the date of the auditor's report.

- "i. As disclosed in Note 5 to the financial statements, the Group capitalised an amount of RM3.31 million as cost of the assets acquired during the financial year in respect of 4 service contracts entered in 2006 and 2007 by the Group with BK Fleet Management Sdn Bhd. 173 of the 179 trucks are registered in the name of a wholly-owned subsidiary of the Company, Stanson Marketing Sdn Bhd. The directors of the Company, based on the advice of its solicitors have affirmed that the ownership of the trucks belongs to the Group. The Group has provided a full impairment of RM3.31million on these trucks during the financial year due to the adverse conditions of the trucks.*

*We were unable to obtain sufficient appropriate audit evidence in respect of the recognition of the cost of the assets and the impairment during the financial year."*

Notwithstanding the provision for full impairment as a matter of prudence, certain trucks owned by the Group were valued by an independent third party, and the 'cost' of these trucks were recognized in the financial statements based on the corresponding valuation, in view of the irregular financial arrangement entered into previously.

- "j. As disclosed in Note 24 to the financial statements, the tax computations of the Group and the Company for year of assessment 2011 have not been submitted to the tax authorities within the stipulated statutory deadlines. Therefore, the reconciliation of income tax expenses and deferred tax assets disclosure are based on the latest available information.*

*We were unable to obtain sufficient appropriate audit evidence in respect of the tax liabilities, deferred taxation and the related disclosures as at 31 October 2012."*

Income tax expenses, deferred taxation and related disclosures were based on latest available information, and not on the basis of submitted tax computations to the tax authorities especially in respect of tax computations of the Group and the Company for year of assessment 2011 given the financial irregularities of the previous years.

#### 4. SEGMENTAL INFORMATION

The segmental information of the Group is as follows:

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
<b>Segment Revenue</b>				
Revenue from continuing operations:				
Consumer food	22,171	43,992	22,171	43,992
Telecommunication products	-	582	-	582
Total revenue from continuing operations	22,171	44,574	22,171	44,574
Revenue from discontinued operation	-	-	-	-
Total	22,171	44,574	22,171	44,574

The details of the net telecommunication revenue are as follows:

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
Telecommunication products				
- Revenue	-	96,974	-	96,974
- Cost of sales	-	(96,392)	-	(96,392)
Net revenue arising from telecommunication sales	-	582	-	582

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
<b>Segment Results</b>				
Results from continuing operations:				
Consumer food	(10,649)	(13,673)	(10,649)	(13,673)
Telecommunication products	-	117	-	117
Total results from continuing operations	(10,649)	(13,556)	(10,649)	(13,556)
Results from discontinued operation	(40)	(2)	(40)	(2)
Total	(10,689)	(13,558)	(10,689)	(13,558)

The segment results for the 3 months ended 31 January 2012 includes the financial irregularities identified in the Forensic Accounting Review Report which have not been adjusted as at 31 January 2012.

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

There were no items affecting assets, liabilities, equity, net income or cash flows during the financial period ended under review.

**6. CHANGES IN ESTIMATES**

There were no changes in estimates that have had a material effect in the current quarter results.

**7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS**

The demand for certain bakery products are seasonal in nature.

**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 less impairment.

**10. DEBT AND EQUITY SECURITIES**

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities during the current quarter.

**11. CHANGES IN COMPOSITION OF THE GROUP**

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

## 12. DISCONTINUED OPERATIONS

Seven of the Group's subsidiaries (i.e. Madeleine Café Sdn Bhd, Madeleine Foods Sdn Bhd, Madeleine Bakery Sdn Bhd, Madeleine Property Sdn Bhd, Stanson Distribution Sdn Bhd, Stanson Multicom 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		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-
Loss before tax	(40)	(2)	(40)	(2)
Income tax expense	-	-	-	-
Loss for the period from a discontinued operation	(40)	(2)	(40)	(2)
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 31 January 2013 are as follows:

	RM'000
Assets:	
Cash and bank balances	54
Assets of discontinued operations	54
Liabilities:	
Amount owing to Holding/Related companies	12,285
Non-trade payables and accruals	158
Tax payable	168
Liabilities directly associated with the assets classified as discontinued operations	12,611
Net liabilities attributable to discontinued operations	(12,557)

## 13. CAPITAL COMMITMENTS

There was no commitment for the purchase of property, plant and equipment as at 31 January 2013.



#### **14. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

During the financial period ended 31 January 2013, 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; and
- (ii) other contingent liabilities are set out in Note 23 under material litigations.

#### **15. SUBSEQUENT EVENTS**

Material legal cases are disclosed in Note 23 of Part B – Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

There was no other material event subsequent to the quarter under review.

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

**16. PERFORMANCE REVIEW**

1<sup>st</sup> Quarter 2013 vs 1<sup>st</sup> Quarter 2012

Comparison of the performance between these quarters is not practicable due to the findings of the forensic investigations into the financial irregularities, which cover the financial period up to 29 February 2012.

For the current quarter, the Group registered total revenue of RM22.2 million for the current quarter ended 31 January 2013 and had incurred a loss of RM10.7 million for the same period.

1<sup>st</sup> Quarter 2013 vs 4<sup>th</sup> Quarter 2012

The revenue for 1Q13 had reduced by RM3.4 million compared to 4Q12, however, the loss for 1Q13 was lower by RM7.8 million. The lower revenue recorded in 1Q13 was mainly due to reduced demand during the school holidays which is a seasonal phenomenon and the lower loss is mainly due to cost cutting measures implemented in the quarter and additional costs, accruals and provision being made in 4Q2012.

**17. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION**

The Group recorded a loss before taxation of RM10.62 million for the financial period ended 31 January 2013, mainly derived from the consumer food division as mentioned in Note 4.

**18. COMMENTARY ON PROSPECTS**

The Board has announced its Proposed Regularisation Plan on 6 September 2012, with variations announced on 3 December 2012 and 27 February 2013, and the Plan was submitted to the relevant authorities for their approval on 28 February 2013.

Further details of the Proposed Regularisation Plan is mentioned in Note 21.

**19. PROFIT FORECAST OR PROFIT GUARANTEE**

The Group did not issue any profit forecast or profit guarantee for the year.

## 20. INCOME TAX EXPENSE

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

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
Current tax:				
Malaysian income tax	29	160	29	160
Total income tax expense	29	160	29	160

## 21. CORPORATE PROPOSALS

The Proposed Regularisation Plan to regularise the financial position of the Group was first announced on behalf of the Board of Directors of the Company by KAF Investment Bank Berhad on 6 September 2012.

On 3 December 2012, the Group announced that the Board has decided to include Stanson Multicom Sdn Bhd in the subsidiaries to be wound up under the Proposed Regularisation Plan.

On 27 February 2013, the Group announced that the Board has decided to vary certain terms of the Proposed Regularisation Plan, including the amendments to the terms of the settlement to the creditors of the Group and the rights issue under the Proposed Regularisation Plan (to be collectively referred to as "Variations"). The details of the Variations are attached in the announcement dated 27 February 2013.

On 28 February 2013, the application in relation to the Proposed Regularisation Plan was submitted to Bursa Malaysia Securities Berhad.

The Proposed Regularisation Plan involves the following:

- (a) Proposed Capital Reduction;
- (b) Proposed Consolidation;
- (c) Proposed Reserves Reduction;
- (d) Proposed Debt Settlement;
- (e) Proposed Rights Issue with Warrants;
- (f) Proposed Amendment; and
- (g) Proposed Liquidation of Subsidiary Companies.

## 22. BORROWINGS

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

	As at 31.01.2013 RM'000	As at 31.10.2012 RM'000
<b>Short term borrowings</b>		
Secured	48,808	48,678
Unsecured	135,910	134,469
	<u>184,718</u>	<u>183,147</u>

## 23. CHANGES IN MATERIAL LITIGATION

The changes in material litigation since the date of the last annual statement of financial position of the Company are as follows:

### Suit by AmIslamic Bank Berhad against SCSB

The Court has fixed the matter for further mention on 15 April 2013.

### Suit by Ching Siew Cheong against SBGB

The suit, as against SBGB, is currently restrained by the restraining order obtained by SBGB.

### Suit by SBGB, SMSB and SCSB in respect of financial irregularities

The Court has fixed the matter for case management on 25 April 2013. Meanwhile, the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Defendants have filed applications for security for costs, which are fixed for hearing on 4 April 2013.

### Suit by KPF Quality Foods Sdn Bhd against SMSB

The summary judgment application by KPF Quality Foods Sdn Bhd was dismissed by the Court with costs. The matter is fixed for case management on 23 April 2013.

### Suit by BK Fleet Management Sdn Bhd against SMSB

The Court has granted leave pursuant to Section 176(10) of the Companies Act, 1965 to BK Fleet Management Sdn Bhd to commence the suit against SMSB up to the disposal of the suit in the High Court. The case is fixed for mention on 17 April 2013.

### Suit by Supplier against SCSB

On 7 March 2013, SCSB was served with an Amended Writ of Summons amended pursuant to an order of the court dated 30 January 2013 and Statement of Claim dated 13 August 2012 filed in the Shah Alam Sessions Court by a supplier of SCSB. By the said suit, the supplier claims a sum of RM38,939.50 allegedly owing by SCSB.

**24. DIVIDEND PAYABLE**

No interim dividend has been declared for the financial period ended 31 January 2013.

**25. REALISED AND UNREALISED PROFITS/(LOSSES)**

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

	<b>As at 31.01.2013 RM'000</b>	<b>As at 31.10.2012 RM'000</b>
Total accumulated losses:		
- Realised	(388,986)	(378,297)
- Unrealised	-	-
	<u>(388,986)</u>	<u>(378,297)</u>

## 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		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	RM'000	RM'000	RM'000	RM'000
Loss from continuing operations attributable to ordinary equity holders of the parent	(10,649)	(13,556)	(10,649)	(13,556)
Loss from discontinued operation attributable to ordinary equity holders of the parent	(40)	(2)	(40)	(2)
Loss attributable to ordinary equity holders of the parent	<u>(10,689)</u>	<u>(13,558)</u>	<u>(10,689)</u>	<u>(13,558)</u>

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue	<u>406,682</u>	<u>406,682</u>	<u>406,682</u>	<u>406,682</u>

	3 months ended		3 months ended	
	31.01.2013	31.01.2012	31.01.2013	31.01.2012
	Sen	Sen	Sen	Sen
Basic earnings per share for:				
Loss from continuing operations	(2.62)	(3.33)	(2.62)	(3.33)
Loss from discontinued operation	(0.01)	(0.00)	(0.01)	(0.00)
Loss for the period	<u>(2.63)</u>	<u>(3.33)</u>	<u>(2.63)</u>	<u>(3.33)</u>

### (b) Diluted

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

**27. 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