

**IFCA MSC BERHAD (453392-T)**  
**(Incorporated in Malaysia)**

**PART A - EXPLANATORY NOTES PURSUANT TO FRS 134**

**A1. BASIS OF PREPARATION**

The interim financial reports of the Group have been prepared in accordance with FRS 134 "Interim Financial Reporting" and Chapter 7 Part VI of the Listing Requirements for the MESDAQ Market of Bursa Malaysia Securities Berhad.

This interim financial report is unaudited and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2005. The following notes explain the 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 December 2005.

**A2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Report Standards ("FRS") effective for the financial period beginning 1 January 2006:

|         |  |
|---------|--|
| FRS 2   | Share-based Payment  |
| FRS 3   | Business Combinations  |
| FRS 5   | Non-current Assets Held for Sale and Discontinued Operations |
| FRS 101 | Presentation of Financial Statements                         |
| FRS 108 | Accounting Policies, Changes in Estimates and Errors         |
| FRS 110 | Events after the Balance Sheet Date                          |
| FRS 116 | Property, Plant and Equipment                                |
| FRS 121 | The Effects of Changes in Foreign Exchange Rates             |
| FRS 127 | Consolidated and Separate Financial Statements               |
| FRS 128 | Investments in Associates                                    |
| FRS 131 | Interests in Joint Ventures                                  |
| FRS 132 | Financial Instruments: Disclosure and Presentation           |
| FRS 133 | Earnings Per Share   |
| FRS 136 | Impairment of Assets   |
| FRS 138 | Intangible Assets  |

The adoption of all FRSs mentioned above does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRS is discussed below:

**(a) FRS 2: Share-based Payment**

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

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The company operated an equity-settled, share-based compensation plan for the employees of the Group Employee Share Options Scheme (“ESOS”). Prior to 1 January 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognized in profit or loss over the vesting periods of the grants with a corresponding increase to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over remaining vesting period.

Under the transitional provision of FRS2, this FRS must be applied to share options that were granted after 31 December 2004 and had not vested on 1 January 2006. No adjustments to the opening balances as at 1 January 2005 are required as the existing options were granted before 31 December 2004.

**(b) FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138.

Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually. Any impairment loss is recognised in profit or loss and subsequent reversal is not allowed.

Under FRS 3, any excess of the Group’s interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over cost of acquisitions (previously referred to as “negative goodwill”), after reassessment, is now recognised immediately in profit or loss.

In addition, the useful lives of other intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Prior to 1 January 2006, intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortisation and impairment losses. Under the new FRS 138, some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Intangible assets with indefinite useful lives are not amortised but instead, are tested for impairment annually. Other intangible assets of the Group with finite useful lives continue to be stated at cost less accumulated amortisation and impairment losses.

**(c) FRS 101: Presentation of Financial Statements**

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associated and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

**A3. AUDITOR'S REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditor's report on the financial statements for the year ended 31 December 2005 was not qualified.

**A4. SEASONAL OR CYCLICAL FACTORS**

The operations of the Group were not affected by any seasonal or cyclical factors.

**A5. UNUSUAL ITEMS**

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the financial period under review.

**A6 MATERIAL CHANGES IN ESTIMATES**

The Group has not submitted any financial forecast or projections to any authorities during the current quarter and prior financial year ended 31 December 2005. As such, there is no change in estimates that had a material effect in the current quarter results.

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**A7 CHANGES IN DEBTS AND EQUITY SECURITIES**

There were no issuances, cancellations, repurchases, resale, repayments of debt and/or securities, share held as treasury shares and resale of treasury shares during the financial period ended 31 March 2006.

**A8 DIVIDENDS PAID**

On 6 January 2006, the Company had made the payment of 5% tax exempt interim dividend on 281,117,700 ordinary shares amounting to RM1,405,589 for the year ended 31 December 2005.

**A9 SEGMENTAL INFORMATION**

Segmental information for the 3 months ended 31 March 2006 and 31 March 2005 are as follows:

|                               | Malaysia         |                  | Overseas       |                  | Elimination        |                    | Consolidated     |                  |
|-------------------------------|------------------|------------------|----------------|------------------|--------------------|--------------------|------------------|------------------|
|                               | 2006             | 2005             | 2006           | 2005             | 2006               | 2005               | 2006             | 2005             |
|                               | RM               | RM               | RM             | RM               | RM                 | RM                 | RM               | RM               |
| <b>Revenue</b>                |                  |                  |                |                  |                    |                    |                  |                  |
| External sales                | 5,046,881        | 4,410,668        | 742,487        | 1,001,559        | -                  | -                  | 5,789,368        | 5,412,227        |
| Inter-segment sales           | 1,773,451        | 1,883,771        | -              | -                | (1,773,451)        | (1,883,771)        | -                | -                |
| Total revenue                 | <u>6,820,332</u> | <u>6,294,439</u> | <u>742,487</u> | <u>1,001,559</u> | <u>(1,773,451)</u> | <u>(1,883,771)</u> | <u>5,789,368</u> | <u>5,412,227</u> |
| <b>Result</b>                 |                  |                  |                |                  |                    |                    |                  |                  |
| Segment results               | 370,672          | 99,348           | 296,064        | 750,223          |                    |                    | 666,736          | 849,571          |
| Amortisation (unallocated)    |                  |                  |                |                  |                    |                    | (596,643)        | (374,823)        |
| Finance costs                 |                  |                  |                |                  |                    |                    | (20,485)         | (15,041)         |
| Share of results of associate |                  |                  |                |                  |                    |                    | (315,033)        | 125,805          |
| (Loss)/profit before tax      |                  |                  |                |                  |                    |                    | (265,425)        | 585,512          |
| Income tax expense            |                  |                  |                |                  |                    |                    | (199,172)        | (12,628)         |
| (Loss)/profit for the period  |                  |                  |                |                  |                    |                    | <u>(464,597)</u> | <u>572,884</u>   |

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**A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT**

The valuation of property, plant and equipment and investment properties have been brought forward without amendment from the financial statements for the year ended 31 December 2005.

**A11. MATERIAL EVENTS SUBSEQUENT TO THE CURRENT QUARTER**

There was no significant event arising in the period from 1 April 2006 to the date of this announcement, which will have a material effect on the financial results of the Group for the period under review.

**A12. CHANGES IN THE COMPOSITION OF THE GROUP**

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

**A13. CONTINGENT LIABILITIES**

There were no material contingent liabilities since the last annual balance sheet as at 31 December 2005.

**A14. CAPITAL COMMITMENTS**

There were no material capital commitments as at the date of this report.

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**PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 7A OF THE LISTING REQUIREMENTS FOR THE MESDAQ MARKET**

**B1. REVIEW OF YEAR-ON-YEAR PERFORMANCE**

For the quarter ended 31 March 2006, the Group registered revenue of RM5.79 million compared to RM5.41 million recorded in the corresponding quarter of the previous year. This represents an improvement in revenue of approximately 7.0%. The increase was mainly attributed to an increase in revenue from the domestic market.

Despite the higher revenue, the Group recorded a net loss after minority interest of RM0.41 million compared to RM0.62 million profits recorded for the corresponding quarter in the previous year. The losses were mainly due to the commencement on the amortisation of intellectual property in an associate company and also the provision for deferred tax on deferred development cost during the quarter of RM0.51 million and RM0.19 million respectively. The higher amortisation of deferred development expenditure for subsidiaries and other operating expenses also contributed to the losses.

**B2. VARIATION OF RESULTS AGAINST THE PRECEDING QUARTER**

|                                  | <b>Current Quarter</b><br><b>31.3.2006</b><br><b>RM'000</b> | <b>Preceding Quarter</b><br><b>31.12.2005</b><br><b>RM'000</b> |
|----------------------------------|---|--|
| Revenue                          | 5,789   | 7,605  |
| (Loss)/Profit Before Tax ("PBT") | (265)   | 797  |

For the quarter under review, the Group registered revenue of approximately RM5.79 million, representing a decline of approximately RM1.82 million or 24.0% compared to the preceding quarter of RM7.60 million.

The Group's PBT incurred a loss of RM0.27 million compared to the preceding quarter mainly due to the lower revenue recorded and amortisation of intellectual property in associate company.

**B3. PROSPECTS**

The Group's prospects remains positive especially in respect of its overseas ventures revenues which are expected to grow as a result of higher market acceptance particularly in the Asean region, South Africa and Australia. At the local front, the Group sees steady revenue growth in replacement and upgrade markets.

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However, the Group's financial performance may be adversely affected by the continuous amortisation of intellectual property in its associate and provision of deferred taxation on deferred development cost in the coming quarters. In addition, the continuous high crude oil prices and weakening of United States Dollar could further dampen the global and regional economic climate, and as such could have an adverse impact on the environment in which the Group operates.

Barring the above factors and any unforeseen circumstances, the Directors anticipate that the performance at operations to be satisfactory in the coming quarters.

**B4. PROFIT FORECAST**

The Group has not provided any profit forecast in any public documents for the current quarter under review.

**B5. INCOME TAX EXPENSE**

|              | <b>Current Quarter<br/>3 months ended<br/>31.3.2006<br/>RM</b> | <b>Cumulative Quarter<br/>3 months ended<br/>31.3.2006<br/>RM</b> |
|--------------|--|---|
| Current tax  | 10,953   | 10,953  |
| Deferred tax | 188,219  | 188,219   |
|              | <u>199,172</u>   | <u>199,172</u>  |

The effective tax rate of the Group is lower than the statutory tax rate for the current financial period under review mainly due to the Company's MSC status.

**B6. PROFIT OR LOSS ON SALE OF INVESTMENTS AND/OR PROPERTIES**

There were no sales of unquoted investments or properties during the current quarter under review.

**B7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

There were no purchases or disposals of quoted securities for the current quarter and financial year to date.

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**B8. GROUP BORROWINGS AND DEBT SECURITIES**

The total borrowings of the Group as at 31 March 2006 comprised hire purchase liabilities amounting to RM1,481,162 analysed as follows:

|                                | <b>RM</b>   |
|--------------------------------|-------------|
| Secured - due within 12 months | 312,653     |
| Secured - due after 12 months  | 1,168,509   |
|                                | <hr/>       |
|                                | 1,481,162   |
|                                | <hr/> <hr/> |

**B9. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

The Group has no off-balance sheet financial instruments at the date of this announcement.

**B10. MATERIAL LITIGATION**

The Group does not have any material litigation, of which, in the opinion of the Directors, would have a material adverse effect on the financial results of the Group as at the date of this announcement.

**B11. DIVIDEND PAYABLE**

No interim ordinary dividend has been declared for the financial period ended 31 March 2006.



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**B12. EARNINGS PER SHARE**

|  | Current Quarter<br>3 months ended |                    | Cumulative Quarter<br>3 months ended |                    |
|--|-----------------------------------|--------------------|--------------------------------------|--------------------|
|  | 31.3.2006<br>RM                   | 31.3.2005<br>RM    | 31.3.2006<br>RM                      | 31.3.2005<br>RM    |
| <b><u>Earnings</u></b>   |                                   |                    |                                      |                    |
| (Loss) / profit for the period   | (464,597)                         | 572,884            | (464,597)                            | 572,884            |
| Less: Amount attributable to<br>minority interest                                      | 49,260                            | 49,565             | 49,260                               | 49,565             |
| (Loss)/profit for the period<br>attributable to shareholders of the<br>Group           | <u>(415,337)</u>                  | <u>622,449</u>     | <u>(415,337)</u>                     | <u>622,449</u>     |
| <b><u>Number of shares</u></b>   |                                   |                    |                                      |                    |
| Weighted average number of share<br>in issue for basic earnings per share              | 281,117,700                       | 281,007,433        | 281,117,700                          | 281,007,433        |
| Effect of dilutive potential ordinary<br>shares on conversion of options<br>under ESOS | 4,041,688                         | 2,844,701          | 4,041,688                            | 2,844,701          |
| Weighted average number of share<br>in issue for diluted earnings per<br>share         | <u>285,159,388</u>                | <u>283,852,134</u> | <u>285,159,388</u>                   | <u>283,852,134</u> |
| <b>(Loss)/earnings per share (sen)</b>   |                                   |                    |                                      |                    |
| - Basic  | (0.15)                            | 0.22               | (0.15)                               | 0.22               |
| - Diluted  | <u>(0.15)</u>                     | <u>0.22</u>        | <u>(0.15)</u>                        | <u>0.22</u>        |

**B13. AUTHORISATION FOR ISSUE**

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the directors on 26 May 2006.