

## **I-POWER BERHAD (596299-D)**

### **NOTES TO THE QUARTERLY REPORT**

#### **PART A: EXPLANATORY NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARDS (“FRS”) 134: INTERIM FINANCIAL REPORTING**

##### **A1. Accounting policies and methods of computation**

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standards (“FRS”) 134 : Interim Financial Reporting and Appendix 9B of the ACE Market Listing Requirements of Bursa Securities.

The condensed consolidated interim financial report should be read in conjunction with the audited financial statements of the Company for the year ended 30 June 2010. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant for understanding the changes in the financial position and performance of the Company since the year ended 30 June 2010.

The accounting policies and methods of computation adopted by the Company for these interim financial statements are in compliance with the new and revised FRSs issued by the Malaysian Accounting Standards Board.

##### **A2. Adoption of new and revised accounting policies**

The accounting policies and methods of computation adopted by the Company in these condensed consolidated financial statements are consistent with those adopted in the audited financial statements for the year ended 30 June 2010, except for the adoption of new and revised Financial Reporting Standards (“FRSs”), Amendments to FRSs, Interpretations and Technical Releases which were effective for the financial periods beginning on or after 1 July 2010.

Unless otherwise described below, the new FRSs, Amendments to FRSs, Interpretations and Technical Releases are expected to have no significant impact on the financial statements of the Company upon their initial application except for the changes in presentation and disclosures of financial information :

###### **a. FRS 101: Presentation of Financial Statements (Revised 2009)**

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the consolidated statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements of comprehensive income.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error

or the reclassification of items in the financial statements. This revised FRS does not have any impact on the financial position and results of the Company.

**b. FRS 3: Business Combination (Revised 2010) and FRS 127: Consolidated and Separate Financial Statements (Revised)**

FRS 3 (Revised 2010) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combination achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (Revised) requires that a change in the ownerships interest of a subsidiary company (without loss of control) is accounted for as a transaction with owner in his capacity as owner and to be recorded in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to be a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary company as well as loss of control of a subsidiary company.

The changes by FRS 3 (Revised) and FRS 127 (Revised) will be applied prospectively and only affect future acquisitions or losses of control of subsidiary companies and transactions with non-controlling interests.

**A3. Qualification on the Auditors' Report of preceding annual financial statements**

There was no audit qualification to the annual audited financial statements of the Company for the financial year ended 30 June 2010.

**A4. Seasonal or cyclical factors**

The business operations within the industry are not affected by seasonal and cyclical factors.

**A5. Unusual Items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current financial quarter under review and financial year-to-date.

**A6. Changes in estimates of amounts reported**

There were no changes in estimates that have had a material effect on the current financial quarter under review and financial year-to-date.

**A7. Issuance or repayment of debt and equity securities**

Save as disclosed below, there were no issuance or repayment of debt or equity securities, share buy-backs, share cancellations, share held as treasury shares and resale of treasury shares in the reporting quarter and financial year-to-date :-

(i) Treasury shares

During the current quarter, the Company did not repurchase any of its issued ordinary shares. As at 30 June 2011, 35,572,600 ordinary shares have been purchased for RM5,160,145 including the transaction costs. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965.

**A8. Dividend paid**

There was no dividend paid nor declared for the current financial quarter under review.

**A9. Segmental information**

No segmental analysis is presented as the Company is primarily engaged in implementation and development of software for commercial application.

**A10. Valuation of property, plant and equipment**

The Company has not carried out valuation on its property, plant and equipment in the current financial quarter under review and financial year-to-date.

**A11. Capital commitments**

There are no material capital commitments in respect of property, plant and equipment as at 30 June 2011.

**A12. Capital Expenditure**

There was no major addition or disposal of the property, plant and equipment during the current financial quarter and financial year-to-date.

**A13. Changes in the composition of the Group**

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

**A14. Contingent liabilities and contingent assets**

There were no contingent liabilities for the Company since the last audited financial statements for the financial year ended 30 June 2010.

**A15. Subsequent material events**

Save as disclosed in Note B8 below, there are no material events subsequent to the financial period ended 30 June 2011 that has not been reflected in this interim financial report.

**A16. Significant related party transactions**

There were no related party transactions during the current financial quarter under review.

## **PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE ACE MARKET LISTING REQUIREMENTS OF BURSA SECURITIES**

### **B1. Review of the performance of the Group**

For the current financial quarter ended 30 June 2011, the Company recorded revenues of RM0.42 million and loss after tax of RM8.43 million. Cumulative revenue for FYE 30 June 2011 is RM3.53 million and loss after tax is RM8.45 million.

For the current financial year, due to the prevailing uncertainty in the economy and the restricted growth for the ICT market, the Company found it necessary to make provision for impairment on the various classes of assets held. These impairments comprise provision for doubtful debts, impairment for intangible assets, fixed assets written-off and impairment for investment in associate.

The impairment for investment in associate is mitigated by the payment-in-kind received from its associate amounting to RM8.42 million, in the form of assets returned. These assets are classified as assets held for sale on the balance sheet of the Company.

The loss after tax for FYE 30 June 2011 is mainly attributable to the lower revenue recorded for the year and the provisions for impairment mentioned above.

### **B2. Comparison to the results of the preceding quarter**

	<b>Current Quarter 30 June 2011 RM'000</b>	<b>Preceding Quarter 31 March 2011 RM'000</b>
Revenue	419	851
Loss before tax	(8,431)	(313)

For the current financial quarter ended 30 June 2011, the Company recorded revenues of RM0.42 million and loss after tax of RM8.43 million. The loss after before tax for the current quarter is mainly attributable to the lower revenue recorded and the provisions for impairment as mentioned in Note B1 above.

### **B3. Prospects for the next financial year**

The local ICT industry has yet to find its footing after the economic crisis, and the recent adverse developments in the United States of America and Europe have made recovery even much harder.

In the light of this, the Company has proposed a restructuring exercise comprising amongst others, capital reduction, consolidation of shares, reduction of capital redemption reserve and share premium account, and culminating with the proposed acquisition of Instacom Engineering Sdn Bhd for a consideration of RM102 million, to be satisfied entirely by the issuance of 1,020,000,000 new consolidated shares at an issue price of RM0.10 each.

The rationale for the proposed capital reduction, consolidation of shares, reduction of capital redemption reserve and share premium account is to rationalise the balance sheet by writing off part of the share capital that is not represented by available assets and to improve the Company's capital structure, whilst the proposed acquisition will allow the Company to diversify its business in the telecommunication industry.

The outlook for the telecommunications network services market in Malaysia remains positive and steady growth is projected throughout the forecast period of 2011 to 2015. The positive outlook for the telecommunications network services market in Malaysia stems mainly from the growing prominence of the broadband market in Malaysia, advancement in technology for ICT products, inherent needs for capital expenditure by telecommunications carriers or operators to sustain or grow their businesses, increasing population and young demographic profile in Malaysia, an improving local economic condition, increasing importance of ICT in business activities, replacement of physical functions with virtual possibilities as well as development and improvement in the interconnection of telecommunications networks between countries.

The expected implementation of strategic ICT related plans under 10MP such as the formulation of a National Creative Industry Policy and the roll-out of the National Digital Terrestrial Television Broadcasting ("DTTB") project as well as the High Speed Broadband ("HSBB") and Broadband to General Population ("BBGP") under the on-going National Broadband initiatives is anticipated to propel the industry closer to the target. The selection of communications content and infrastructure sector as one of the NKEAs under the ETP has also boosted the outlook for the local telecommunications network services market. Given that the telecommunications network services market as well as its end-users belongs to the ICT industry, the continued proliferation and expansion projected for the ICT industry is expected to drive demand for telecommunications network services market.

Further details of the proposals are disclosed in Note B8 below.

Barring any unforeseen circumstances and assuming that the abovementioned corporate exercise is approved, the proposed acquisition is expected to contribute positively to the Company and the Board is optimistic of achieving a satisfactory performance for the next financial year ending 30 June 2012.

**B4. Profit forecast and profit estimate**

The Company has not issued any profit forecast or profit estimate for the current financial quarter under review or in any public documents.

**B5. Taxation**

	<b>Current Quarter Ended 30 June 2011 RM'000</b>	<b>Cumulative Year-to-Date 30 June 2011 RM'000</b>
Current tax	-	3
	<hr/>	<hr/>
	-	3

The current taxation comprised of tax payable on interest received, with the effective tax rate for the current financial quarter and cumulative year-to-date is Nil and -0.04% compared to the statutory tax rate of 25%.

The Company was granted pioneer status by Multimedia Super Corridor under the provisions of the Promotion of Investments (Amendment) Act, 1997. By virtue of this pioneer status, the Company's statutory income from pioneer activities during the pioneer period from 16 December 2002 to 15 December 2007 are exempted from income tax. Dividends declared out of such profits are also exempted from income tax in the hands of the shareholders. The Company's tax exemption status was extended for another 5 years from 16 December 2007 to 15 December 2012.

**B6. Sale of unquoted investment and/ or property**

There was no sale of unquoted investment and/ or property in the current financial quarter under review and financial year-to-date.

**B7. Purchase and disposal of quoted security**

The Company does not hold any quoted securities nor was there any purchase or disposal of quoted securities in the reporting quarter and financial year-to-date except as disclosed in Note A7 above.

**B8. Status of corporate proposals**

Save as disclosed below, there were no corporate proposals announced but not completed as at the date of issuance of this announcement :-

On 11 August 2011, OSK had, on behalf of the Board, announced that the Company had on even date entered into a conditional Share Sale Agreement ("SSA") with Chan Chuck Yan, Anne Kung Soo Ching, Ngu Sing Hieng and Wong Say Khim (collectively referred to as "Vendors") for the proposed acquisition by I-Power of the entire issued and paid-up share capital of Instacom Engineering Sdn Bhd ("Instacom") comprising 4,500,000 ordinary shares of RM1.00 each ("Instacom Share(s)") for a total purchase consideration of RM102,000,000 ("Purchase Consideration") to be satisfied entirely by the issuance of 1,020,000,000 new Consolidated Shares (as defined hereinafter) ("Consideration Shares") at an issue price of RM0.10 per Consolidated Share ("Proposed Acquisition").

In conjunction with the Proposed Acquisition, the Board has also resolved to undertake the following:-

- I. Proposed share capital reduction by the cancellation of RM0.09 of the par value of every existing ordinary share of RM0.10 each in I-Power ("I-Power Share(s)") and the credit arising therefrom to be offset against the accumulated losses at I-Power ("Proposed Capital Reduction");
- II. Proposed reduction of the capital redemption reserve of I-Power arising from the Proposed Treasury Shares Cancellation (as defined hereinafter) ("Proposed CRR Reduction");
- III. Proposed reduction of the share premium account ("Proposed Share Premium Reduction");
- IV. Proposed share consolidation of ten (10) ordinary shares of RM0.01 each into one (1) ordinary share of RM0.10 each in I-Power ("Consolidated Share(s)") after the Proposed Capital Reduction ("Proposed Share Consolidation");
- V. Proposed exemption to Chan Chuck Yan, Anne Kung Soo Ching, Ngu Sing Hieng and Wong Say Khim (collectively referred to as the "Vendors") and



the parties acting in concert with them, if any, from the obligation to undertake a mandatory general offer for all the remaining Consolidated Shares not already held by them and all Consolidated Shares that may be allotted and issued arising from the exercise of I-Power's warrants ("Proposed Exemption");

- VI. Proposed offer for sale of up to 153,000,000 Consideration Shares held by the Vendors ("Offer Shares") to eligible investors to be identified later ("Proposed Offer for Sale");
- VII. Proposed private placement of up to 15% of the enlarged issued and paid-up share capital of I-Power upon completion of the Proposed Acquisition ("Proposed Private Placement");
- VIII. Proposed increase in the authorised share capital of I-Power from RM10,000,000 comprising 100,000,000 Consolidated Shares after the completion of the Proposed Share Consolidation to RM200,000,000 comprising 2,000,000,000 Consolidated Shares ("Proposed Increase in Authorised Share Capital");
- IX. Proposed change of name of the Company from I-Power Berhad to Instacom Holdings Berhad ("Proposed Change of Name"); and
- X. Proposed amendments to the Memorandum and Articles of Association of I-Power ("Proposed Amendments")

**B9. Status of utilisation of proceeds**

As at the date of this report, the Company has fully utilized the proceeds raised from all its fund raising activities.

**B10. Realised and Unrealised Profits**

The breakdown of accumulated loss of the Economic Entity and the Company for the financial quarter ended 30 June 2011 and 31 March 2011, is as follows :-

	<b>Economic Entity Quarter Ended 30 June 2011 RM'000</b>	<b>Economic Entity Quarter Ended 31 March 2011 RM'000</b>
Total accumulated loss of I-Power Berhad (Economic Entity) :		
- Realised	(73,478)	(65,158)
- Unrealised	-	-
	<hr style="border-top: 1px solid black;"/> (73,478)	<hr style="border-top: 1px solid black;"/> (65,158)
Total share of retained profits from associated company :		
- Realised	-	103
- Unrealised	-	-
	<hr style="border-top: 1px solid black;"/> (73,478)	<hr style="border-top: 1px solid black;"/> (65,055)
Less : Consolidation adjustments	-	-
Total Economic Entity accumulated losses as per consolidated accounts	<hr style="border-top: 1px solid black;"/> (73,478)	<hr style="border-top: 1px solid black;"/> (65,055)
	<b>Company Quarter Ended 30 June 2011 RM'000</b>	<b>Company Quarter Ended 31 March 2011 RM'000</b>
Total accumulated loss of the Company :		
- Realised	(73,478)	(65,158)
- Unrealised	-	-
Total Company's accumulated loss as per accounts	<hr style="border-top: 1px solid black;"/> (73,478)	<hr style="border-top: 1px solid black;"/> (65,158)

#### **B11. Group borrowings and debt securities**

The Company does not have any borrowings and debt securities in the reporting quarter and financial year-to-date.

#### **B12. Off balance sheet financial instruments**

The Company does not have any financial instruments with off balance sheet risk in the reporting quarter and financial year-to-date.

**B13. Material Litigation**

There was no material litigation as at the date of issuance of this announcement.

**B14. Dividends**

No interim dividends have been declared during the current financial quarter under review.

**B15. Earnings per share**

## (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue for the period.

	Individual Quarter		Cumulative Quarter	
	Current Quarter	Preceding Year Corresponding Quarter	Current Year-To-Date	Preceding Year Corresponding Period
<b>Basic Earnings Per Share</b>	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>30 June 2011</b>	<b>30 June 2010</b>
Loss attributable to the equity holders of the Company (RM'000)	(8,431)	(92,584)	(8,454)	(95,633)
Weighted average number of shares in issue ('000)	402,623	405,421	402,623	405,421
Basic loss per share (sen)	(2.09)	(22.84)	(2.10)	(23.59)

## (b) Diluted earnings per share – Not Applicable

By Order of the Board

Laang Jhe How (MIA 25193)  
(Company Secretary)

Date: 26 August 2011