

M N C WIRELESS BERHAD
(Company No. 635884 - T)
(Incorporated in Malaysia)

NOTES TO THE QUARTERLY REPORT - 31 MARCH 2006

Part A – Explanatory Notes Pursuant to FRS 134 – Interim Financial Reporting

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the Financial Reporting Standards (“FRS”) 134 – Interim Financial Reporting and Chapter 7 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”) for the MESDAQ Market.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2005. These 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 year ended 31 December 2005.

2. Changes in Accounting Policies

The accounting policies and methods of computations adopted in this interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2005 except for the adoption of the following new/ revised FRSs issued by the Malaysian Accounting Standards Board that are effective for financial period beginning 1 January 2006:

FRS 2 Share-based Payment
FRS 3 Business Combinations
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 132 Financial Instruments: Disclosure and Presentation
FRS 133 Earnings Per Share
FRS 136 Impairment of Assets
FRS 138 Intangible Assets

The adoption of FRS 101, 108, 110, 116, 121, 127, 132, 133, 136 and 138 does not have significant financial impact on the Group. The principal effects of the changes of some accounting policies resulting from the adoption of the new/revised FRSs are discussed below.

2. Changes in Accounting Policies (Cont'd)

(a) FRS 2: Share-based Payment

The adoption of FRS 2 has resulted in a change in accounting policy for staff costs of the Group arising from share options granted by the Group to the employees of the Group.

Prior to 1 January 2006, there was no recognition of employee benefits in the income statement for share options granted to employees of the Group. Upon adoption of FRS 2, the employee benefits relating to share options were recognised as an expense in the income statement over the vesting periods of the grants with a corresponding increase in equity.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The adoption of this FRS has not resulted in any financial impact to the Group as there were no new share options granted by the Group which remain unvested on 1 January 2006.

(b) FRS 3: Business Combinations

Goodwill acquired in a business combination is now stated at cost less any accumulated impairment losses. The adoption of these new FRSs has resulted in the Group ceasing annual amortisation of goodwill. Instead, goodwill is allocated to cash-generating units and the carrying amount is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. The adoption of this accounting policy has not resulted in any financial impact to the Group as there was no goodwill as at 1 January 2006.

Negative goodwill, which represents the excess in fair value of the net identifiable assets acquired over the cost of the acquisition, is now recognised immediately to the income statement. Prior to 1 January 2006, negative goodwill was recognised and amortised in the income statement over the weighted average useful life of those identifiable depreciable assets. The change in this accounting policy has been accounted for which resulted in the derecognition of negative goodwill of RM41,654 as at 1 January 2006 with a corresponding increase in retained profits. The presentation of the comparative figures in the financial statements of the Group has been restated to conform with the current period's presentation.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements of the Group for the financial year ended 31 December 2005 was not subject to any qualification.

4. Comments About Seasonal or Cyclical Factors

The business of the Group is not affected by any significant seasonal or cyclical factors.

5. Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter under review.

6. Changes in Estimates

There were no significant changes in estimates that have a material effect in the current financial quarter under review.

7. Changes in Debt and Equity Securities

Save as disclosed below, there were no issuance and repayment of debt and equity securities, share-buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the current financial quarter under review:-

- (a) On 16 January 2006, 230,000 new ordinary shares of RM0.10 each in MNCW were issued at an issue price of RM0.32 per share pursuant to the exercise of options granted under the MNCW Employees Share Option Scheme (“ESOS”), the proceeds will be used for working capital purpose.

8. Dividends Paid

There were no dividends paid during the current financial quarter under review.

9. Segmental Information

The segmental result of the Group for the financial period ended 31 March 2006 based on segment activities are as follows:-

| | Mobile Applications RM'000 | Wireless & Multimedia Software Applications RM'000 | Elimination RM'000 | Consolidation RM'000 |
|---|---|---|-------------------------------|---------------------------------|
| Revenue | | | | |
| External sales | 2,851 | 335 | - | 3,186 |
| Inter-segment sales | (279) | - | 279 | - |
| | <u>2,572</u> | <u>335</u> | <u>279</u> | <u>3,186</u> |
| Results | | | | |
| Profit before interest income and taxation | | | | 653 |
| Interest income | | | | 51 |
| Profit before taxation | | | | <u>704</u> |
| Taxation | | | | <u>(11)</u> |
| Profit For The Period | | | | <u><u>693</u></u> |

10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current financial quarter under review.

11. Subsequent Material Events

There were no material events subsequent to the end of the current financial quarter that have not been reflected in the financial statements of the quarter.

12. Changes in the Composition of the Group

Save as disclose below, there is no change in the composition of the Group for the current financial quarter under review:-

- (a) On 27 January 2006, MNCW acquired the entire equity interest of MNC Wireless Pte Ltd, comprising two (2) ordinary shares of SGD1.00 each for a total cash consideration of SGD2.00 (equivalent to approximately RM4.62 at an exchange rate of SGD1.00 : RM2.31).

13. Contingent Assets and Contingent Liabilities

There were no material contingent assets and contingent liabilities as at the date of this report.

14. Commitments

31.03.2006
RM'000

Approved and contracted for

612

Part B – Explanatory Notes Pursuant to Appendix 7A of the Listing Requirements of Bursa Malaysia for MESDAQ Market

1. Performance Review

The Group recorded a revenue and profit before taxation of RM3.2 million and RM0.7 million respectively for the current financial quarter under review. The turnover and profit before taxation are mainly contributed by the Group's core business activity which is the provision of mobile applications services.

2. Variation of Results Against Preceding Quarter

| | Q1 2006 RM'000 | Q4 2005 RM'000 | % changes |
|-----------------------|-------------------|-------------------|-----------|
| Revenue | 3,186 | 4,624 | -31.1% |
| Profit after taxation | 693 | 410 | 69.0% |

The revenue of the Group for the current financial quarter under review had decreased by 31.1% as compared to RM4.6 million recorded in the previous quarter mainly due to the discontinuance of one of the Interactive TV Collage System ("iTVs") program which commanded high revenue with low margin.

Despite a reduction in revenue, profit after taxation for the current financial quarter under review had improved by 69% as compared to the previous quarter mainly due to improved margin resulting from the above and reduction in advertising and promotion costs.

3. Prospects

The Board is of the opinion that the current prospects of the mobile applications services industry will be both promising and challenging. Promising as the enterprise market is starting to adopt mobile solutions as a part of their operations. Challenging as the market is going through a consolidation with tighter control from the government. However, the Board is of the view that the Group has always practised the right strategy to ensure that the Group remain in the forefront of this business. Barring any unforeseen circumstances, the Board anticipates that the performance of the Group will continue to be positive throughout this financial year.

4. Profit Forecast and Profit Guarantee

The Group did not issue any profit forecast or profit guarantee in any public document during the current financial quarter under review.

5. Taxation

| | Current Year Quarter 31.03.2006 RM'000 | Current Year To Date 31.03.2006 RM'000 |
|--|---|---|
| Income tax expense - current period | 11 | 11 |

The effective tax rate of the Group is lower than the Malaysian statutory tax rate of 28%. There is no taxation charge on certain business income as MNCW was accorded the Multimedia Super Corridor status, which qualifies for Pioneer Status incentive under the Promotion of Investment (Amendment) Act, 1986. Hence MNCW enjoys tax exemption on approved activities during the current financial quarter under review. The taxation charge is in respect of interest income.

6. Sale of Unquoted Investments and Properties

There were no sale or purchase of unquoted investments and/or properties during the current financial quarter under review.

7. Quoted Securities

There were no purchase or disposal of quoted securities during the current financial quarter under review. The Group has no investment in quoted securities as at the date of this report.

8. Status of Corporate Proposals

There was no corporate proposal announced but not completed in the current financial quarter under review.

The status of the utilization of the Group's Initial Public Offer proceeds for the quarter ended 31 March 2006 are as follows:-

| Description | Proposed Utilization RM'000 | Actual Utilization RM'000 | Transfer RM'000 | Balance RM'000 |
|---|--|--|----------------------------|---------------------------|
| Purchase of new equipment | 1,580 | (75) | - | 1,505 |
| Working capital | 1,200 | (266) | (153) | 781 |
| Overseas expansion | 1,500 | (47) | - | 1,453 |
| Research and Development expenditure | 2,100 | (353) | - | 1,747 |
| Estimated listing expenses | 1,300 | (1,453) | 153 | - |
| | <u>7,680</u> | <u>(2,194)</u> | <u>-</u> | <u>5,486</u> |

9. Group Borrowings and Debt Securities

The Group does not have any borrowings or debt securities as at 31 March 2006.

10. Off Balance Sheet Financial Instruments

There is no material off balance sheet financial instruments as at the date of this report.

11. Changes in Material Litigation

There is no material outstanding litigation as at the date of this report.

12. Dividend Payable

No dividend has been declared or paid during the financial quarter under review.

13. Earnings per Share

The earnings per share were calculated by dividing the Company's profit after taxation by the weighted average number of ordinary shares in the respective period as follows:

| | Current Year Quarter 31.03.2006 | Current Year To Date 31.03.2006 |
|---|--|--|
| Profit after taxation (RM'000) | 693 | 693 |
| Weighted average number of ordinary shares ('000) | | |
| - basic earnings | 94,435 | 94,435 |
| - diluted earnings | 95,608 | 95,608 |
| Earnings per share (sen) | | |
| - basic | 0.73 | 0.73 |
| - diluted | 0.72 | 0.72 |

14. Authorisation For Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 8 May 2006.

By Order of the Board

Mah Li Chen (MAICSA 7022751)
Lim Siew Ting (MAICSA 7029466)
Company Secretaries
Kuala Lumpur
8 May 2006