

**INDUSTRI TEKNOLOGI MIKRO BERHAD**  
(Company no. 423468-T)  
(Incorporated in Malaysia)

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 DECEMBER 2005**

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**PART A – EXPLANATORY NOTES PURSUANT TO FRS 134 (FORMERLY MASB 26)**

**A1. BASIS OF PREPARATION**

The interim financial report of Industri Teknologi Mikro Berhad (“Mikro” or “Company”) and its subsidiary (“Mikro Group” or “Group”) is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standard (FRS) 134: Interim Financial Reporting (previously known as MASB 26) issued by Malaysian Accounting Standards Board (“MASB”) and Appendix 7A of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the MESDAQ Market. There is no preceding year corresponding quarter/period comparative, as Mikro was listed on the MESDAQ Market of Bursa Securities on 22 December 2005.

The interim financial statements should be read in conjunction with the Group’s audited financial statements for the financial year ended 30 June 2005.

The accounting policies and methods of presentation adopted by the Group in the interim financial statements are consistent with those adopted for the financial year ended 30 June 2005.

**A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The audit report of the preceding annual financial statements was not subject to any qualification.

**A3. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE**

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

**A4. SEASONAL OR CYCLICAL FACTORS**

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

**A5. CHANGES IN ESTIMATES**

There were no changes in estimates of amounts reported during this quarter.

**A6. DEBT AND EQUITY SECURITIES**

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

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---

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**FOR THE QUARTER ENDED 31 DECEMBER 2005**

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- (i) On 25 November 2005, Mikro subdivided its shares' par value of RM1.00 each into RM0.10 each. Following the completion of the subdivision of Mikro's shares, the Company's issued and paid-up capital of RM3,000,000 comprising 3,000,000 ordinary shares of RM1.00 each has been sub-divided into 30,000,000 ordinary shares of RM0.10 each;
- (ii) On 25 November 2005, the Company carried out a bonus issue ("Bonus Issue") of 18,000,000 new ordinary shares of RM0.10 each ("Mikro Shares") credited as fully paid up to shareholders of Mikro on the basis of three (3) new Mikro Shares for every five (5) existing Mikro Shares held. The Bonus Issue was capitalised from the audited retained earnings of Mikro;
- (iii) On 26 November 2005, the Company carried out a rights issue of 51,000,000 new Mikro Shares at par value of RM0.10 each to the shareholders of Mikro on the basis of approximately 1.06 new Mikro Shares for every one (1) Mikro Share held after the Bonus Issue ("Rights Issue"); and
- (iv) In conjunction with the listing of and quotation for Mikro's entire issued and paid-up share capital on the MESDAQ Market ("Listing") on 22 December 2005, Mikro has on 16 December 2005, allotted 21,000,000 new Mikro Shares at an issue price of RM0.22 per share to individuals, companies, societies, co-operatives and institutions by way of private placement and public offer, subject to the terms and conditions of the prospectus dated 5 December 2005 ("Public Issue").

**A7. DIVIDEND PAID**

There was no dividend paid during this quarter.

**A8. SEGMENTAL INFORMATION**

The business of the Group is generated from the sales of analogue, digital and computer-controlled electronic devices and there was only one business segment identified.

Segmental revenue in geographical areas of the Group for the current quarter and current year to date 31 December 2005 is as follows:

	<b>Current Year Quarter 31 December 2005 RM'000</b>	<b>Current Year To Date 31 December 2005 RM'000</b>
<b>Segment Revenue</b>		
Domestic	2,216	4,018
Foreign	277	793
Total revenue	2,493	4,811

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---

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**FOR THE QUARTER ENDED 31 DECEMBER 2005**

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Segmental total assets in geographical areas of the Group are as follows:

	As at end of current quarter 31 December 2005 RM'000	As at preceding financial year ended 30 June 2005 RM'000
<b>Total assets</b>		
Domestic	18,485	8,757
Foreign	-	-
<b>Total assets</b>	<u>18,485</u>	<u>8,757</u>

**A9. CARRYING AMOUNT OF REVALUED ASSETS**

The Company did not revalue any of its property, plant and equipment during the quarter.

**A10. SUBSEQUENT EVENTS**

There were no material events subsequent to the end of the current quarter.

**A11. CHANGES IN COMPOSITION OF THE GROUP**

There is no change in the composition of the Group including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations for the current financial year to date.

**A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet as at 30 June 2005 up to 22 February 2006.

**A13. CAPITAL COMMITMENTS**

There are no material commitments which require disclosure during the quarter.

**A14. SIGNIFICANT RELATED PARTY TRANSACTION**

There were no significant related party transactions as at 22 February 2006.

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**FOR THE QUARTER ENDED 31 DECEMBER 2005**

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

**B1. PERFORMANCE REVIEW**

The Group recorded a consolidated profit after taxation of RM0.70 million on the back of revenue of RM2.49 million for the quarter under review, whilst, for the six months financial period ended 31 December 2005, the Group achieved a consolidated profit after taxation of RM1.31 million and revenue of RM4.81 million.

The Group's sales to overseas markets contributed approximately 16.5% of the total revenue for the six month financial period ended 31 December 2005. In the current quarter, the Group penetrated into the Philippines and Myanmar markets.

**B2. COMPARISON WITH PRECEDING QUARTER'S RESULTS**

The Group generated revenue of RM2.49 million in the current quarter under review. This represents an increase of RM0.17 million from the revenue of RM2.32 million recorded in the preceding quarter.

In terms of profit after tax, the Group recorded an increase of RM0.10 million in profit after tax in the current quarter, representing an increase of approximately 15.8% from the preceding quarter. This is in line with the increase in turnover.

**B3. COMMENTARY ON PROSPECTS**

The Group expects positive growth from the domestic as well as the overseas sales especially in the Asia Pacific region. In the current quarter under review, the Group has successfully sold its products in Philippines and Myanmar.

The Group will also continue its effort in expanding its overseas market share and expects positive contributions from these markets. Additionally, in order to maintain its competitive edge, the Group will continue to focus on research & development to further develop and to enhance its products offerings.

For the six months period ended 31 December 2005, Mikro has achieved 43% of its forecasted PAT for the financial year ended 30 June 2006. With the successful penetration into the Philippines and Myanmar markets coupled with its continued effort in penetrating into other markets within the Asia Pacific region, the Board, barring any unforeseen circumstances is optimistic that Mikro would be able to achieve its forecasted PAT of RM3.0 million for the financial year ending 30 June 2006.

**B4. PROFIT FORECAST AND PROFIT GUARANTEE**

Not applicable.

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---

**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 DECEMBER 2005**

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**B5. TAXATION**

	<b>Current year quarter 31 December 2005 RM'000</b>	<b>Current year to date 31 December 2005 RM'000</b>
Estimated income tax :		
Malaysia income tax	214	416
Foreign income tax	-	-
	200	402

The Group's effective tax rate is lower than the Malaysian statutory tax rate of 28%. This is primarily due to certain expenses that are allowable for double deductions and the utilisation of capital allowances.

**B6. SALE OF UNQUOTED INVESTMENT AND/OR PROPERTIES**

There were no sale of unquoted investments and/or properties during the current quarter and financial year to date.

**B7. QUOTED SECURITIES**

The group does not have any investments in quoted securities as at 31 December 2005. There was no acquisition or disposal of quoted securities for the current quarter and financial year to date.

**B8. STATUS OF CORPORATE PROPOSALS AS AT 22 FEBRUARY 2006**

Save as disclosed below, there were no other corporate proposals announced but not completed as at 22 February 2006:-

The status of utilisation of proceeds to be raised from the Rights Issue and Public Issue is as follows:-

	<b>Proposed Utilisation*</b>	<b>Amount utilised as at 22 February 2006</b>	<b>Transfer **</b>	<b>Amount outstanding</b>	<b>Expected time frame for utilisation by*</b>
	<b>RM'000</b>	<b>RM'000</b>		<b>RM'000</b>	
R&D expenses	3,500	(8)	-	3,492	Mid 2009
Land and factory building	3,500	-	-	3,500	Mid 2008
Working capital	1,520	(486)	(334)**	700	End 2006
Estimated listing expenses	1,200	(1,534)	334**	-	Early 2006
<b>Total</b>	<b>9,720</b>	<b>(2,028)</b>	<b>-</b>	<b>7,692</b>	

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 DECEMBER 2005**

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\* *As set out in Mikro's prospectus dated 5 December 2005.*

\*\* *As set out in Mikro's prospectus dated 5 December 2005, in the event that additional listing expenses are incurred, the additional amounts will be utilised from the proceeds raised for its working capital requirements. Hence, the additional listing expenses incurred were paid out of amount proposed for working capital.*

**B9. BORROWINGS**

The borrowing of the Company as at 31 December 2005 are as follows:-

	<b>As at 31 December 2005 RM'000</b>
Secured Short-term [due within 12 months]:	
Hire purchase payables	65
	<u>65</u>
Secured Long-term [due after 12 months] :	
Hire purchase payables	236
	<u>236</u>
Total Borrowings	<u><u>301</u></u>

There are no unsecured borrowings for the current quarter.

**B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

During the current year, Mikro granted 8,360,000 options under its employees' share option scheme ("ESOS") to the Directors and eligible employees of the Group ("Eligible Persons") in conjunction with Mikro's Listing, which are exercisable to ordinary shares at an exercise price of RM0.22 per share subject to the By-Laws for the ESOS as disclosed in the prospectus dated 5 December 2005.

**B11. MATERIAL LITIGATION**

Since the last annual balance sheet date up to 22 February 2006, the Directors are not aware of any changes in material litigations or claims against the Group and Company.

**B12. DIVIDEND PAYABLE**

There is no dividend declared or payable for the current quarter under review.

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---

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**FOR THE QUARTER ENDED 31 DECEMBER 2005**

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**B13. EARNINGS PER SHARE**

**a) Basic earnings per share**

The basic earnings per share is calculated based on the Group's profit after taxation for the current year quarter and current year to date, and divided by the respective weighted average number of ordinary shares in issue as at 31 December 2005 as follows:-

	<b>Current year quarter 31 December 2005</b>	<b>Current year to date 31 December 2005</b>
Profit after tax (RM '000)	700	1,305
Weighted average number of ordinary shares in issue ( '000)	70,239	59,120
Basic earnings per share (sen)	1.00	2.21

**b) Diluted earnings per share**

	<b>Current year quarter 31 December 2005</b>	<b>Current year to date 31 December 2005</b>
Profit after tax (RM '000)	700	1,305
Weighted average number of ordinary shares in issue ( '000)	70,239	59,120
Adjusted for share options granted ( '000)	269	135
Adjusted weighted average number of ordinary shares ( '000)	70,508	59,254
Diluted earnings per share (sen)	0.99	2.20