

SCAN ASSOCIATES BERHAD (525669-P)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD FINANCIAL QUARTER ENDED 30 SEPTEMBER 2006

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
INTERIM FINANCIAL REPORTING

A1 Basis Of Preparation

This interim financial report of the Group is unaudited and have been prepared in accordance with FRS 134 (Interim Financial Reporting) issued by the Malaysian Accounting Standards Board ("MASB") and Chapter 9 Part K paragraph 9.22 and Appendix 9B of the Listing Requirement of Bursa Malaysia Securities Berhad for the MESDAQ Market.

The interim financial report 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 report 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 financial year ended 31 December 2005.

The accounting policies, method of computation and basis of consolidation adopted by the Group in this interim financial report are consistent with those adopted in the most recent annual audited financial statements for the financial year ended 31 December 2005, except for the adoption of the following new/revised Financial Reporting 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 102	Inventories
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

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
INTERIM FINANCIAL REPORTING (CONT'D)

A1 **Basis Of Preparation (Cont'd)**

FRS 136 Impairment of Assets

FRS 138 Intangible Assets

The adoption of the above FRSs does not have any significant impact on the Group.

As at the date of this report, the Group has not applied the following two new standards which have been issued by MASB, but are not yet effective:

FRS 117 Leases

FRS 124 Related Party Disclosures

The Group will apply FRS 117 and FRS 124 in the financial period commencing 1 January 2007, when they become effective.

A2 **Auditors' Report** On Preceding Annual Financial Statements

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

A3 **Seasonal Or Cyclical Factors**

The Group's operations were not materially affected by any seasonal and cyclical factors.

A4 **Unusual Items Affecting Assets, Liabilities, Equity, Net Income Or Cash Flows**

During the current financial quarter under review, there were no items affecting assets, liabilities, equity, net income or cash flows of the Group that are unusual because of their nature, size or incidence.

A5 **Material Changes In Estimates**

There were no changes in estimates of amounts which may have a material effect in the current financial quarter under review.

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
INTERIM FINANCIAL REPORTING (CONT'D)

A6 Debts And Equity Securities

During the financial period, the following transactions occurred:

- 1) On 9 May 2006, the Company has increased its issued and paid-up share capital from RM4,285,000 to RM12,855,000 by the allotment of 8,570,000 new ordinary shares of RM1.00 each pertaining to Bonus Issue to the existing shareholders of the Company.
- 2) On 19 May 2006, the Company has increased its issued and paid-up share capital from RM12,855,000 to RM14,950,000 by the allotment of 2,095,000 new ordinary shares of RM1.00 each pertaining to Rights Issue to the existing shareholders of the Company.

On 19 May 2006, the Company had subdivided its entire shares from RM1.00 per share to RM0.10 per share.

There were no other issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period.

A7 Dividends

During the financial period, the Company has paid the proposed interim dividend in respect of financial year ended 31 December 2005 amounted to RM1,600,000.

No dividends were declared during the financial period and quarter under review.

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
INTERIM FINANCIAL REPORTING (CONT'D)

A8 Segmental Information

Source	Current financial quarter RM'000	Financial period to date RM'000
<u>Segment revenue</u>		
Malaysia	2,603	17,603
Overseas	6,576	10,889
	<u>9,179</u>	<u>28,492</u>
<u>Segment profit before tax</u>		
Malaysia	(2,272)	970
Overseas	4,907	5,659
	<u>2,635</u>	<u>6,629</u>

A9 Valuation Of Property, Plant And Equipment

The Group did not carry out any valuation of its property, plant and equipment.

A10 Material Events Subsequent To The End Of The Financial Quarter

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company undertook a listing scheme which involved the following:

Public Issue

Public Issue of 50,500,000 new ordinary shares of RM0.10 each at an issue price of RM0.50 per ordinary share payable in full on application comprising:

- (i) 10,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian Public;
- (ii) 20,500,000 new ordinary shares of RM0.10 each available for placement to selected investors; and
- (iii) 20,000,000 new ordinary shares of RM0.10 each available for application by the eligible directors, employees and business associates of the Group.

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134
INTERIM FINANCIAL REPORTING (CONT'D)

A10 Material Events Subsequent To The End Of The Financial **Quarter (Cont'd)**

Prospectus of the Company in regards of the above was issued on 30 August 2006.

The Company was successfully listed on the MESDAQ market on 6 October 2006.

A11 Changes In The Composition Of The Group

The composition of the Group is as follows:

Corporation	Place of incorporation	Effective equity interest (%)	Principal activities
SCAN Crypto-Tech Sdn Bhd	Malaysia	100	Intended for provision of crypto solution and secure mobile communications products and services.
PT SCAN Nusantara	Indonesia	99	Provision for ICT Solutions

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

A12 Contingent Liability

During the financial period to date, the Company has given a corporate guarantee to secure a loan granted to a subsidiary company amounted to approximately RM3.32 million.

A13 Significant Related Party Transactions

	Current financial quarter RM'000	Financial period to date RM'000
Revenue received/receivable from a Company in which certain Directors have interest	-	250
Interest income from investment in a Company in which certain Directors have interest	7	48

B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET

B1 Review Of Performance

For the current financial quarter, the Group recorded a turnover of RM9,179,389. This was mainly from overseas project which contributed approximately 72% of the total revenue for the financial quarter. In line with the revenue, the Group recorded a profit after taxation of RM2,635,677.

B2 Comparison With Immediate Preceding Quarter

There were no comparative figures in the immediate preceding quarter as this is the Group's first quarterly announcement in conjunction with the listing of and quotation of the Company on the MESDAQ market of Bursa Securities on 6 October 2006.

B3 Business Prospects

With our presence in Middle East and Indonesia, we expect the oversea market to continue contributing positively to the Group earnings as recorded in the current quarter under review. The Group also continuously bidding in various ICT Security projects both locally and overseas. Therefore, the Group expects to secure more contracts in the next quarter.

B4 Variance Of Actual Profit From Forecast Profit

Not applicable as this is not the final quarter's results for the Group. Disclosure on explanatory note for the variance between actual and forecasted results would only be required in the final quarter results for the Group.

B5 Taxation

	Current financial quarter RM'000	Financial period to date RM'000
Income tax	<u>(1)</u>	<u>(164)</u>

The effective tax rate for the financial period under review is lower than the statutory income tax rate due to tax exempt income of the Company pursuant to its pioneer status granted under the Promotion of Investments Act, 1986 (Amendments) pursuant to its MSC status entitlement under the MSC Bill of Guarantees for five years commencing 24 December 2002.

B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS
OF BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET (CONT'D)

B6 Sale of properties and unquoted investments

There were no purchases or disposal of unquoted investments and properties during the current financial quarter and period under review.

B7 Purchase Or Disposal Of Quoted Securities

There were no acquisitions or disposals of quoted securities during the financial period under review.

B8 Corporate Proposals

There is no other corporate proposal for the Group except for as per disclosed in Note A10.

B9 Group Borrowings And Debt Securities

	<u>Secured</u> RM'000
<u>Current</u>	
Term Loan	2,396
Hire purchase	151
	<hr/> 2,547 <hr/>
<u>Non-current</u>	
Term loan	3,132
Hire purchase	172
	<hr/> 3,304 <hr/>
Total	<hr/> 5,851 <hr/>

B10 Off Balance Sheet Financial Instruments

There were no off balance sheet financial instruments as at the date of this announcement.

B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET **(CONT'D)**

B11 Material Litigations

There were no material litigations or pending material litigations involving the Group as at the date of this announcement.

B12 Dividends

There is no dividend declared during the financial period under review. The Company has paid on 19 May 2006 an interim tax-exempt dividend at approximately 37.34% per ordinary share in respect of financial year ended 31 December 2005, to all shareholders whose names appear in the Register of Members on 15 December 2005, which amounted to RM1,600,000.

B13 Earnings Per Share

	<u>Current financial quarter</u>	<u>Financial period to date</u>
Profit attributable to ordinary shareholders (RM'000)	<u>2,636</u>	<u>6,793</u>
Number of ordinary shares of RM0.10 issued ('000)	149,500	149,500
Weighted average numbers of ordinary shares of RM0.10 issued ('000)	138,833	138,833
Basic earnings per share (sen)	1.90	4.89
Diluted earnings per share (sen)	<u>1.90</u>	<u>4.89</u>
Basic earnings per share (sen)*	2.53	6.52
Diluted earnings per share (sen)*	<u>2.53</u>	<u>6.52</u>

* Annualised

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders for the financial period under review divided by the weighted average number of ordinary shares of RM0.10 issued.

The Company has no ordinary shares issued which have dilutive factors.