

SCAN ASSOCIATES BERHAD (525669-P)

(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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.

In addition, the Group has early adopted the following new and revised FRSs for the financial period beginning 1 January 2006:

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group has not early adopted the deferred FRS 139 – Financial Instruments: Recognition and Measurement and the following FRSs and amendment that are mandatory for the financial periods beginning on or after 1 January 2007:

- (i) FRS 6: Exploration for and Evaluation of Mineral Resources
FRS 6 is not relevant to the Group's operations.
- (ii) Amendment to FRS 119₂₀₀₄: Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.
 - This amendment introduces the option of an alternative recognition approach for actuarial gains and losses arising from post-employment defined benefit plans. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from financial periods beginning 1 January 2007.

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.

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

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 except for transactions as per disclosed in Note A10.

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.

A6 Debts And Equity Securities

On 3 October 2006, the Company has increased its issued and paid-up share capital from RM14,950,000 to RM20,000,000 by the allotment of 50,500,000 new ordinary shares of RM0.10 each pertaining to Public Issue.

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

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 year 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 year to date RM'000
<u>Segment revenue</u>		
Malaysia	2,789	20,392
Overseas	6,826	17,715
	<u>9,615</u>	<u>38,107</u>
<u>Segment profit before tax</u>		
Malaysia	1,142	5,654
Overseas	2,794	4,911
	<u>3,936</u>	<u>10,565</u>

A9 Valuation Of Property, Plant And Equipment

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

A10 Material Event During 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 Event During 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

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

A12 Contingent Liability

During the financial year, 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 year to date RM'000
Purchases of services from a Company in which certain Directors have interest	250	500
Interest income from investment in a Company in which certain Directors have interest	32	80
	<hr/>	<hr/>

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 RM9,615,390. This was mainly from overseas project which contributed approximately 70.99% of the total revenue for the financial quarter. In line with the revenue, the Group recorded a profit for the financial quarter amounted to RM3,957,638.

B2 Comparison With Immediate Preceding Quarter

The Group generated revenue of RM9,615,390 in the current financial quarter under review. This represents an increase of RM436,001 or 4.75% from the revenue of RM9,179,389 recorded in the preceding financial quarter.

In terms of profit before tax, the Group recorded an increase of RM1,300,786 in the current financial quarter, representing an increase of approximately 49.37% from the preceding financial quarter of RM2,634,986. Despite the slight increase in revenue, the Group managed to achieve higher contribution in profit before tax as a result of an increase in other income and the reduction of administration expenses and finance cost.

B3 Business Prospects

With our presence in Middle East and Indonesia, we expect the overseas 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 financial year.

B4 Variance Of Actual Profit From Forecast Profit

For the financial year ended 31 December 2006, the Group has met its forecasted consolidated profit for the financial year of RM10,001,077 as set out in its Prospectus dated 30 August 2006.

Consolidated profit for the financial year ended 31 December 2006

Forecasted RM'000	(Unaudited) Actual RM'000	Deviation (%)
10,001	10,751	+7.50

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

B5 Taxation

	Current financial quarter RM'000	Financial year to date RM'000
Income tax	<u>(22)</u>	<u>(186)</u>

The effective tax rate for the financial year 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.

B6 Sale of properties and unquoted investments

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

B7 Purchase Or Disposal Of Quoted Securities

There were no acquisitions or disposals of quoted securities during the financial quarter and year under review.

B8 Corporate Proposals

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

The status of utilisation of proceeds from the Rights Issue and Public Issue is as follows:

	<u>Total amount of proceeds</u>	<u>Amount utilised</u>	<u>Amount unutilized</u>
	RM'000	RM'000	RM'000
Development expenditure	13,000	(595)	12,405
Overseas projects implementation	3,500	(1,033)	2,467
Overseas expansion	5,000	(428)	4,572
Working capital	3,970	(3,104)	866
Listing expenses	1,875	(1,875)*	-
Total	<u>27,345</u>	<u>(7,035)</u>	<u>20,310</u>

* The actual listing expenses amounted to RM2,017,988. The additional amount of RM142,988 was utilised from internally generated fund.

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

B9 Group Borrowings And Debt Securities

	<u>Secured</u> RM'000
<u>Current</u>	
Term Loan	2,438
Hire purchase	151
	<hr/> 2,589 <hr/>
<u>Non-current</u>	
Term loan	2,570
Hire purchase	134
	<hr/> 2,704 <hr/>
Total	<hr/> 5,293 <hr/>

B10 Off Balance Sheet Financial Instruments

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

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 year 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.

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

B13 Earnings Per Share

	<u>Current financial quarter</u>	<u>Financial year to date</u>
Profit attributable to ordinary shareholders (RM'000)	<u>3,958</u>	<u>10,751</u>
Number of ordinary shares of RM0.10 issued ('000)	200,000	200,000
Weighted average numbers of ordinary shares of RM0.10 issued ('000)	153,835	153,835
Basic earnings per share (sen)	2.57	6.99
Diluted earnings per share (sen)	<u>2.57</u>	<u>6.99</u>

The calculation of the basic earnings per share is based on the profit attributable to ordinary shareholders for the financial year 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.