

AWC FACILITY SOLUTIONS BERHAD
(Company no. 550098-A)
(Incorporated in Malaysia)

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

1. BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standard (“FRS”) 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 30 June 2006.

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 financial year ended 30 June 2006.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 30 June 2006 except for the adoption of the following new/revised FRSs which became effective for financial periods beginning on and after 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 128 | Investments in Associates |
| FRS 132 | Financial Instruments: Disclosure and Presentation |
| FRS 133 | Earnings Per Share |
| FRS 136 | Impairment of Assets |
| FRS 138 | Intangible Assets |
| FRS 140 | Investment Property |

The adoption of the above FRSs does not have a significant financial impact on the Group except for the following:

(i) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interest is now presented within equity. In the consolidated income statement, minority interest is presented as an allocation of the profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity, total recognized income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and minority interest.

The current period’s presentation of the Group’s financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period’s presentation.

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(ii) FRS 140: Investment Property

Investment properties are properties which are held to earn rental and/or for capital appreciation. With the adoption of FRS 140, certain assets previously classified under property, plant and equipment amounting to RM3.025 million have been reclassified to investment property as they meet the definition of investment property. Investment properties are stated at cost.

2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the financial year ended 30 June 2006 was not subject to any audit qualification.

3. EXTRAORDINARY AND EXCEPTIONAL ITEMS

There were no extraordinary items during the current quarter under review.

4. SEASONAL OR CYCLICAL FACTORS

The Group's business was not affected by any significant seasonal or cyclical factors during the current quarter under review.

5. CHANGE IN ESTIMATES

There were no changes in estimates of amounts reported in the prior financial year that have a material effect in the current quarter.

6. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There was no sale of unquoted investments and properties during the current quarter under review.

7. QUOTED SECURITIES

There was no purchase or disposal of quoted securities for the current quarter and financial year-to-date. At the end of the current quarter under review, the Group did not hold any investments in quoted securities.

8. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes to the composition of the Group during the current quarter under review save for the acquisition of 51% of the equity interest in Infinite QL Sdn Bhd ("IQL") which was completed on 29 September 2006. Further details of this acquisition are provided in Note 9 below.

The purchase consideration of RM10.3 million paid to the vendors of IQL upon completion have been taken up as a deposit under "Other Receivables" in the balance sheet. The subsidiary will be consolidated as part of the AWC Group from 1 October 2006 only.

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9. CORPORATE PROPOSALS

There were no corporate proposals announced that require any disclosure in this report, other than as follows:-

Acquisition of equity interest in a new subsidiary

The Company had on 16 March 2006 entered into a Sales and Purchase Agreement (“SPA”) with P. Deivendran A/L K Pathmanathan, Timothy John Hutchison, Derek John Fernandez and Lim Cheng Im (“the Vendors”) to acquire 2,448,000 ordinary shares of RM1.00 each in Infinite QL Sdn Bhd (“IQL”) representing 51% of its issued and paid up capital for a cash consideration of RM15.3 million. IQL and its subsidiaries are principally involved in research and development and subsequent commercialization of microelectronic products, consumer electronic products and security related products. IQL has successfully commercialized high end digital video recorder (DVR) systems and currently manufactures, commissions and distributes its DVR systems under the “Vdosoft” brand name. It is also the authorized dealer for Cardax Security Access systems for Malaysia, which is a high end security access solution for enterprise wide multinational corporation end users.

In line with the terms of the SPA, P. Deivendran A/L K Pathmanathan, one of the Vendors, had on 29 September 2006 (being the completion date) entered into a Profit Guarantee Agreement (“PGA”) with the Company, to provide a profit guarantee to the Company as follows:-

| | Profit After Tax RM’000 |
|-----------------------------------|------------------------------------|
| Financial Year Ending 30 Nov 2006 | 4,000 |
| Financial Year Ending 30 Nov 2007 | 5,000 |
| Financial Year Ending 30 Nov 2008 | 6,000 |
| Total | 15,000 |

The purchase consideration will be paid in the following tranches:-

| | |
|---|---------------|
| | RM’000 |
| Deposit – paid on 16 March 2006 upon signing of SPA | 200 |
| 1 st Tranche – paid upon completion on 29 September 2006 | 10,100 |
| | 10,300 |
| 2 nd Tranche – upon fulfillment of profit guarantee for FY ending 30 November 2006 | 2,000 |
| 3 rd Tranche – upon fulfillment of profit guarantee for FY ending 30 November 2007 | 1,500 |
| 4 th Tranche – upon fulfillment of profit guarantee for FY ending 30 November 2008 | 1,500 |
| Total Purchase Consideration | 15,300 |

The Acquisition was approved by the shareholders of the Company on 19 July 2006 and was completed on 29 September 2006. Shareholders are advised to refer to the Company’s announcement dated 16 March 2006 and the Circular to Shareholders dated 16 June 2006 for full details of the Acquisition.

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In addition to the PGA, the Company had also on Completion Date entered into a Shareholders Agreement with the remaining shareholders of IQL and a Memorandum of Deposit with the Vendors. These agreements were entered into in line with the terms of the SPA.

The balance purchase consideration of RM5.0 million to be paid upon fulfillment of the respective financial years' profit guarantees has been taken up in the balance sheet as current liabilities (in respect of the financial year ending 30 November 2006) and long term payables (in respect of financial year ending 30 November 2007 and 30 November 2008).

10. DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities during the current quarter under review.

Share Buy-Back

The Company had on 24 August 2006 purchased 100,000 of its own ordinary shares from the open market. The shares which were purchased at a market price of RM0.24 per share for a total consideration of RM24,177.60 were financed by internally generated funds. These shares are being held as treasury shares. Subsequent to this purchase the Company is holding 1,336,800 shares as treasury shares at an average purchase price of RM0.28 per share.

There was no cancellation of shares or resale of treasury shares during the quarter.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Directors are not aware of any material contingent liabilities or contingent assets of the Group as at the date of this report.

12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

13. MATERIAL LITIGATION

There are no material litigations or claims against the Group as at the date of this report.

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14. SEGMENTAL INFORMATION

Segmental analysis for the current financial year to date is as follows:

| | Investment holding | Integrated facility management (“IFM”) | M&E engineering (“M&E”) | Eliminations | Consolidated |
|---------------------------|---------------------------|---|--|---------------------|---------------------|
| | RM’000 | RM’000 | RM’000 | RM’000 | RM’000 |
| Revenue | | | | | |
| External revenue | - | 9,781 | 9,689 | - | 19,470 |
| Inter-segment revenue | 144 | 2,309 | 86 | (2,539) | - |
| Total revenue | 144 | 12,090 | 9,775 | (2,539) | 19,470 |
| Results | | | | | |
| Profit from operations | (46) | 1,408 | 577 | (13) | 1,926 |
| Net finance costs | (59) | (52) | (43) | 13 | (141) |
| Profit before tax | | | | | 1,785 |
| Taxation | | | | | (508) |
| Net profit for the period | | | | | 1,277 |

15. COMMENTARY ON MATERIAL VARIATION IN PROFIT BEFORE TAXATION AGAINST PRECEDING QUARTER

| | Current Quarter Ended 30 September 2006 RM’000 | Preceding Quarter Ended 30 June 2006 RM’000 | Variance | |
|------------------------|---|--|-----------------|----------|
| | | | RM’000 | % |
| Profit Before Taxation | 1,785 | 1,909 | (124) | (6.5) |

Profit before taxation for the current quarter amounted to RM1.79 million compared to RM1.91 million in the immediate preceding quarter. This drop of RM124K or 6.5% was due to lower revenue earned in the current quarter by certain subsidiaries where progress of certain projects undertaken experienced delays due to late sign offs by customers.

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16. PERFORMANCE REVIEW

| | Current Quarter Ended 30.9.2006 RM'000 | Preceding Quarter Ended 30.6.2006 RM'000 | Variance | | Prior Year Corresponding Quarter Ended 30.9.2005 RM'000 | Variance | |
|---|---|---|----------|-------|--|----------|--------|
| | | | RM'000 | % | | RM'000 | % |
| Revenue | 19,470 | 20,719 | (1,249) | (6.0) | 21,555 | (2,085) | (9.7) |
| Profit before taxation | 1,785 | 1,909 | (124) | (6.5) | 2,375 | (590) | (24.8) |
| Profit attributable to equity holders of the parent | 1,336 | 139 | 1,197 | 861.2 | 1,655 | (319) | (19.3) |

Revenue

Revenue for the current quarter under review, as compared to the immediate preceding quarter has remained fairly consistent, showing a variance of only RM1.25 million (6.0%).

When compared to the corresponding quarter last year, revenue has decreased by RM2.09 million (9.7%). This was mainly due to certain projects undertaken by a subsidiary company in the IFM Division which were completed during the previous financial year and no additional contracts of similar value are ongoing in the current quarter under review.

Profit Before Taxation

Profit before taxation for the current quarter has shown a drop compared to the immediate preceding quarter (RM124K or 6.5%) and against the prior year corresponding quarter (RM590K or 24.8%).

The drop compared to the immediate preceding quarter has been explained in Note 15 above. When compared to the corresponding quarter last year, the variance is due mainly to several subsidiaries in the M&E Division had shown strong profit performance in the corresponding quarter last year due to the healthy progress achieved in several ongoing contracts as well as healthy margins earned on trading sales.

Profit Attributable To Equity Holders Of The Parent

The current quarter shows a profit attributable to the equity holders of the parent of RM1.34 million as compared to a profit attributable to the equity holders of the parent of RM139K in the immediate preceding quarter. This is due mainly to the bad debts provision of approximately RM1.1 million undertaken in Gold Green Landscape and Nursery Sdn Bhd in the immediate preceding quarter. This provision was made in relation to debts arising from the supply of plants to a major customer in Johor Bahru.

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17. COMMENTARY ON PROSPECTS

The IFM Division remains fairly stable, and continues to contribute positively towards the Group's performance. The M&E Division continues to seek out additional contracts and revenue streams. Efforts are also ongoing to expand our client base overseas, for both Divisions.

With the successful completion of the acquisition of IQL in September 2006, and barring unforeseen circumstances, the Group expects its financial performance for the future to improve from that for financial year ended 30 June 2006.

18. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable.

19. TAXATION

| | Current quarter ended 30.9.2006 RM'000 | Year to date ended 30.9.2006 RM'000 |
|----------------------------|---|--|
| Tax expense for the period | 680 | 680 |
| Deferred taxation | (172) | (172) |
| | <u>508</u> | <u>508</u> |

The Group's effective tax rate for the current quarter and the current financial year to date is higher than the statutory tax rate of 27% mainly due to certain expenses incurred by subsidiaries which are not deductible for tax purposes.

20. CARRYING AMOUNT OF REVALUED ASSETS

Not applicable

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21. BORROWINGS

| | At 30.9.2006 RM'000 | At 30.6.2006 RM'000 |
|---|------------------------------------|------------------------------------|
| Secured Short-term Borrowings: | | |
| Bank overdrafts | 492 | 834 |
| Banker acceptances | 83 | - |
| Term loan (due within 12 months) | 1,093 | 1,190 |
| Hire purchase payables (due within 12 months) | 175 | 223 |
| | 1,843 | 2,247 |
| Unsecured Bank overdrafts | 452 | 435 |
| Unsecured Short- term Multi trade facility | 38 | 129 |
| Total Short-term Borrowings | 2,333 | 2,811 |
| Secured Long-term Borrowings: | | |
| Term loan (due after 12 months) | 3,025 | 3,199 |
| Hire purchase payables (due after 12 months) | 300 | 359 |
| | 3,325 | 3,558 |
| Total Borrowings | 5,658 | 6,369 |

All of the above borrowings are denominated in Ringgit Malaysia except for RM51,480 (2006: RM55,166) which are denominated in Singapore Dollars.

22. SUBSEQUENT EVENTS

There were no material events which occurred subsequent to the end of the current quarter that requires adjustment to, or disclosure in the interim financial reports.

23. COMMITMENTS

There are no material commitments which require disclosure in this report except for the following:

| | At 30.9.2006 RM'000 | At 30.6.2006 RM'000 |
|--|------------------------------------|------------------------------------|
| Non-cancellable operating lease commitments | | |
| Future minimum rentals payable: | | |
| Not later than 1 year | 89 | 123 |
| Later than 1 year and not later than 2 years | - | 2 |
| | 89 | 125 |

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24. EARNINGS PER SHARE

The basic earnings per ordinary share of the Group is calculated based on the Group's net profit for the period attributable to equity holders of the parent over the weighted average number of ordinary shares in issue during the period as follows:

| | Current quarter ended 30.9.2006 | Year to date ended 30.9.2006 |
|--|--|---|
| Profit attributable to equity holders of the parent (RM'000) | 1,336 | 1,336 |
| Weighted average number of ordinary shares in issue ('000) | 227,410 | 227,410 |
| Basis earnings per share (sen) | 0.58 | 0.58 |

The Group did not have in issue any financial instrument or other contract that may entitle its holder to ordinary shares in the Company and therefore, there is no potential dilutive effect to its basic earnings per share.

25. AUTHORISATION FOR ISSUE

This interim financial report has been approved by the Board of Directors of the Company for issuance on 29 November 2006.

26. DIVIDENDS

The shareholders of the Company have approved the final dividend of 2% (less tax at 28%) in respect of the financial year ended 30 June 2006 at the Annual General Meeting held on 9 November 2006 and the final dividend will be payable on 20 December 2006.

The Board has not recommended any interim dividends for the current financial quarter.