

RAPID SYNERGY BERHAD
(Company No. 325935-U)
(Incorporated in Malaysia)

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Selected explanatory notes pursuant to Financial Reporting Standards (FRS) 134₂₀₀₄ Interim Financial Reporting

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standards (FRS) 134₂₀₀₄ Interim Financial Reporting, and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB). The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2005 and these explanatory notes attached to the interim financial statements as they provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2005.

Changes in Accounting Policies

The MASB issued a total of 21 new and amended Financial Reporting Standards and other interpretations (FRSs) effective for financial statements commencing 1 January 2006 for 18 Financial Reporting Standards and 3 other Standards with effective date for periods commencing on or after 1 October 2006. The Group has decided for the early adoption of 2 other Standards of FRSs namely FRS 117 – Leases and FRS 124 – Related Party Disclosures issued by Malaysian Accounting Standard Board (MASB).

The significant accounting policies adopted in these interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards (FRS) effective for financial period commencing 1 January 2006 and early adoption of two other Standards. The comparative figures in respect of 2005 have therefore been restated to reflect the relevant adjustments

The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are discussed below:

a) FRS 2: Share-based Payment

This FRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the employees of the Group. Prior to 1 January 2006, no compensation expense was recognized in profit or loss for share options granted. With the adoption of FRS, the compensation expense relating to share options is recognized in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognized as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using the black-scholes model. At Balance Sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment in equity over the remaining vesting period.

Under the transitional provisions of FRS 2, share options granted after 31 December 2004 and has not yet vested on 1 January 2006 has to be applied retrospectively. However the

comparatives amounts as at 31 December 2005 is insignificant to be restated to reflect this application.

The financial impact of this change in accounting policy for the current quarter is as follows:

	3 months 30.6.06 RM	6 months 30.6.06 RM	6 months 30.6.05 RM
Decrease in profit for the period	-	(27,605)	-
Increase in Capital Reserve	-	27,605	-

(b) FRS 101: Presentation of Financial Statements

The current period's presentation of the Group's interim financial statements is based on the revised requirements of FRS 101. The standard requires an entity to present assets and liabilities in order of liquidity only when a liquidity presentation provides information that is reliable and is more relevant than current/ non-current presentation. This standard also requires disclosure, on the face of the statement of changes in equity, the total recognized income and expense for the period (including amounts recognized directly in equity).

(c) FRS 140: Investment Property

With the adoption of FRS 140, the Group's properties which are held to earn rentals and/or capital appreciation previously included under property, plant and equipment and carried at valuation less accumulated depreciation are classified and accounted for as investment properties. Investment properties are now presented as a separate line item on the face of the Balance Sheet and are stated at cost. In accordance with the transitional provisions of FRS 140, the Group has applied this change in accounting policy prospectively from 1 January 2006 and have been accounted for by restating the following opening balance sheet as at 1 January 2006:

	Previously stated RM'000	Effect of changes in accounting policy RM'000	Restated RM'000
Balance sheet as of 31 December 2005			
Retained Earnings	22,352	(211)	22,141

(d) FRS 117 : The Leasehold Land

The adoption of FRS 117 as from 1 January 2006 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The upfront payment made for the leasehold land is accounted for as being held under an operating lease and the prepaid lease payments and are amortised on a straight-line basis over the remaining lease term of the land. Prior to 1 January 2006, leasehold land was classified as property, plant and equipment and was stated at valuation less accumulated depreciation and impairment losses. With the adoption of FRS 117 at 1 January 2006, the unamortised revalued amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments.

(e) FRS 124 : Related Party Disclosure

The Group had entered into Sale and Purchase Agreements with Kar Sin Berhad to acquire three properties for the amount of RM11,659,199 and with Dato' Dr Yu Kuan Chon and Mr Yu Kuan Huat to acquire Persiaran Eksklusif Sdn Bhd for the amount of RM266,300 for the current quarter under review (for the six months ended 30 June 2005 : RM NIL). There is an outstanding amount of RM50,111.70 due to the related parties as at 30 June 2006 (at 31 December 2005: RM Nil).

- A2 Declaration of qualification of audit report
The audit report of the preceding annual financial statements of the Group was not subject to any qualification.
- A3 Seasonal or cyclical factors
The Group's operations were not affected by any significant seasonal or cyclical factors in the current quarter.
- A4 Unusual items affecting assets, liabilities, equity, net income or cash flows
Other than disclosed in the financial statements there were no unusual items affecting the financial statements for the financial period under review.
- A5 Change in accounting estimates
There was no material change in accounting estimates used in the preparation of financial statements in the current financial period as compared with the previous financial period or previous financial year.
- A6 Debts and equity securities
There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter and financial year-to-date.
- A7 Dividend
A first and final tax exempt dividend of 2 sen per share for the year ended 31 December 2005 was paid out on 29 June 2006 totaling RM839,958.

A8 Segment information

The segment analysis for the financial year ended 30 June 2006 is set out below:-

	Manufacturing RM'000	Property Development & Construction RM'000	Investment Holding RM'000	Consolidated RM'000
Revenue				
External sales	10,485	2,366	378	13,229
	10,485	2,366	378	13,229
Result				
Segment results	2,566	51	(213)	2,404
Interest Income				722
Interest Expense				3,126 (100)
Profit before taxation				3,026
Taxation				(634)
Profit after taxation				2,392 ====

- A9 Valuations of land held for development, property, plant and equipment
The valuations of land held for development, property, plant and equipment have been brought forward, without amendments from the previous annual report with the exception of investment properties which were reclassified and restated using the cost model as referred to in note A1(c) above.
- A10 Material events subsequent to balance sheet date
On 2nd August 2006 Rapid Synergy Berhad had successfully completed the share acquisition of Persiaran Eksklusif Sdn Bhd.

- A11 Changes in the composition of the Group
There were no changes in the composition of the Group for the current quarter and financial year to date.
- A12 Changes in contingent liabilities
There was no change in contingent liability since the last annual balance sheet date until 18 August 2006.
- A13 Property, plant and equipment
Significant acquisition of items of property, plant and equipment for the current quarter and year-to-date ended 30 June 2006 are as follows :

	Current Quarter	Year To Date
	RM'000	RM'000
Investment Properties	14,980	14,980
Equipment	875	875

- A14 Capital commitments

Group
RM'000

- Contracted but not provided for as at 30 June 2006 592

ADDITIONAL INFORMATION REQUIRED BY THE KLSE'S LISTING REQUIREMENTS

- B1 Review of the performance of the company and its principal subsidiaries
The Group recorded a revenue of RM8.841 million and a net profit of RM1.673 million for the second quarter ended 30 June 2006. These represent an increase of 69.5 per cent in revenue and an 113.7 per cent increase in net profit as compared to the revenue and net profit of RM5.215 million and RM0.783 million respectively for the previous corresponding period. The higher performance of the Group was mainly due to contribution from its tooling division.

- B2 Material changes in profit before tax against preceding quarter
During the period under review, there was an increase in consolidated revenue from RM4.388 million in the preceding quarter to RM8.841 million in the current quarter. The increased revenue was mainly due to a significant increase in sales from its tooling division. The overall increase in pretax profit by RM1.333 million to RM2.180 was mainly due to higher sales from its tooling division.

- B3 Prospects for the current year
The semiconductor business outlook for the balance of 2006 is still healthy and the tooling division is expected to contribute positively to the Group's performance for 2006. With the recent acquisition of investment properties the Group is actively working out long term tenancy with prospective tenants.

- B4 Profit forecast
Not applicable as no profit forecast was published.

B5 Tax expense	3 months ended		Cumulative	
	30 June		30 June	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
- Current	642	171	864	269
- Prior year	-	-	-	-
Deferred tax expense				
- Current	(135)	(107)	(230)	(251)
- Prior year	-	-	-	-
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	507	(64)	634	(18)
	=====	=====	=====	=====

The Group's effective tax rate is lower than the prima facie tax rate for the current quarter due to availability of certain tax incentives granted to a subsidiary.

- B6 Profits/(Losses) on sale of unquoted investments and/or properties
There was no profit/(loss) on sale of unquoted investments and/or properties for the current quarter.
- B7 Quoted securities
There was no purchase and disposal of quoted securities for the current quarter and financial year-to-date.
There was no investment in quoted shares as at 30 June 2006.
- B8 Status of corporate proposals
There was no outstanding corporate proposal for the current quarter.
- B9 Borrowing and debts securities
- | | 30 June 2006
RM'000 |
|-------------|------------------------|
| Current | |
| Secured | |
| - overdraft | 292 |
| -term loan | 1,221 |
| Non-current | |
| Secured | |
| - term loan | 935 |
- The above borrowings are denominated in Ringgit Malaysia.
- B10 Off balance sheet financial instruments
The Group does not have any financial instruments with off balance sheet risk as at 18 August 2006.
- B11 Changes in material litigation
- (i) The Writ of Summons filed by RSB against Relau Estate is now fixed for hearing on 3 October 2006.
 - (ii) On 6 January 2003, Rapid Construction Contractor Sdn Bhd (RCC) and Rapid Precision Technologies Sdn Bhd (RPT), both wholly owned subsidiaries of RSB had served summons on Nychem Technologies Sdn Bhd (Nychem) and two guarantors for the amount of RM450,000 and RM641,908 respectively in respect of outstanding amount due on the sale of equipment accessories goodwill, rent and lease of fixtures. The case between RCC and Nychem is now fixed for Case Management on 20 November 2006. As to the case between RPT and Nychem, bankruptcy proceedings have been instituted against the two guarantors.
- B12 Dividends
- (a)
 - (i) No dividend has been recommended for the quarter under review
 - (ii) amount per share NIL;
 - (iii) previous corresponding period NIL;
 - (iv) the first and final tax exempt dividend of 2 sen per share for the year ended 31 December 2005 was paid out on 29 June 2006 totaling RM839,958;
 - (v) not applicable
 - (b) the total dividend for the current financial year nil sen per share

B13 Basis of calculation of earnings per share

The basic earnings per share for the current quarter and cumulative year to date are computed as follows:

	3 months ended 30 June		6 months ended 30 June	
	2006	2005	2006	2005
Net profit for the period (RM'000)	1,673	783	2,392	1,199
Weighted average number of ordinary shares of RM1.00 each in issue	41,997,900	41,997,900	41,997,900	41,997,900
Basic earnings per share (sen)	3.98	1.86	5.69	2.85

The diluted earnings per share for the quarter and cumulative year to date are computed as follows :

Net profit for the period (RM'000)	1,673	783	2,392	1,199
Weighted average number of ordinary shares of RM1.00 each in issue after taking into account the effect of share options	42,007,231	41,997,900	42,002,819	41,997,900
Diluted earnings per share (sen)	3.98	1.86	5.69	2.85

B14 Authorisation for issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 August 2006.

By order of the Board
LAM VOON KEAN
Company Secretary
Penang

Date: 24 August 2006

