

KARENSOFT TECHNOLOGY BERHAD
Company No. 457734-T
(Incorporated in Malaysia)

Interim Unaudited Financial Report
31 December 2005
(4th Quarter)

KarenSoft Technology Berhad (457734-T)
Condensed Consolidated Balance Sheet
As at 31 December 2005

| | Note | 31 December 2005 RM'000 | 31 December 2004 RM'000 |
|---|------|----------------------------|----------------------------|
| Plant And Equipment | | 1,811 | 2,155 |
| Goodwill On Consolidation | | 1,070 | 1,298 |
| Development Expenditure | | 2,778 | 3,707 |
| Current Assets | | | |
| Trade and other receivables | | 1,988 | 7,944 |
| Tax refundable | | 51 | 31 |
| Cash and bank balances | | 2,928 | 2,981 |
| | | 4,967 | 10,956 |
| Current Liabilities | | | |
| Trade and other payables | | 1,222 | 410 |
| Borrowings | 25 | 5,362 | 4,577 |
| Taxation | | 7 | 6 |
| | | 6,591 | 4,993 |
| Net Current (Liabilities)/Assets | | -1,624 | 5,963 |
| | | 4,035 | 13,123 |
| Financed by :- | | | |
| Share Capital | | 11,511 | 7,037 |
| Share Premium | | 7,643 | 10,520 |
| Accumulated Loss | | -15,278 | -4,661 |
| Shareholders' Funds | | 3,876 | 12,896 |
| Deferred Taxation | | 41 | 41 |
| Borrowings | 25 | 118 | 186 |
| | | 4,035 | 13,123 |
| Net Assets per share based on RM0.10 per share | | 3.37 sen | 18.33 sen |

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements; in accordance with the FRS134.

KarenSoft Technology Berhad (457734-T)
Condensed Consolidated Income Statements
For The Quarter Ended 31 December 2005

| | | Individual Quarter 3 months ended 31 December | | Cumulative Quarter 12 months ended 31 December | |
|--|------|---|----------------|--|----------------|
| | Note | 2005 RM'000 | 2004 RM'000 | 2005 RM'000 | 2004 RM'000 |
| Revenue | | 188 | 1,543 | 1,254 | 6,147 |
| Expenses excluding finance cost and tax *(Refer note A below) | | -8,260 | -6,208 | -11,451 | -9,877 |
| Other operating income | | 25 | 16 | 56 | 93 |
| Loss from operations | | -8,047 | -4,649 | -10,141 | -3,637 |
| Finance cost | | -117 | -109 | -471 | -292 |
| Loss before taxation | | -8,164 | -4,758 | -10,612 | -3,929 |
| Tax expense | 21 | -2 | 15 | -5 | -1 |
| Net loss for the period / year | | -8,166 | -4,743 | -10,617 | -3,930 |
| Loss per share (sen) : | 27 | | | | |
| - basic | | -10.64 | -6.74 | -11.33 | -3.80 |
| - diluted | | -10.64 | -6.74 | -11.33 | -3.75 |

** Note A :*

| | | | | |
|--|-------|-------|--------|-------|
| Payroll and HR related costs | 302 | 502 | 1,944 | 2,538 |
| Selling & Distribution costs | 120 | 109 | 430 | 272 |
| Depreciation & Amortisation | 256 | 251 | 1,031 | 857 |
| Impairment of development cost | 1,349 | - | 1,349 | - |
| Impairment of goodwill | 135 | - | 135 | - |
| Investment written off | 114 | - | 114 | - |
| Corporate Governance Cost | 25 | 24 | 88 | 93 |
| Allowance for doubtful debts | 5,615 | 5,038 | 5,444 | 5,152 |
| Other operating costs | 344 | 284 | 916 | 965 |
| Expenses excluding finance cost and tax | 8,260 | 6,208 | 11,451 | 9,877 |

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements; in accordance with the FRS134.

KarenSoft Technology Berhad (457734-T)
Condensed Consolidated Statement Of Changes In Equity
For The Quarter Ended 31 December 2005

| | Share capital RM'000 | Share premium RM'000 | Accumulated losses(-) RM'000 | Total RM'000 |
|---|-------------------------|----------------------------|------------------------------------|-----------------|
| At 1 January 2004 | 6,814 | 9,053 | -731 | 15,136 |
| Private placement | 72 | 684 | - | 756 |
| Exercise of ESOS | 151 | 783 | - | 934 |
| Net loss for the year | - | - | -3,930 | -3,930 |
| At 31 December 2004 | 7,037 | 10,520 | -4,661 | 12,896 |
| Private placement | 625 | 1,125 | - | 1,750 |
| Exercise of ESOS | 12 | 68 | - | 80 |
| Bonus issue from share premium accounts | 3,837 | -3,837 | - | - |
| Private placement & bonus issue expenses | - | -233 | - | -233 |
| Net loss for the year | - | - | -10,617 | -10,617 |
| At 31 December 2005 | 11,511 | 7,643 | -15,278 | 3,876 |

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements; in accordance with the FRS134.

KarenSoft Technology Berhad (457734-T)
Condensed Consolidated Cash Flow Statement
For The Quarter Ended 31 December 2005

| | 12 months ended | |
|---|-----------------|-------------|
| | 31 Dec 2005 | 31 Dec 2004 |
| | RM'000 | RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss before tax | -10,612 | -3,929 |
| Adjustments for: | | |
| Depreciation | 446 | 442 |
| Loss on disposal of fixed assets | 23 | - |
| Interest expense | 471 | 261 |
| Interest income | -17 | -63 |
| Impairment of development cost | 1,349 | - |
| Impairment of goodwill on consolidation | 135 | - |
| Amortisation of goodwill on consolidation | 93 | 93 |
| Amortisation of development expenditure | 492 | 322 |
| Operating loss before working capital changes | -7,620 | -2,874 |
| Decrease in trade and other receivables | 5,956 | 294 |
| Increase in trade and other payables | 812 | 42 |
| Cash used in operating activities | -852 | -2,538 |
| Tax paid | -23 | -136 |
| Interest paid | -452 | -232 |
| Interest received | 17 | 63 |
| Additions to development expenditure | -912 | -1,330 |
| Net cash used in operating activities | -2,222 | -4,173 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of plant and equipment | -128 | -265 |
| Proceed from disposal of fixed assets | 2 | - |
| Net cash used in investing activities | -126 | -265 |

| | 12 months ended | |
|--|-----------------------|-----------------------|
| | 31 Dec 2005 RM'000 | 31 Dec 2004 RM'000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Interest paid | -19 | -29 |
| Repayment of hire purchase obligations | -113 | -190 |
| Proceeds from issue of shares (net) | 1,597 | 1,690 |
| Net cash used for financing activities | 1,465 | 1,471 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | -883 | -2,967 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | -1,476 | 1,492 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | (A) -2,359 | -1,475 |

Note:

(A) Cash and cash equivalents at end of financial year comprise the following:

| | 12 months ended | |
|-----------------------------------|-----------------------|-----------------------|
| | 31 Dec 2005 RM'000 | 31 Dec 2004 RM'000 |
| Fixed deposit with licensed banks | 2,915 | 2,868 |
| Cash and bank balances | 13 | 113 |
| Bank overdrafts | -5,287 | -4,456 |
| | -2,359 | -1,475 |

The condensed consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2004 and the accompanying explanatory notes attached to the interim financial statements; in accordance with the FRS134.

KarenSoft Technology Berhad (457734-T)

Notes To The Interim Financial Report

1. Basis Of Preparation

The interim financial report is unaudited and has been prepared in compliance with FRS134, Interim Financial Reporting and the additional disclosures requirement as in Part 7A of the Revised Listing Requirements of Bursa Malaysia Securities Berhad for the Mesdaq Market.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2004

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the financial statements for the year ended 31 December 2004.

2. Audit Report Of Preceding Annual Financial Statements

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

3. Seasonal Or Cyclical Factors

The business of the Group was not affected by any significant seasonal or cyclical factors in the fourth quarter of year 2005.

4. Exceptional and Extraordinary Items

There were no material exceptional and extraordinary items in the period under review.

5. Changes in Estimates

There were no changes in estimates that have had a material effect in the current quarter other than the impairment of development cost as disclosed in the condensed profit and loss accounts.

6. Issuances and repayment of debt and securities

Save as disclosed below, there were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter and financial year to date.

(i) ESOS granted and exercised

(a) On 11/4/2005 135,000 share options were granted and accepted at the option price of RM0.25 per share pursuant to the Company's Employees Share Option Scheme (ESOS).

(b) Exercise of 100,000 and 22,000 new ordinary shares of RM0.10 each at the exercise price of RM0.61 and RM0.87 per share respectively pursuant to the Company's Employees Share Option Scheme (ESOS).

| | No. of Options '000 |
|--|------------------------|
| Options outstanding as at 1 January 2005 | 3,307 |
| Granted and accepted | 135 |
| Exercised | -122 |
| Resigned | -2,247 |
| Options outstanding as at 31 December 2005 | <u>1,073</u> |

(ii) Issuance of shares

Issuance of 6,250,000 new ordinary shares of RM0.10 each (final tranche) by the Company at an issue price of RM0.28 per share on 25 April 2005 pursuant to the private placement.

(iii) Bonus issue

Issuance of 38,368,375 new ordinary shares of RM0.10 each by the Company pursuant to the bonus issue on the basis of 1 bonus share for every 2 existing ordinary shares held on 4 July 2005.

7. Dividend Paid

No dividend was recommended and paid in the current quarter for the financial year ended 31 December 2005.

8. Segment Information

There is no segmental reporting as the Group deems its activities to involve one sector of operation.

Geographical segmental information is also not prepared as the business segment is managed and the products are distributed solely in one principal location namely Malaysia.

9. Revaluation of Property, Plant and Equipment

Not applicable.

10. Material Events subsequent to end of Reporting Period

There were no material events subsequent to the end of the current quarter that have not been reflected in the financial statements for the current quarter.

11. Changes in the composition of the Group

During the financial quarter and financial year to-date, a wholly owned sub-subsidiary, KarenSoft Technology Yangzhou Pte Ltd has submitted the deregistration of the company in Yangzhou, China but pending formal approval from authorities. As such, the existing operation from Yangzhou has been transferred to Guangzhou via KarenSoft China Ventures Sdn Bhd representative office in Guangzhou, province of Guangdong in China known as “Representative Office of KarenSoft China Ventures Sdn Bhd Malaysia in Guangzhou”.

12. Contingent Liability

As at 16 February 2006 (being a date not earlier than 7 days from the date of this announcement), the Group has no material contingent liabilities.

13. Material Litigation

The Group does not have any material litigation, which in the opinion of the Directors, would have a material adverse effect on the financial results of the Group.

14. Related Party Transactions

Except for the rental expense paid to a director, Mr. Chee Chong Hwa for the occupancy of the current office premises at No.3-1-5 and 3-3-5, Lorong Delima 20, 11700 Penang., there were no other related party transactions during the current quarter and financial year to date.

The above transaction was entered in the normal course of business and the terms were established on a negotiated basis.

15. Capital Commitments

There were no capital commitments for the current financial year to-date.

16. Review Of Performance

The Group recorded a revenue and loss before taxation of approximately RM0.188 million and RM8,164 million respectively for the quarter under review.

For the year ended 31 December 2005, the Group recorded a turnover of RM1.254 million compared to last year's corresponding results of RM6.147 million. Consequently, the Group recorded a pretax loss of RM10.612 million compared to last year's corresponding period loss before taxation of RM3.929 million. The lower revenue, impairment of development cost and goodwill, prudent provision for doubtful debts and written off China investment were mainly the reasons attributable to the drop in profitability of the company coupled with poor market demand.

17. Comparison With Preceding Quarter

For the fourth quarter ended 31 December 2005, the Group achieved a turnover of RM0.188 million compared to the RM0.172 million achieved in the third quarter ended 30 September 2005, the turnover was 9% higher. The Group pretax loss has increased by 714% to RM8.164 million from the preceding quarter's loss of RM1.003 million mainly due to reduction in revenue, impairment of development cost, provision for doubtful debts and investment written off.

18. Prospects

The Group has rolled out a new ERP specifically targeted at automotive industry players known as KarenSoft ERP4Auto. The introduction of this new product will assist the automotive industry players to be more efficient and productive in managing their cost with the AFTA pressure. As such, the Group recognized this as an avenue of growth in the coming years.

Notwithstanding, the introduction of ERP4Auto, the Group will continue to market its existing ERP2 and other products to targeted mid-sized and top-tier SMIs in the domestic markets. The Group will also continue to develop niche product specifically customize for targeted industries.

In addition, on 23 August 2005, the Company obtained a treasury license from the Ministry of Finance to provide software product and services as well as other computer related services. This development has opened a new area of opportunity for the Company to be involved in government tender for software solutions. Previously, our marketing effort was confined to the private sector.

The Group will continue to intensify its marketing efforts to seek new customers as well as introduction of new products to improve revenue, continuous bad debts recoverability process, cost reduction exercises and streamlining of processes to improve efficiencies of the operations. Attainment of the ISO 9001:2000 certification on 20 April 2005 is part and parcel of the Group's commitment to ensure our operational and services quality are within the accepted standard.

Barring any unforeseen circumstances, the Group is cautiously optimistic that it will perform better in the coming financial period.

19. Profit forecast

Not applicable as no profit forecast was published.

20. Dividend Payable

No dividend has been declared for the financial year ending 31 December 2005.

21. Tax

| | Individual Quarter 3 months ended 31 December | | Cumulative Quarter 12 months ended 31 December | |
|---|---|----------|--|-----------|
| | 2005 | 2004 | 2005 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax expense | | | | |
| - based on results for the period / year | 2 | - | 5 | 16 |
| - prior year | - | 6 | - | 6 |
| | <u>2</u> | <u>6</u> | <u>5</u> | <u>22</u> |

| | Individual Quarter 3 months ended 31 December | | Cumulative Quarter 12 months ended 31 December | |
|--|---|--------|--|--------|
| | 2005 | 2004 | 2005 | 2004 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Deferred tax expense | | | | |
| - Origination and reversal of temporary differences | - | -16 | - | -16 |
| - prior year | - | -5 | - | -5 |
| | - | -21 | - | -21 |
| | 2 | -15 | 5 | 1 |

The disproportionate tax charge in relation to the results for the period is mainly due to the Company ("KTB") being awarded the Multimedia Super Corridor Status ("MSC") by the Multimedia Development Corporation on 7 August 2002. There is no taxation charge on the business sources of income as the Company was granted a Pioneer Status effective from 30 September 2002, which exempts 100% of the Company's statutory business income from taxation for a period of 5 years, with an option to extend for a further period of another 5 years.

The tax expense of the Group is in respect of interest income.

23. Purchase or Disposal of Quoted Securities

There was no purchase/disposal of quoted securities for the current quarter and financial year to date.

24. Status of corporate proposals

(i) Employee Share Option Scheme of up to 10% of the issued and paid-up share capital of the Company;

(ii) Status of Utilisation of Proceeds

The details of the utilisation of proceeds from the private placement as at 31 December 2005 are as follows:-

| Purpose | As approved by Bursa Securities & SC | Actual Proceeds RM'000 | Actual Utilisation RM'000 | Balance | |
|------------------------|--|------------------------------|---------------------------------|---------|-------|
| | | | | RM'000 | % |
| (i) Working capital | 6,182 | 2,226 | 2,285 | -59 | -2.65 |
| (ii) Expenses and fees | 280 | 280 | 221 | 59 | 21.1 |
| TOTAL | 6,462 | 2,506 | 2,506 | - | |

The difference between indicative gross proceeds approved by Bursa Securities and SC and actual proceeds received from private placement was because of the following:-

- (a) the indicative gross proceeds was based on the issue price of RM0.86 per share as compared to actual issue price of RM1.05 and RM0.28 per share.
- (b) the approved number of new shares to be placed out was 7,513,850 as compared to the 720,000 and 6,250,000 shares placed out respectively in the 1st and final tranche of the private placement exercise.

25. Borrowings

Detailed of Group's bank borrowings as at 31 December 2005 are as follows :-

| | Current RM'000 | Non Current RM'000 |
|-----------------------------|-------------------|-----------------------|
| Secured | | |
| - Bank overdraft | *5,287 | - |
| - Hire purchase obligations | 75 | 118 |
| | <u>5,362</u> | <u>118</u> |

* Secured by the pledging of RM2,915,384 fixed deposit with the licensed commercial banks.

26. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at the date of this report.

27. Earnings Per Share

| | | Individual Quarter 3 months ended 31 December | | Cumulative Quarter 12 months ended 31 December | |
|---|----------|---|--------|--|---------|
| | | 2005 | 2004 | 2005 | 2004 |
| Net loss after tax for the period / year | (RM'000) | -8,166 | -4,743 | -10,617 | -3,930 |
| Basic loss per share: | | | | | |
| Weighted average number of ordinary shares in issue | (‘000) | 76,737 | 70,395 | 93,692 | 103,537 |
| Basic loss per share of RM0.10 each | (sen) | -10.64 | -6.74 | -11.33 | -3.80 |
| Diluted loss per share: | | | | | |
| Weighted average number of ordinary shares in issue | (‘000) | 76,737 | 70,395 | 93,692 | 104,779 |
| Basic loss per share of RM0.10 each | (sen) | -10.64 | -6.74 | -11.33 | -3.75 |

The fully diluted loss per ordinary share is the same as the basic loss per ordinary share as the effects of anti dilution potential ordinary shares are ignored in calculating diluted loss per ordinary share in accordance with the FRS133 on Earnings per Share.

On behalf of the Board,

Chee Chong Hwa, CA(M), CPA
Executive Chairman / CEO