

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**  
*(The interim figures have not been audited)*

**1. Basis of Preparation**

This interim financial report is unaudited and has been prepared in compliance with Financial Reporting Standard (FRS) 134 "Interim Financial Reporting" and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad, and 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 in the preparation of this interim financial report are consistent with those adopted by the Group in the preparation of the annual financial statements for the year ended 31 December 2004.

**2. Qualification of Audit Report of the Preceding Annual Financial Statements**

The auditors' report of the preceding annual financial statements was qualified on the basis that the auditors were unable to obtain necessary information and appropriate evidence with respect to the carrying amount of the exchange realignment arising on consolidation reserve amounting to RM25,160,000 as at 31 December 2004 of which RM25,253,000 was brought forward from the previous year. The directors are in the process of conducting an investigation to determine the completeness and accuracy of this reserve. The directors would then review the results of the investigation and decide on the necessary adjustments to be made to the financial statements.

**3. Seasonality or Cyclicity of Interim Operations**

The business operations of the Group are not affected by any significant seasonal or cyclical factors.

**4. Nature and Amounts of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows That Are Unusual Because of Their Nature, Size or Incidence**

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

**5. Changes in Estimates of Amounts Reported**

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

**6. Issuances, Cancellations, Repurchases, Resale and Repayments of Debt and Equity Securities**

There were no issue, cancellation, repurchases, resale and repayment of debt or equity securities during the current financial year to-date.

**7. Dividends Paid**

The Board of Directors has not recommended the payment of any dividend during the current financial quarter. (31.12.2004: Nil)

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**  
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**8. Segmental Reporting**

The analysis by geographical segments is based on the location of the companies recording the transactions and are as follows:

<b>12 months ended 31 December 2005</b>	<b>Revenue <u>RM'000</u></b>	<b>Profit/(Loss) Before Tax <u>RM'000</u></b>
Malaysia	12,229	(6,210)
Asia Pacific	32,524	(3,038)
Adjustments related to Disposal of XHPL and XCL	-	29,826
	<hr/> 44,753	<hr/> 20,578

Note:-

XHPL : Xiptech Holdings Pte Ltd was a 51% subsidiary of Paxelent Corporation Berhad

XCL : Xiptech Corporation Ltd was a 51% subsidiary of Paxelent Corporation Berhad

On 17 August 2005, Paxelent Corporation Berhad has announced that it has disposed its entire 51% shareholdings in XHPL and 20% in XCL respectively.

**9. Valuation of Property, Plant and Equipment**

Not applicable.

**10. Material Events Subsequent to Interim Period Not Reflected in the Financial Statements**

There were no material events subsequent to the end of current financial quarter that have not been reflected in the financial statements saved for the following disposal by its wholly-owned subsidiary, Measurex Engineering (M) Sdn Bhd which were announced on 23<sup>rd</sup> February 2006:-

- (i) disposal of workshop constructed on a piece of land under Title No. HS (D) 101620, Lot 65117, Mukim of Plentong District of Johor Bahru, Johor and bearing the address of No.12, Jalan Seroja 39, Taman Johor Jaya, 81100 Johor Bahru for a cash consideration of RM 460,700.00; and
- (ii) disposal of workshop constructed on a piece of land under Title No. HS (D) 101621, Lot 65118, Mukim of Plentong District of Johor Bahru, Johor and bearing the address of No.10, Jalan Seroja 39, Taman Johor Jaya, 81100 Johor Bahru for a cash consideration of RM 465,500.00.

The Board of Directors feels that the disposal will bring the necessary cash inflow into the Group instead of being retained as a property investment with meager rental income. The disposal is not expected to have any material impact on the earnings per share and net tangible assets of PCB Group.

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**  
*(The interim figures have not been audited)*

**11. Changes in the Composition of the Group**

There were no changes in the composition of the Group during the current financial quarter statements.

**12. Changes in Contingent Liabilities or Contingent Assets**

There were no contingent liabilities or assets for the Group as at the date of this report, save for the contingent liabilities arising from the pending material litigations as disclosed in Note 23.

**13. Review of Performance of the Group**

The Group recorded lower revenue of RM8.7 million as compared to RM12.2 million in the preceding year corresponding period due to the disposal of its foreign subsidiaries namely Xiptech Holdings Pte Ltd ("XH") and Xiptech Corporation Ltd ("XC"). Both XH and XC have substantial revenue contribution during the preceding year corresponding period. With the said disposal, the materialization of its consolidation reserve has resulted in profit before tax of RM 21.8 million as compared to the loss before tax of RM 20.8 million in the preceding quarter.

**14. Material Changes in the Profit before Taxation Compared With the Immediate Preceding Quarter**

The Group recorded profit before taxation of RM21.8 million as compared to profit before taxation of RM2.9 million for the immediate preceding quarter. The materialization of the consolidation reserve in relation to the disposal of its foreign subsidiaries namely Xiptech Holdings Pte Ltd and Xiptech Corporation Ltd has contributed to the higher profit in the current quarter.

**15. Prospects**

The Management view continued improvement in contribution from e-Services in tandem with the Government's effort to promote e-Services in the public and private sectors and with the disposal of its hard-disk component manufacturing business, the management will concentrate its efforts in realizing the full potential of its e-Services business.

**16. Profit Forecast / Profit Guarantee**

Not applicable.

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**  
(The interim figures have not been audited)

**17. Taxation**

Taxation comprises the following:-

	Current Quarter Ended 31.12.2005	Preceding Year Corresponding Quarter Ended 31.12.2004	Current Year To- date Ended 31.12.2005	Preceding Year Corresponding Year to-date Ended 31.12.2004
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<b>Malaysian</b>				
Estimated tax payable:				
- current	-	14	5	14
- under/(over) provision in prior years	(4)	-	-	-
	<u>(4)</u>	<u>14</u>	<u>5</u>	<u>14</u>
<b>Overseas</b>				
Estimated tax payable:				
- current	-	-	-	-
- under/(over) provision in prior years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>(4)</u>	<u>14</u>	<u>5</u>	<u>14</u>

**18. Sale of Unquoted Investments and/or Properties**

There were no sales of unquoted investments and/or properties during the current financial quarter and financial year-to-date save for the the following:-

- (A) Disposal of the following Unquoted Investments which were announced on 17 August 2005:-
- (i) Disposal of 51,000 Ordinary Shares of S\$1.00 each representing 51% equity interest in Xiptech Holdings Pte Ltd ("XHPL") for a consideration of RM500,000 to be satisfied entirely in cash; and
  - (ii) Disposal of 20 Ordinary Shares of US\$1.00 each representing 20% equity interest in Xiptech Corporation Ltd ("XCL") for a consideration of RM50,000 to be satisfied entirely in cash

The Board of Directors anticipates that the operation of both XHPL and XCL are likely to incur losses in the future as evidence in the first half performance of both the companies. Therefore, the disposals are mainly to enable the Group to reduce its losses and to focus its effort in businesses that generate higher returns to the Group

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

- (B) Disposal of the following property which were announced on 22 June 2005:-

On 22 June 2005, PCB received the duly executed and stamped Sales and Purchase Agreement dated 19 May 2005 between its wholly owned subsidiary, Measurex Engineering (M) Sdn Bhd and Demand Options Sdn Bhd to dispose a factory constructed on a piece of land under Geran 49133, Lot 56858, Daerah Johor Bahru, Mukim Plentong, Johor and having its postal address of No. 28, Jalan Masyhur 5, Kawasan Perindustrian Desa Cemerlang, 81800 Ulu Tiram, Johor for a cash consideration of RM640,000.

The Board of Directors feels that the disposal will bring the necessary cash inflow into the Group instead of being retained as a property investment with meagre rental income. The disposal is not expected to have any material impact on the earnings per share and net tangible assets of PCB Group.

**19. Quoted Investments**

- a) There were no sales nor purchases of quoted securities during the current financial quarter and financial year to date.
- b) Particulars of investment of quoted securities as at 31 December 2005 are as follows:-

	<u><b>RM'000</b></u>
At cost	3,832
At carrying value	200
At market value	200

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**20. Corporate Proposals Announced But Not Completed**

There were no corporate proposals announced but not completed as at the date of this report.

**21. Group Borrowings and Debt Securities**

The Company do not have any Borrowings and/or Debt Securities saved for the corporate guarantee liabilities given to its previous subsidiaries which were liquidated.

**22. Off Balance Sheet Financial Instruments**

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

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

**23. Pending Material Litigations**

There was no new material litigation as at the date of this report, save for the following:

**(a) The Claim by SP Techvance Corporation Sdn Bhd and Seri Platinum (M) Sdn Bhd against Paxelent Corporation Berhad ("the Company")**

**1. Nature of litigation**

On 21 June 2004, SP Techvance Corporation Sdn Bhd and Seri Platinum (M) Sdn Bhd served an Originating Summons (which was filed in the Kuala Lumpur High Court) on the Company's solicitors, Messrs. Cheah Teh & Su with each claiming for inter-alia a sum of RM1 million, general damages and special damages to be assessed and that the Company together with the legal firm, Messrs. Cheng Kiat & Lim, do account to the two plaintiffs all profits (if any) made from the disposal of the rights under the provisional allotment of the 5,737,400 Rights Issue Shares. The Company does not admit liability to these claims and is vigorously defending the same. In opposing these claims, the Company has also raised a counterclaim against SP Techvance Corporation Sdn Bhd and Seri Platinum (M) Sdn Bhd claiming from each of them for inter-alia (i) a sum of RM1 million for breach of contract and (ii) the refund of the sum of RM50,872.50.

**2. The progress to date**

The above matter came up for hearing on 20 August 2004 and was postponed to 21 September 2004 and was again postponed to 21 October 2004 for mention for the plaintiffs to file an affidavit in reply.

On 21 October 2004, the Court further postponed the matter to 2 December 2004 for mention in order for the plaintiffs to file an affidavit in reply. On 2 December 2004, the Court further postponed the matter to 15 February 2005, 22 March 2005 and 20 May 2005, to await the outcome of an application filed by Messrs. Cheng Kiat & Lim to strike out the suit insofar as against they are concerned. The matter is now fixed for further mention on 24 April 2006.

**3. Opinion of the probable outcome**

The solicitors for the Company are of the opinion that the case ought to be tried by way of a full trial and that the mode of Originating Summons utilised by SP Techvance Corporation Sdn Bhd and Seri Platinum (M) Sdn Bhd is unsuitable. In any event, the solicitors for the Company are of the opinion that the Company has a defence on the merits.

**4. Potential Loss**

- (i) RM2 million; and
- (ii) general damages and special damages to be assessed.

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

The general and special damages are subject to the evidence be adduced by the parties and at this time, it is too early to give an estimate.

**(b) The Claim by Konsortium Multimedia Swasta Sdn Bhd ("KOMMS") against PDX.com Sdn Bhd ("PDX")**

**1. Nature of litigation**

KOMMS (which became a sub-subsidiary of the Company on 9 July 2004 ) had via Messrs. Cheah Teh & Su obtained an Ex-Parte Order ("Order") dated 5 April 2004 from the High Court of Malaya (Civil Division) which states, inter-alia, that:

- (i) PDX, its servants and/or agents be restrained from disconnecting, interfering, disrupting, adversely affecting a breakdown or prevention of the transmission and retrieval of data and the availability of Gateway Provider's ("GP") Systems to KOMMS in relation to all or any of KOMMS' sites pursuant to a service agreement dated 23 May 2000 between KOMMS and PDX ("Service Agreement"); and
- (ii) PDX, its servants and/or agents shall cause the GP's System to be available to KOMMS at all material times pursuant to the Service Agreement in respect of any KOMMS's sites where the transmission and retrieval of data and the availability of GP's System may have been disconnected or disrupted, including during the period before and between the date of filing of the writ until the date of Order sought under this application for twenty one (21) days from the date of the Order;
- (iii) the application to be heard inter-partes on 20 April 2004, before the expiry of the twenty-one (21) days from the date of the Order; and
- (iv) the costs of KOMMS' ex-parte application is to be borne by PDX.

**2. The progress to date**

The hearing on 20 April 2004 was postponed to 16 June 2004 at the request of PDX's counsel and that the Court granted on an ad interim holding over the Order pending the final disposal of the application. On 16 June 2004, the hearing was adjourned to 4 August 2004. The hearing on 4 August 2004 fixed the matter for oral clarification on 1 October 2004 and both parties were directed to file in their respective submission.

During the hearing on 1 October 2004 which was fixed for oral clarification, the Learned Judicial Commissioner granted the injunctions sought in KOMMS's application with costs and the matter was fixed for case management on 12 October 2004.

In the meanwhile, on 7 October 2004, PDX filed an appeal to the Court of Appeal of Malaysia against the Learned Judicial Commissioner's decision granting the injunctions sought by KOMMS. PDX's solicitors have since written to the High

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

Court of Malaya applying for the notes of evidence and grounds of judgment in order to prepare the record of appeal.

On 12 October 2004, the case management was adjourned to 8 December 2004. On 8 December 2004, the case management was adjourned to 17 March 2005. On 17 March 2005, the case management was adjourned to 20 July 2005. On 20 July 2005, the Court did not call the matter up for case management.

On 25 October 2004, the solicitors for PDX served on KOMMS's solicitors a sealed copy of the Summons in Chambers applying for Summary Judgment against KOMMS for the amount of RM1,231,680.00 and all sums allegedly outstanding from KOMMS under a Photocopy Services Agreement dated 18 June 2003. KOMMS had earlier through its solicitors lodged a Counterclaim applying for a declaration that the aforesaid Photocopy Services Agreement is void. KOMMS is vigorously challenging the claim by PDX and has filed an affidavit in reply to show cause why summary judgment ought not to be granted. PDX has since filed another affidavit to reply to the affidavit in reply filed by KOMMS. KOMMS will in due course file another affidavit in reply to the latest affidavit filed by PDX.

The said Summons in Chambers was originally fixed for hearing on 6 December 2004. On 6 December 2004, the hearing was adjourned to 21 March 2005 to allow the filing of further affidavits. On 21 March 2005, the hearing was adjourned to 27 June 2005 pending the completion of filing of affidavits. On 27 June 2005, the Deputy Registrar directed the Counsel to file written submissions and fixed the matter for mention on 29 August 2005. The matter was adjourned to 13 September 2005 in order for KOMMS to file written submission in reply. On 13 September 2005, 27 September 2005 and 5 October 2005, the matter was adjourned pending the exchange and filing of written submission.

On 21 October 2005, the matter came up before the Deputy Registrar and PDX's said application was dismissed with costs to be paid to KOMMS. The solicitors for KOMMS applied for the costs to be taxed and paid forwith. The Deputy Registrar adjourned the submission on costs to be paid forwith to 31 October 2005 for decision. Meanwhile solicitors for PDX have filed an appeal to Judge in Chambers against the decision of the Deputy Registrar. The appeal has not been fixed for hearing.

On 31 October 2005, the Deputy Registrar refused KOMMS's application for costs be taxed and paid forwith. In this regards the solicitors for KOMMS had filed an appeal to Judge in Chambers.

The matter is fixed for mention on 16 March 2006.

**3. Opinion of the probable outcome**

The solicitors for KOMMS are of the opinion that the case ought to be tried by way of a full trial and that PDX's application for summary judgment can be successfully opposed. KOMMS has a defence on the merits against PDX's counterclaim.



**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

**4. Potential Loss**

In the Counterclaim by PDX, PDX claims for inter-alia:-

- (i) RM659,633.50 purportedly due as at 5 May 2004 from KOMMS;
- (ii) all outstanding purportedly due from 6 May 2004 from KOMMS;
- (iii) damages to be assessed;
- (iv) aggravated and exemplary damages to be assessed;
- (v) interest; and
- (vi) costs.

Save for the liquidated sum in (i), the other heads of claim are subject to the evidence adduced by PDX and it is too early to now give an estimate of the sums thereof.

**(c) The Claim by Malayan Banking Berhad ("MBB") against Paxelent Corporation Berhad ("the Company")**

**1. Nature of litigation**

On 2 March 2005, MBB obtained an order from the High Court of Malaya to register the judgment of the High Court of the Republic of Singapore dated 19 April 2002 as a judgment of the High Court of Malaya.

The registered judgment was obtained by MBB against the Company for:-

- (a) US\$2,935,250.24;
- (b) US\$115,518.31;
- (c) US\$243,625.12;
- (d) S\$1,609,688.51;
- (e) S\$256,866.81;
- (f) S\$133,603.78;
- (g) costs of S\$16,000.00.

The Company had on 22 April 2005 applied to set aside the aforesaid registration.

Pending the disposal of The Company's application for setting aside, MBB is not entitled to execute on the registered judgment.

**2. The progress to date**

The Company's application for setting aside has now been fixed for decision and clarification on 27 March 2006.

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

**3. Opinion of the probable outcome**

The Company has grounds to apply for the setting aside of the registration.

**4. Potential Loss**

The Company's maximum loss, if its application for setting aside is unsuccessful, would be the judgment sum of the registered judgment and the costs of the application.

**(d) Writ of Summons Served on Paxelent Corporation Berhad ("PCB" or "the Company") by Commerce International Merchant Bankers Berhad ("CIMB")**

**1. Nature of litigation**

CIMB claimed against the Company for the sum of RM511,318.13 (being outstanding fees under an agreement) with interests thereon and costs.

The Company is resisting the claim and counterclaimed for damages for negligence and breach of the said agreement.

**2. The progress to date**

The Writ and Statement of Claim was served on the Company on 20 October 2005 and the Company entered its appearance on 28 October 2005 and filed its Defence and Counterclaim on 10 November 2005.

**3. Opinions of the probable outcome**

The solicitors for the Company are of the view that the Company has a meritorious defence and counterclaim.

**4. Potential Loss**

There is no material financial and operational impact on PCB Group as the said sum claimed in respect of the writ of summons has been provided for in the company's accounts. The expected loss, if any, would be the legal costs and other relief as sought under the writ of summons.

**(e) The Claim by United Overseas Bank Limited ("UOB") against Paxelent Corporation Berhad ("the Company")**

**1. Nature of litigation**

UOB claimed against the Company based on a guarantee for:-

- (a) the sum of USD 2,574,877.49 with interest at the rate of 1.75% per annum above SIBOR from 16 October 2001 until date of full settlement;

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

- (b) the sum of SGD 543,506.75 with interest at the rate of 1.25% per annum above cost of fund from 16 October 2001 until date of full settlement;
- (c) interest of 2% per annum in addition to the prescribed rates on all overdue amounts from 16 October 2001 until date of full settlement; and
- (d) cost.

**2. The progress to date**

The Court had on 6 February 2006 dismissed UOB's action with liberty to file afresh and with order as to costs since the matter has not been amicably settled.

**3. Opinions of the probable outcome**

The above proceedings have concluded but UOB may file a fresh suit.

**4. Potential Loss**

There is no material financial and operational impact on PCB Group as the said sum claimed has been provided for in the company's accounts. The expected loss, if any, would be the legal costs.

**24. Dividend**

The Directors have not recommended any dividend for the current financial quarter ended 31 December 2005. (Nil for financial quarter ended 31 December 2004).

**25. Earnings Per Share**

	<b>Current Year Quarter Ended</b>	<b>Preceding Year Quarter Ended</b>	<b>Current Year to date Ended</b>	<b>Preceding Year to date Ended</b>
	<b>31.12.2005 RM'000</b>	<b>31.12.2004 RM'000</b>	<b>31.12.2005 RM'000</b>	<b>31.12.2004 RM'000</b>
<b>a) Basic Earnings Per Share</b>				
Net profit/(loss) for the period	21,878	(15,300)	19,490	(61,031)
Weighted average number of ordinary shares	121,226	121,226	121,226	100,858
Basic earning/(loss) per share (sen)	18.05	(12.62)	16.08	(60.40)
<b>b) Diluted Earnings Per Share</b>				
Net profit/(loss) for the period	21,878	(15,300)	19,490	(61,031)
After tax effect of notional interest savings	578	578	2,313	2,313
Net profit/(loss) attributable to ordinary shareholders (diluted)	22,456	(14,722)	21,803	(58,718)

**PAXELEN CORPORATION BERHAD (Company No. 391514-K)**  
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT**

*(The interim figures have not been audited)*

Weighted average number of ordinary shares	121,226	121,226	121,226	100,858
Effect of warrants and employee share option scheme	53,549	53,549	53,549	53,549
Weighted average number of ordinary shares (diluted)	174,775	174,775	174,775	154,407
Diluted earnings/(loss) per share (sen)	12.84	(8.42)	12.47	(38.03)

By Order of the Board  
**PAXELEN CORPORATION BERHAD**

**ANWARDI BIN DATUK JAMIL**  
Executive Director  
Dated : 28 February 2006