

**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 2005.

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 2005, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements.

**2. Change in Accounting Policies**

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

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

**3. 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. Further to this qualification, the group has recognized in its income statement for the year ended 31 December 2005 a gain of RM29,823,000 arising from the disposal of its foreign subsidiaries namely Xiptech Holdings Pte Ltd ("XHPL") and Xiptech Corporation Ltd ("XCL"). Included in this gain is an amount of RM 25,160,000 representing the cumulative amount of exchange realignment reserve arising on consolidation brought forward from the previous year.

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

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

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**5. 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.

**6. 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.

**7. 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.

**8. Dividends Paid**

The Board of Directors has not recommended the payment of any dividend during the current financial quarter. (31.03.2005: Nil)

**9. Segmental Reporting**

With the disposal of Xiptech Holdings Pte Ltd ("XHPL") and Xiptech Corporation Ltd ("XCL"), the Group has concentrated its operations in Malaysia.

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

Not applicable.

**11. 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.

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

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

**13. 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.

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**14. Review of Performance of the Group**

The Group recorded lower revenue of RM3.2 million as compared to RM11.7 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 and this has resulted in a higher loss before tax of RM 1.7 million as compared to RM1.4 million in the preceding year corresponding period.

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

The Group recorded a loss before tax of RM1.7 million as compared to profit before tax of RM 21.8 million for the immediate preceding quarter and this was mainly due to the materialization of the consolidation reserve in relation to the disposal of its foreign subsidiaries during the immediate preceding quarter.

**16. 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.

**17. Profit Forecast / Profit Guarantee**

Not applicable.

**18. Taxation**

Taxation comprises the following:-

	Current Quarter Ended 31.3.2006	Preceding Year Corresponding Quarter Ended 31.3.2005	Current Year To- date Ended 31.3.2006	Preceding Year Corresponding Year to-date Ended 31.3.2005
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<b>Malaysian</b>				
Estimated tax payable:				
- current	1	1	1	1
- under/(over) provision in prior years	-	-	-	-
<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

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**19. 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 by its wholly-owned subsidiary, Measurex Engineering (M) Sdn Bhd which was 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.

**20. 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 March 2006 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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**21. Corporate Proposals Announced But Not Completed**

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

**22. 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.

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**23. Off Balance Sheet Financial Instruments**

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

**24. Pending Material Litigations**

There were 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**

Further to the last quarter announcement, on 24<sup>th</sup> April 2006, the High Court Judge allowed the Company's application to convert the Originating Summons into a Writ and further directed the Plaintiff to file their Statement of Claim within 30 days and the Defendants to file their respective Defences within 30 days thereafter. The Court further struck out the Plaintiff's application to cross-examine the 2<sup>nd</sup> Defendant's, Messrs. Cheng Kiat & Lim witnesses with costs in the cause.

**3. Opinion of the probable outcome**

The solicitors for the Company are of the opinion that the Company has a defence on the merits to this claim.

**4. Potential Loss**

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

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.

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**(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**

Further to the last quarter announcement, on 20<sup>th</sup> March 2006, the Deputy Registrar High Court Kuala Lumpur called up the case for mention and fixed the respective appeals by PDX and KOMMS for hearing before the learned Judicial Commissioner on 26 June 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.

**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;

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- (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.

**2. The progress to date**

On 31<sup>st</sup> March 2006, the learned High Court Judge set aside the Order dated 23.2005 for the registration of the Judgment dated 19<sup>th</sup> April 2002 (granted by the High Court of the Republic of Singapore in Suit No. 412/2000/V) with liberty to MBB to file afresh and fixed the costs at RM 1,500.00 to be paid by MBB to the Company.

**3. Opinion of the probable outcome**

The Order for the registration of the Judgment has already been set aside.

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**4. Potential Loss**

As the Company has succeeded in setting aside the registration of the Judgment, there is no loss suffered by the Company in the proceedings.

**(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.

On 11<sup>th</sup> May 2006, CIMB applied for summary judgment against the Company for the sum of RM 511,318.13, with interests thereon and costs.

The application for summary judgment has not been fixed for hearing yet.

**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**

The company potential loss is as per CIMB's claim. However, 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.

**(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;



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- (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. The parties are in negotiations for an amicable settlement.

**4. Potential Loss**

The company potential loss is as per UOB's claim. However, 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.

**25. Dividend**

The Directors have not recommended any dividend for the current financial quarter ended 31 March 2006. (Nil for financial quarter ended 31 March 2005).

**26. 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>31.3.2003 RM'000</b>	<b>31.3.2005 RM'000</b>	<b>31.3.2006 RM'000</b>	<b>31.3.2005 RM'000</b>
<b>a) Basic Earnings Per Share</b>				
Net profit/(loss) for the period	(1,700)	(1,181)	(1,700)	(1,181)
Weighted average number of ordinary shares	121,226	121,226	121,226	121,226
Basic earning/(loss) per share (sen)	(1.40)	(0.97)	(1.40)	(0.97)
<b>b) Diluted Earnings Per Share</b>				
Net profit/(loss) for the period	(1,700)	(1,181)	(1,700)	(1,181)

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After tax effect of notional interest savings	578	578	578	578
Net profit/ (loss) attributable to ordinary shareholders (diluted)	(1,122)	(603)	(1,122)	(603)
Weighted average number of ordinary shares	121,226	121,226	121,226	121,226
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	174,775
Diluted earnings/ (loss) per share (sen)	(0.64)	(0.34)	(0.64)	(0.34)

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

**ANWARDI BIN DATUK JAMIL**

Executive Director

Dated : 30 May 2006