11. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

Viztel Solutions
www.viztel.com
Making the World Smaller

Registered Office:
Level 62, Tower 2
P.O. Box 49
Petronas Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur

22 June 2004

The Shareholders

Viztel Solutions Berhad ("Viztel" or "Company")

Dear Sir/Madam

On behalf of the Board of Directors of Viztel, I report that after making due enquiries in relation to the interval between 31 December 2003, being the date to which the last audited financial statements of the Company and its subsidiary companies have been made up, and the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:

(a) The business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;

(b) In the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;

(c) The current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) No contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies;

(e) The Company and its subsidiary companies have no default or any known event that would give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which they are aware of; and

(f) Save as disclosed in the Accountants' Report as set out in Section 12 of this Prospectus, there have been no changes to the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors of
Viztel Solutions Berhad

Abdul Farish Bin Abd Rashid
Non-Independent Non-Executive Chairman

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ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus to be dated 30 June 2004)

Date: 18 June 2004

The Board of Directors
Viztel Solutions Berhad
Level 62, Tower 2
P. O. Box 49
Petronas Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur

Dear Sirs,

1.0 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 30 June 2004 in connection with the issue of 15,000,000 new ordinary shares of RM0.10 each of Viztel Solutions Berhad ("VSB" or "the Company") at an issue price of RM0.35 per share by way of private placement and public issue payable in full upon application with the following schemes:

(i) issuance of 132,450 Redeemable Convertible Preference Shares ("RCPS"), 'Series C' by the Company to several subscribers at an issue price of approximately RM7.55 per share.

(ii) conversion of preferential cumulative dividends of RM349,190 due to RCPS, 'Series B' into 46,250 new ordinary shares of RM1.00 each in the Company at the conversion price of RM7.55 per share;

(iii) a bonus issue of 2,337,568 new ordinary shares of RM1.00 each in VSB to the shareholders of VSB on the basis of approximately 1.41 new ordinary shares of RM1.00 each in VSB for every one (1) ordinary share of RM1.00 each held in VSB via the capitalisation of RM2,337,568 from the share premium account of the Company after the above events;

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1.0 INTRODUCTION (CONTD.)

(v) upon completion of the bonus issue, to undertake a subdivision of every one (1) ordinary share of RM1.00 each in VSB into ten (10) new ordinary shares of RM0.10 each in VSB;

(vi) in conjunction with the listing of VSB on the Malaysian Exchange of Securities Dealing & Automated Quotation ("MESDAQ") Market, VSB will implement a public issue of 15,000,000 new VSB ordinary shares at an issue price of RM0.35 per share payable in full upon application;

(vii) to establish an Employee Share Option Scheme ("ESOS") of up to 25% of the issued and paid-up share capital of the Company after the public issue comprising 13,750,000 ESOS Options for the benefit of the Directors and eligible employees of the VSB Group upon listing of the Company on the MESDAQ Market; and

(viii) admission to the Official List of the Bursa Malaysia Securities Berhad and the listing of and quotation for VSB's entire enlarged issued and paid-up share capital of RM6,875,000 comprising 68,750,000 VSB shares of RM0.10 each on the MESDAQ Market.

The above shall collectively be referred to as 'the Scheme'.

2.0 GENERAL INFORMATION

2.1 The Company - Viztel Solutions Berhad ("VSB")

The Company was incorporated in Malaysia under the Companies Act, 1965 on 22 July 1999 under the name of Genuine Vantage Sdn. Bhd. and was later renamed as Viztel Solutions Sdn. Bhd. on 14 October 1999. The Company was converted to a public company on 28 June 2003.

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2.0 GENERAL INFORMATION (CONTD.)

2.2 Share Capital

As at 31 December 2003, the Company's authorised share capital was RM10,000,000 divided into 9,000,000 ordinary shares of RM1.00 each and 1,000,000 preference shares of RM1.00 each. The issued and paid-up capital was RM1,396,232 comprising 867,661 ordinary shares of RM1.00 each and 528,571 preference shares of RM1.00 each. These shares are held by the following companies/persons:-

		No. of shares	%
Ordinary shares			
(a)	Lau Kin Wai	108,568	12.5
(b)	Pang Hao Chen	108,567	12.5
(c)	Chong Kam Hoe	108,568	12.5
(d)	Ng Kok Thye	39,531	4.6
(e)	Positive Force Sdn. Bhd.	245,000	28.2
(f)	SJ Asset Management Sdn. Bhd.	70,000	8.1
(g)	Yeh Chi Otto, Fung	37,926	4.4
(h)	Wan Chi, Au-Yeung	22,261	2.6
(i)	Chi Chiu Philip, Yue	834	0.1
(j)	Yung, Cheung	418	0.0
(k)	Techpacific.com (BVI) Investment Ltd.	63,561	7.3
(l)	Hui Wan Yeen	19,766	2.3
(m)	Mayban Venture Capital Company Sdn. Bhd.	42,661	4.9
		867,661	100.0
Redeemable Convertible Preference Shares ("RCPS")			
(a)	Nirvana Capital Ltd. ('Series A')	175,000	33.1
(b)	Mayban Venture Capital Company Sdn. Bhd. ('Series B')	353,571	66.9
		528,571	100.0

Note: Further details of the redeemable convertible preference shares are set out in Note J of this report.

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2.0 GENERAL INFORMATION (CONTD.)

2.3 Principal Activities and Subsidiary Companies

The principal activities of the Company are the research and development and marketing of computer software and voice technology and the provision of consultancy services related to computer and voice technology.

The details of the subsidiary companies as at 31 December 2003 are as follows:-

Name of Companies	Principal Activities	Date and Place of Incorporation	Issued and Fully Paid Share Capital	Equity Interest %
Logilabs Sdn. Bhd. ("LSB")	Authorised value-added distributor for "ASUS" notebooks and provision of value-added telecommunication services	22/3/2000 Malaysia	RM1,000	100
Viztel Solutions (S) Pte. Ltd. ("VSSPL")	Service provider for telecommunications technologies	19/5/2000 Singapore	SGD190,002	100
Viztel Solutions (HK) Limited ("VSHKL")	Development and provision of wireless and voice technology enabling solutions and applications	9/8/2000 Hong Kong	HKD1,800,000	100
Picktips.com Ltd. ("PL")	Investment holding	14/3/2000 British Virgin Islands	USD1,388.91	100
Subsidiary company of Picktips.com Ltd.				
Moliba Technology Limited ("MTL")	Development and application of wireless and voice technology enabling solutions and application	22/11/1999 Hong Kong	HKD50,758.85	100

VSB and its subsidiary companies are regarded as VSB Group hereafter.

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2.0 GENERAL INFORMATION (CONTD.)

2.4 Proposed Flotation Scheme

The issued and paid-up ordinary share capital of VSB will increase from 867,661 ordinary shares of RM1.00 each to 68,750,000 ordinary shares of RM0.10 each analysed as follows:-

Issued and paid-up share capital	Number of shares	Denomination	RM
As at 31 December 2003	867,661	RM 1.00	867,661
After additional issuance and conversion of RCPS *	1,662,432	RM 1.00	1,662,432
After bonus issue	4,000,000	RM 1.00	4,000,000
After share split and public issue	55,000,000	RM 0.10	5,500,000
After issuance of shares under the Employee Share Option Scheme ("ESOS")	68,750,000	RM 0.10	6,875,000

* This includes the conversion of existing RCPS, 'Series A' and 'Series B' into 528,571 ordinary shares of RM1.00 each, issuance and conversion of 132,450 RCPS, 'Series C' into 132,450 ordinary shares of RM1.00 each, issuance of 87,500 ordinary shares of RM1.00 each to the employees to be implemented prior to the listing, and the issuance of 46,250 new ordinary shares of RM1.00 each pursuant to the conversion of preferential cumulative dividends of RM349,190 due to RCPS, 'Series B'.

3.0 BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This Report is based on the consolidated audited financial statements of VSB Group which have been prepared in accordance with applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board ("MASB") and is presented on a basis consistent with the accounting policies normally adopted by the VSB Group.

4.0 AUDITORS

We have acted as auditors of VSB for the financial years 2001, 2002 and 2003 under review. For the financial period 2000, the financial statements of VSB were audited by another firm of auditors. The financial statements for LSB, VSSPL, VSHKL, PL and MTL for the financial periods/years under review were audited by other firms of auditors. The auditors' reports for the financial statements of all the above mentioned companies for the periods/years under review were issued without qualification and/or emphasis of matter.

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5.0 SUMMARISED INCOME STATEMENT

5.1 VSB Group

	Period/year ended 31 December			
	2000	2001	2002	2003
	RM	RM	RM	RM
Revenue	192,295	2,174,902	2,233,550	4,612,951
Cost of sales	(304,136)	(775,310)	(1,236,149)	(1,705,378)
Gross (loss) / profit	(111,841)	1,399,592	997,401	2,907,573
Other operating income	36,095	37,702	-	45,400
Marketing and distribution expenses	-	-	-	(15,784)
Administrative and other expenses	(904,916)	(1,484,283)	(486,748)	(1,143,487)
(Loss) / profit before finance costs, development costs, depreciation and taxation	(980,662)	(46,989)	510,653	1,793,702
Depreciation	(29,025)	(46,480)	(55,833)	(215,441)
Charging out of deferred development costs	-	(100,553)	-	-
Finance costs	(1,626)	(211,347)	(249,111)	(395,055)
(Loss) / profit before taxation	(1,011,313)	(405,369)	205,709	1,183,206
Taxation	-	(35,701)	-	(17,750)
(Loss) / profit after taxation	(1,011,313)	(441,070)	205,709	1,165,456
No. of ordinary shares	700,000	825,000	825,000	867,661
(Loss) / earnings per share	(1.44)	(0.53)	0.25	1.34
Effective tax rate	N/A	(9%)	N/A	1.5%

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5.0 SUMMARISED INCOME STATEMENT (CONT'D.)

5.1 VSB Group (Cont'd.)

Notes:-

(1) In financial period 31 December 2000, only VSB commenced business operations whereas the subsidiary companies were dormant. As such, the revenue achieved during the period was lower in comparison to other years.

In financial year ended 31 December 2001, revenue improved as VSB was able to secure more projects, whereas VSHKL commenced business operations during the financial year.

In financial year ended 31 December 2002, the Group's revenue further improved as VSB was able to secure more projects. However, VSSPL and VSHKL became dormant during the year.

In financial year ended 31 December 2003, the Group registered significant improvement in turnover. During the year, VSB was able to secure more contracts in the selling of T-Cubes products.

(2) The substantial decrease in administrative and other expenses in financial year ended 31 December 2002 was mainly due to rationalisation of the Group's business operations. VSSPL and VSHKL became dormant during the year. This resulted in cost savings such as lower staff costs and office rental. In financial year ended 31 December 2003, VSB and LSB increased the level of operations and this has resulted in increase in administration and other expenses incurred particularly on staff costs, office rental and sales commission.

(3) The interest expense incurred in financial years ended 31 December 2001 and 2002 arose from interest incurred on a secured loan of USD400,000 obtained from Techpacific Capital Limited (a subsidiary company of one of VSB's corporate shareholders). Interest was charged at a rate of 1% per month. The increase in interest expense in the financial year ended 31 December 2003 was mainly attributable to higher preferential cumulative dividends accrued for the year as a result of the issuance of additional redeemable convertible preference shares.

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5.0 SUMMARISED INCOME STATEMENT (CONTD.)

5.1 VSB Group (Contd.)

(4) There was no tax charge in the financial period ended 31 December 2000 as VSB is a Multimedia Super Corridor (MSC) status company and has been granted Pioneer Status, which exempts VSB from tax for certain approved business income for a 5 year period commencing 24 April 2000 and due for review in 2005. The other companies in the Group had no chargeable income or suffered losses in financial period/years under review. Accordingly, there was no tax expense.

The tax charge for the year ended 31 December 2001 was in respect of the provision of deferred taxation in VSHKL. For the financial year ended 31 December 2003, the tax charge arose from chargeable income from rental income and sales commission received by VSB.

(5) There were no extraordinary items in the relevant years under review.

(6) The (loss) / earnings per share was calculated based on the (loss) / profit after taxation and on the number of ordinary shares in issue in the relevant years under review.

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5.0 SUMMARISED INCOME STATEMENT (CONTD.)

5.2 VSB (Company Level)

	Period/year ended 31 December			
	2000	2001	2002	2003
	RM	RM	RM	RM
Revenue	192,295	1,545,167	2,138,591	3,717,999
Cost of sales	(116,963)	(767,439)	(1,143,456)	(962,272)
Gross profit	75,332	777,728	995,135	2,755,727
Other operating income	35,807	37,537	6,109	63,382
Administrative and other expenses	(669,101)	(1,655,856)	(1,910,906)	(995,819)
(Loss) / profit before finance costs, development costs, depreciation and taxation	(557,962)	(840,591)	(909,662)	1,823,290
Depreciation	(10,541)	(36,823)	(42,574)	(165,901)
Charging out of deferred development costs	-	(100,553)	-	-
Finance costs	(1,461)	(211,347)	(249,111)	(395,055)
Loss/ profit before taxation	(569,964)	(1,189,314)	(1,201,347)	1,262,334
Taxation	-	-	-	(17,750)
(Loss) / profit after taxation	(569,964)	(1,189,314)	(1,201,347)	1,244,584
No. of ordinary shares	700,000	825,000	825,000	867,661
(Loss) / earnings per share	(0.81)	(1.44)	(1.46)	1.43
Effective tax rate	N/A	N/A	N/A	1.4%

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5.0 SUMMARISED INCOME STATEMENT (CONTD.)

5.2 VSB (Company Level) (Contd.)

Notes:-

(1) The revenue registered for the financial period ended 31 December 2000 was significantly lower as compared to the subsequent years as the Company commenced business operations during the period and had only managed to secure a project for the period.

In financial year ended 31 December 2001, the Company ventured into the distribution of notebooks and this has contributed to the increase in revenue. Furthermore increase in revenue in financial year ended 31 December 2001 and 2002 was due to more contracts were secured, both in Malaysia and overseas.

In financial year ended 31 December 2003, the Company registered significant improvement in turnover as the Company was able to secure more contracts in the selling of T-Cubes products.

(2) The increase in administrative and other expenses for the years ended 31 December 2001 and 2002 was mainly due to the provision for diminution in value of the Company's investments in subsidiary companies of RM439,167 and RM1,294,885 in years ended 31 December 2001 and 2002 respectively. In addition, the Company provided doubtful debts in relation to its trade debts of RM200,000 and amount due from its subsidiary companies of RM152,456 in the financial years ended 31 December 2001 and 2002 respectively. The provision for diminution in value and provision for doubtful debts for both years was mitigated by the cost savings arising from the rationalisation of business operations as stated in paragraph 5.1(2).

Decline in administrative and other expenses in the financial year ended 31 December 2003 was attributable to lower provision for diminution of investment as compared to the provision made in financial year ended 31 December 2002. The decrease in administrative and other expenses was mitigated by the increase in staff costs, office rental and sales commission.

(3) The charge out of the deferred development costs in financial year ended 31 December 2001 was in relation to the completion of a project undertaken by the Company in that year.

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5.0 SUMMARISED INCOME STATEMENT (CONTD.)

5.2 VSB (Company Level) (Contd.)

Notes:- (contd.)

(4) There was no tax charge in the relevant periods under review as VSB is a Multimedia Super Corridor (MSC) status company and has been granted Pioneer Status, which exempts VSB from tax for certain approved business income for a 5 year period commencing 24 April 2000 and due for review in 2005.

The tax charge was in respect of certain chargeable income namely, rental income and sales commission received by the Company for the financial year ended 31 December 2003.

(5) There were no extraordinary items in the relevant years under review.

(6) The (loss) / earning per share was calculated based on the (loss) / profit after taxation and on the number of ordinary shares in issue in the relevant years under review.

6.0 DIVIDENDS, BONUS ISSUE AND RIGHTS ISSUE

6.1 Dividend

No dividend was paid or declared by VSB, LSB, VSSPL, VSHKL, PL and MTL for the relevant period/years under review.

6.2 Bonus Issue

There was only one bonus issue undertaken by VSB Group during the financial period/years under review, details of which are as follows:-

Company	Financial Year	No. of Issued and Paid-Up Capital	Basis of Bonus Issue	Resultant No. of Issued and Paid-Up Capital
VSB	31-Dec-2000	150,000	Eleven new shares for every three existing shares held	700,000

6.3 Rights Issue

During the financial year ended 31 December 2003, the issued and paid-up share capital of the Company was increased from RM825,000 to RM867,661 by the issue of a renounceable rights issue of 42,661 new ordinary shares of RM1.00 each at RM7.55 per share to all holders of ordinary and preference shares of the Company. The new ordinary shares issued, rank pari pasu in all respects with the existing ordinary shares of the Company except they shall not be entitled to any dividend or distribution which may be declared or paid prior to the date of allotment.

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7.0 SUMMARISED BALANCE SHEETS

The summarised consolidated balance sheets of VSB Group based on the modified audited financial statements for the relevant years under review are set out below. The audited balance sheets have been modified to comply with the requirements of applicable Approved Accounting Standards in Malaysia.

7.1 VSB Group

	Period / year ended 31 December			
	2000	2001	2002	2003
	RM	RM	RM	RM
Plant and equipment	1,068,562	714,786	497,326	1,041,518
Investments	190,000	-	-	-
Deferred development costs	1,289,339	4,283,380	5,065,715	5,301,627
Negative goodwill	-	(89,427)	(89,427)	(89,427)
	2,547,901	4,908,739	5,473,614	6,253,718
Current assets	368,015	850,914	2,245,737	4,168,977
Current liabilities	288,693	1,805,978	3,734,085	6,739,974
Net current assets/(liabilities)	79,322	(955,064)	(1,488,348)	(2,570,997)
	2,627,223	3,953,675	3,985,266	3,682,721
FINANCED BY:				
Share capital	700,000	825,000	825,000	867,661
Share premium	4,000	4,000	4,000	283,430
Exchange translation reserve	(307)	(46,571)	(41,363)	(32,311)
Accumulated losses	(1,076,472)	(1,512,383)	(1,306,674)	(141,218)
	(372,779)	(729,954)	(519,037)	977,562
Minority interest	2	2	2	-
	(372,777)	(729,952)	(519,035)	977,562
Long term borrowings	3,000,000	4,647,922	4,468,603	2,669,461
Deferred taxation	-	35,705	35,698	35,698
	2,627,223	3,953,675	3,985,266	3,682,721

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7.0 SUMMARISED BALANCE SHEETS (CONTD.)

7.1 VSB Group (Contd.)

Notes:-

(1) The consolidated balance sheet of VSB Group as at 31 December 2000 set out above, had been adjusted to write off pre-operating expenses previously capitalised in accordance with MASB 1, Presentation of Financial Statements.

(2) The consolidated balance sheets of VSB Group for the relevant period/years under review have been adjusted to reclassify all preferences shares capital and their related share premium as financial liabilities under long term liabilities in accordance with MASB 24, Financial Instruments.

8.0 PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

The detailed Pro forma Consolidated Statements of Assets and Liabilities set out below are provided for illustrative purposes only and are based on the consolidated audited financial statements of VSB Group as at 31 December 2003 to show the effects of the Scheme had it been effected on 31 December 2003. The statements are to be read in conjunction with the notes thereto:-

		← Group		→
	Note	Audited as at 31.12.2003 RM	After issuance, and conversion of RCPS (I) RM	After (I) and bonus issue, listing, utilisation of proceeds and full exercise of ESOS (II) RM
Plant and equipment	B	1,041,518	1,041,518	1,444,518
Investments	C	-	-	-
Deferred development costs	D	5,301,627	5,301,627	6,064,202
Negative goodwill	E	(89,427)	(89,427)	(89,427)
		6,253,718	6,253,718	7,419,293
Current assets	F	4,168,977	4,111,975	11,708,900
Current liabilities	G	6,739,974	1,598,233	1,598,233
Net current (liabilities)/assets		(2,570,997)	2,513,742	10,110,667
		3,682,721	8,767,460	17,529,960

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8.0 PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

	Note	Group		
		Audited as at 31.12.2003	After issuance, and conversion of RCPS (I)	After (I) and bonus issue, listing, utilisation of proceeds and full exercise of ESOS (II)
		RM	RM	RM
FINANCED BY:				
Share capital	H	867,661	1,662,432	6,875,000
Share premium	I	283,430	6,647,308	10,197,240
Exchange translation reserve		(32,311)	(32,311)	(32,311)
(Accumulated losses)/retained profits		(141,218)	454,333	454,333
		977,562	8,731,762	17,494,262
Long term borrowings	J	2,669,461	-	-
Deferred taxation		35,698	35,698	35,698
		3,682,721	8,767,460	17,529,960
Number of shares		867,661	1,662,432	68,750,000
Net (Liabilities)/Tangible Assets per share		(4.88)	2.12	0.17

9.0 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

A. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the VSB Group have been prepared under the historical cost convention.

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

During the financial year ended 31 December 2003, the Group adopted the following Malaysian Accounting Standards Board ("MASB") Standards for the first time:

MASB 25	Income Taxes
MASB 27	Borrowing Costs
MASB 29	Employee Benefits

The adoption of the above standards has not given rise to any adjustments to the opening balances of accumulated losses of the prior and current year or to changes in comparatives.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies. Subsidiary companies are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary company are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

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9.0 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Basis of Consolidation (Contd.)

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minority's share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree.

(c) Investment in Subsidiary Companies

The Company's investments in subsidiary companies are stated at cost less impairment losses. The policy for recognition and measurement of impairment losses is in accordance with Note 9.0 A.(l).

On disposal of such investments, the difference between net disposals and their carrying amounts is recognised in the income statement.

(d) Plant and Equipment and Depreciation

Plant and equipment are stated at cost less accumulated depreciation and impairment losses (if any). The policy for the recognition and measurement of impairment losses is in accordance with Note 9.0 A.(l).

Depreciation of plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Computer equipment	20% - 33 1/3%
Office equipment	20%
Furniture and fittings	20%
Renovation	20%

Upon the disposal of an asset, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

9.0 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Deferred Development Costs (Contd.)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is also recognised as an expense in the period incurred except when the expenditure meets the following criteria where it will be capitalised as intangible assets:

(i) the product or process is clearly defined and costs are separately identified and measured reliably;

(ii) the technical feasibility of the product is demonstrated;

(iii) the product or process will be sold or used in-house;

(iv) the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in case of internal use is demonstrated); and

(v) adequate technical, financial and other resources required for completion of the project are available.

Development costs initially recognised as an expense are not recognised as an asset in subsequent periods.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement based on a straight-line basis over 5 years upon the sale or use of the products. The policy for the recognition and measurement of impairment losses is in accordance with Note 9.0 A.(l).

(f) Inventories

Inventories, comprising trading goods, are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to completion.

9.0 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(h) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

9.0 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (CONTD.)

A. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and at bank and short term highly liquid investments which have an insignificant risk of changes in value.

(j) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards. Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

(k) Foreign Currencies

(i) Foreign currency transactions

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transactions. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange differences are taken to the income statement.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used are as follows:

	Group **As at 31.12.03** **RM**
1 United States Dollar	3.7750
1 Singapore Dollar	2.2090
1 Hong Kong Dollar	0.4850