

12. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



M-MODE BERHAD (635759-U)
(Formerly known as Middle Elegance (M) Sdn Bhd)

Registered Office:-
B-3-13, Block B, 3rd Floor, Unit 13,
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur, Malaysia

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1 November 2004

The Shareholders

M-Mode Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of M-Mode Berhad ("Company"), I report that after making due enquiries in relation to the period between 30 June 2004, being the date which the last audited financial statements of the Company and its subsidiaries ("Group") have been made up, and the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus:-

- (i) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (v) the Group has no default or any known event that could give rise to a default situation with respect to payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and
- (vi) there have been no material changes to the published reserves or any unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully,
For and on behalf of the Board of Directors of
M-Mode Berhad

A handwritten signature in black ink, appearing to read 'Lim Thean Keong', written over a horizontal line.

Lim Thean Keong
Chairman/Managing Director

13. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

**CHANTHIRAN & CO. [AF 1385]
Chartered Accountants**

Suite EFGH, 11th Floor
Bangunan Angkasa Raya
Jalan Ampang, 50450 Kuala Lumpur
Malaysia

Tel : 03-27110581
Fax : 03-27110585

Date: 1 November 2004

The Board of Directors
M-Mode Berhad
B-3-12, Block B, 3rd Floor
Unit 12, Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

Dear Sirs,

ACCOUNTANTS' REPORT ON M-MODE BERHAD

1 INTRODUCTION

This report has been prepared by Messrs Chanthiran & Co., an approved company auditor for the inclusion in the Prospectus to be dated 9 November 2004 in connection with the public issue of 20,433,000 new ordinary shares of RM0.10 each in M-Mode Bhd ("M-Mode") at an issue price of RM0.45 per share ("Issue Shares"), and the listing of and quotation for its entire enlarged issued and paid-up share capital on the MESDAQ Market of Bursa Malaysia Securities Berhad.

2 LISTING & RECENT EXERCISES

In conjunction with, and as an integral part of the listing of and quotation for the entire enlarged issue and paid-up share capital of M-Mode on the MESDAQ Market of Bursa Malaysia Securities Berhad, M-Mode had undertaken the following exercises which were approved by the Securities Commission ("SC") and Bursa Malaysia Securities Berhad on 1 September 2004 and 3 September 2004 respectively.

2.1 Listing Exercises

M-Mode Group undertook a listing scheme, which involved the following:-

13. ACCOUNTANTS' REPORT (Cont'd)

(a) Share Split

Sub-division of par value of the existing ordinary shares in M-Mode from 6,130,000 ordinary shares of RM1.00 each to 61,300,000 ordinary shares of RM0.10 each was completed on 6 September 2004.

(b) Public Issue

Public Issue of 20,433,000 new ordinary shares respectively of RM0.10 each at an issue price of RM0.45 per share as follows:-

(i) Eligible Directors and Employees of the M-Mode Group

2,000,000 Public Issue Shares will be reserved for the eligible Directors and employees of M-Mode Group.

(ii) Private Placement

16,000,000 Public Issue Shares will be made available for application by the identified investors; and

(iii) Public

2,433,000 Public Issue Shares will be made available for application by the public.

2.2 Recent Exercises Prior to the Public Issue

To facilitate the Group's re-organisation and future business expansion, M-Mode has recently undertaken the exercises as set out below:-

(a) Acquisition of eCentury Sdn Bhd ("eCentury")

Acquisition of the entire issued and paid-up share capital of eCentury comprising 6,000,000 ordinary shares of RM1.00 each for a total consideration of RM6,000,000 to be satisfied by the issuance of 6,000,000 ordinary shares of RM1.00 each in M-Mode.

(b) Acquisition of Mobile Multimedia Sdn Bhd ("MMSB")

Acquisition of the entire issued and paid-up share capital of MMSB comprising 50,000 ordinary shares of RM1.00 each for a total consideration of RM50,000 to be satisfied by the issuance of 50,000 ordinary shares of RM1.00 each in M-Mode.

13. ACCOUNTANTS' REPORT (Cont'd)

(c) Cash Subscription

Injection of cash amounting to RM79,998 by Lim Thean Keong to subscribe 79,998 new ordinary shares of RM1.00 each and also to provide working capital for business expansion purpose.

The acquisitions and cash subscription were completed on 1 January 2004 and 30 March 2004 respectively.

2.3 Listing and Quotation

Upon completion of the abovementioned listing exercise, the entire enlarged issued and fully paid-up share capital of M-Mode of RM8,173,300 comprising 81,733,000 ordinary shares of RM0.10 each will be listed and quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad.

3 GENERAL INFORMATION**3.1 Background**

M-Mode (formerly known as Middle Elegance (M) Sdn Bhd) was incorporated in Malaysia as a private limited company under the Companies Act, 1965 on 2 December 2003 and the name was changed to M-Mode Sdn Bhd on 18 March 2004. M-Mode was converted into a public limited company and adopted its present name on 7 April 2004. M-Mode is principally an investment holding company and has two (2) wholly-owned subsidiaries, namely eCentury Sdn Bhd ("eCentury") and Mobile Multimedia Sdn Bhd ("MMSB") with principal activities set out in Section 3.2 of this Report.

M-Mode was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each and an issued and paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each. On 1 January 2004, M-Mode acquired two (2) companies namely eCentury and MMSB. The Company increased its authorised share capital to RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each on 3 March 2004 and issued and paid-up share capital to RM6,050,000 comprising 6,050,000 ordinary shares of RM1.00 each on 22 March 2004. On 30 March 2004, the issued and paid-up share capital was increased to RM6,130,000 comprising 6,130,000 ordinary shares of RM1.00 each; the additional ordinary shares was satisfied by cash subscription of RM79,998 by Lim Thean Keong.

13. ACCOUNTANTS' REPORT (Cont'd)

3.2 Subsidiaries

3.2.1 Details of M-Mode's subsidiaries are as follows:-

<u>Subsidiaries</u>	<u>Principal activities</u>	<u>Effective equity interest (%)</u>
eCentury	Providing mobile content and data application services	100
MMSB	Providing mobile content and data application services	100

3.2.2 Additional information of the wholly-owned subsidiaries of M-Mode as at the date hereof is as follows:-

eCentury

eCentury was incorporated in Malaysia under the Companies Act, 1965, on 8 November 2000 but only began operations in March 2002. Currently, its business is operating at B-3-12, Block B, 3rd Floor, Unit 12, Megan Avenue II, 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur. The present authorised share capital of eCentury is RM500,000 comprising 500,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM250,000 comprising 250,000 ordinary shares of RM1.00 each. eCentury is a MSC status company, having been awarded the status by the Multimedia Development Corporation on 15 August 2003.

MMSB

MMSB was incorporated in Malaysia under the Companies Act, 1965, on 19 March 2003. Currently, its business is operating at B-3-13, Block B, 3rd Floor, Unit 13, Megan Avenue II, 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur. The present authorised share capital of MMSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each whilst its issued and paid-up share capital is RM50,000 comprising 50,000 ordinary shares of RM1.00 each.

13. ACCOUNTANTS' REPORT (Cont'd)

3.2.3 Details of changes in the issued and paid-up share capital of M-Mode since the date of incorporation are as follows:-

Date of allotment	Number of ordinary shares of		Cumulative balance RM	Consideration / Purpose
	RM1.00	RM0.10		
02/12/2003 (Incorporation)	2		2	Cash; Subscribers' shares
22/03/2004	6,000,000		6,000,002	Issued pursuant to the acquisition of new subsidiary; eCentury
22/03/2004	50,000		6,050,002	Issued pursuant to the acquisition of new subsidiary; MMSB
30/03/2004	79,998		6,130,000	Cash subscription
6/09/2004		61,300,000	6,130,000	Share split - subdivided from RM1.00 shares to RM0.10 shares

Upon completion of the Public Issue, the issued and paid-up share capital of M-Mode will increase to RM8,173,300 comprising 81,733,000 ordinary shares of RM0.10 each.

4 FINANCIAL STATEMENTS AND AUDITORS

The financial year end adopted by M-Mode and its subsidiaries (or the "Group") is 31 December. There were no changes to the subsidiaries' existing financial year end since the date of their incorporation.

We have acted as auditors for M-Mode since the financial year ended 31 December 2003. The financial statements of eCentury and MMSB for all the financial years/period covered in this Report were audited by another approved company auditors; Messrs P. S. Yap & Associates.

The auditors' report of the Group for the financial years/period under review were audited and reported on without any modification and audit qualification.

The latest audited financial statements for the Group are in respect of the interim report for the six (6) months' period ended 30 June 2004.

5 DIVIDENDS

M-Mode has not paid or declared any dividends since its incorporation.

No dividends have been declared or paid by the subsidiaries during the relevant years/period under review.

13. ACCOUNTANTS' REPORT (Cont'd)

6 HISTORICAL FINANCIAL INFORMATION OF M-MODE GROUP

6.1 Summarised Income Statements

(a) Proforma M-Mode Group

The proforma consolidated income statement of M-Mode Group for the three (3) financial years ended 31 December 2001 to 2003 and for the six (6) months' period ended 30 June 2004 have been prepared for illustrative purposes based on the audited financial statements of M-Mode, eCentury and MMSB assuming the proforma Group has been in existence throughout the years/period under review.

	Year 2001 RM'000	Year 2002 RM'000	Year 2003 RM'000	1/1/04-30/6/04 RM'000
Revenue	-	628	5,010	5,640
Cost of sales	-	(78)	(2,400)	(2,501)
Gross profit	-	550	2,610	3,139
Other income	-	-	*	-
	-	550	2,610	3,139
Administrative and general expenses	(3)	(157)	(435)	(453)
Research and development expenses	-	(169)	(144)	(221)
Selling and distribution expenses	-	(231)	(1,034)	(1,375)
Depreciation	-	(63)	(136)	(69)
Amortisation	-	-	(13)	(132)
(Loss)/profit from operations	(3)	(70)	848	889
Finance cost	-	(5)	(12)	(7)
(Loss)/profit before taxation	(3)	(75)	836	882
Taxation	-	-	(20)	1
(Loss)/profit after taxation	(3)	(75)	816	883
Minority interest	-	-	-	-
Net (loss)/profit for the years/period	(3)	(75)	816	883
Number of ordinary shares of RM0.10 each assumed to be issued	61,300	61,300	61,300	61,300
Gross (LPS)/EPS (sen)	(0.005)	(0.12)	1.36	1.44
Net (LPS)/EPS (sen)	(0.005)	(0.12)	1.33	1.44

* Less than RM500

13. ACCOUNTANTS' REPORT (Cont'd)

Notes:-

- (i) The consolidated results of M-Mode Group were prepared based on the followings:-
- | | | |
|----------|---|--|
| M-Mode | : | Audited results for the period from 2 December 2003 to 30 June 2004 |
| eCentury | : | Audited results for the financial years ended 31 December 2001 to 31 December 2003 and six (6) months' period ended 30 June 2004 |
| MMSB | : | Audited results for the financial year ended 31 December 2003 and six (6) months' period ended 30 June 2004 |
- (ii) The gross earning per share has been calculated on the profit before taxation and based on the issued and paid-up share capital of M-Mode of 61,300,000 ordinary shares of RM0.10 each in issue after the Acquisition of eCentury and MMSB, cash subscription and share split but before Public Issue.
- (iii) The net earning per share has been calculated on the profit after taxation and based on issued and paid-up share capital of M-Mode of 61,300,000 ordinary shares of RM0.10 each in issue after the Acquisition of eCentury and MMSB, cash subscription and share split but before Public Issue.
- (iv) There were no extraordinary or exceptional items in all the financial years/period under review.
- (v) All significant intra-group transactions are eliminated on consolidation.
- (vi) The effective tax rate for the financial year ended 31 December 2003 was lower compared to statutory tax rate mainly due to utilisation of capital allowances was in excess to depreciation and the utilisation of tax losses brought forward of its subsidiaries.

13. ACCOUNTANTS' REPORT (Cont'd)

(b) M-Mode (Company level)

The following financial information is based on the audited financial statements of M-Mode for the period from 2 December 2003 to 30 June 2004.

	2/12/03-31/12/03 RM'000	1/1/04-30/6/04 RM'000
Revenue	-	-
Cost of sales	-	-
Gross profit	<u>-</u>	<u>-</u>
Administrative and general expenses	-	(10)
Research and development expenses	-	-
Selling and distribution expenses	-	-
Depreciation	-	-
Loss from operations	<u>-</u>	<u>(10)</u>
Finance cost	-	-
Loss before taxation	<u>-</u>	<u>(10)</u>
Taxation	-	-
Net loss for the financial year/period	<u><u>-</u></u>	<u><u>(10)</u></u>
Number of ordinary shares of RM1.00 each in issue	*	6,130
Gross LPS (sen)	-	(0.17)
Net LPS (sen)	-	(0.17)

* Share capital of RM2 @ RM1.00 each

Notes:-

- (i) There were no extraordinary or exceptional items in all the financial year/period under review.
- (ii) No taxation was provided for in all the financial year/period as the Company incurred business losses.

13. ACCOUNTANTS' REPORT (Cont'd)

(c) eCentury

The following financial information is based on the audited financial statements of eCentury for the three (3) financial years ended 31 December 2001 to 2003 and for the six (6) months' period ended 30 June 2004.

	Year 2001 RM'000	Year 2002 RM'000	Year 2003 RM'000	1/1/04-30/6/04 RM'000
Revenue	-	628	4,577	4,941
Cost of sales	-	(78)	(2,097)	(2,155)
Gross profit	<u>-</u>	<u>550</u>	<u>2,480</u>	<u>2,786</u>
Other income	-	-	*	-
	<u>-</u>	<u>550</u>	<u>2,480</u>	<u>2,786</u>
Administrative and general expenses	(3)	(157)	(384)	(441)
Research and development expenses	-	(169)	(122)	(221)
Selling and distribution expenses	-	(231)	(919)	(746)
Depreciation	-	(63)	(136)	(68)
Amortisation	-	-	(13)	(7)
(Loss)/profit from operations	<u>(3)</u>	<u>(70)</u>	<u>906</u>	<u>1,303</u>
Finance cost	-	(5)	(12)	(7)
(Loss)/profit before taxation	<u>(3)</u>	<u>(75)</u>	<u>894</u>	<u>1,296</u>
Taxation	-	-	(20)	1
Net (loss)/profit for the financial years/period	<u>(3)</u>	<u>(75)</u>	<u>874</u>	<u>1,297</u>
Number of ordinary shares of RM1.00 each in issue	**	**	250	250
Gross (LPS)/EPS (sen)	-	(746,040)	357.58	518.33
Net (LPS)/EPS (sen)	(298.80)	(746,040)	349.58	518.74

* Less than RM500

** Share capital of RM10 @ RM1.00 each

13. ACCOUNTANTS' REPORT (Cont'd)

Notes:-

- (i) There were no extraordinary or exceptional items in all the financial years/period under review.
- (ii) The effective tax rate for the financial year ended 31 December 2003 was lower compared to statutory tax rate mainly due to utilisation of capital allowances was in excess to depreciation and the tax shield from previously year losses.

The provision for taxation was related to operating profits generated for the period from 1 January 2003 to 15 August 2003 as eCentury has been granted MSC status on 15 August 2003. Hence, operating profits derived from the approved activities with effective from the conferred of pioneer status on the same date are non-taxable.

13. ACCOUNTANTS' REPORT (Cont'd)**(d) MMSB**

The following financial information is based on the audited financial statements of MMSB for the financial year ended 31 December 2003 and for the six (6) months' period ended 30 June 2004.

	Year 2003 RM'000	1/1/04-30/6/04 RM'000
Revenue	792	872
Cost of sales	(662)	(519)
Gross profit	<u>130</u>	<u>353</u>
Administrative and general expenses	(51)	(2)
Research and development expenses	(22)	-
Selling and distribution expenses	(115)	(629)
Depreciation	*	*
Loss from operations	<u>(58)</u>	<u>(278)</u>
Finance cost	**	**
Loss before taxation	<u>(58)</u>	<u>(278)</u>
Taxation	-	-
Net loss for the financial year/period	<u>(58)</u>	<u>(278)</u>
Number of ordinary shares of RM1.00 each in issue	50	50
Gross LPS (sen)	(115.27)	(556.75)
Net LPS (sen)	(115.27)	(556.75)

* Less than RM500

** Less than RM50

Notes:-

- (i) There were no extraordinary or exceptional items in all the financial year/period under review.
- (ii) No taxation was provided for in all the financial year/period as the Company incurred business losses.

13. ACCOUNTANTS' REPORT (Cont'd)

6.2 Summarised Balance Sheets

(a) Proforma M-Mode Group

The proforma consolidated balance sheets of M-Mode Group as at 31 December 2001 to 31 December 2003 and as at 30 June 2004 have been prepared for illustrative purposes based on the audited financial statements of M-Mode, eCentury and MMSB assuming the proforma Group has been in existence throughout the years/period under review.

	Year 2001 RM'000	Year 2002 RM'000	Year 2003 RM'000	As at 30/6/04 RM'000
NON CURRENT ASSETS				
Property, plant and equipment	-	268	513	834
Deferred expenditure	-	-	-	327
Development cost	-	-	125	288
Goodwill	6,050	6,050	5,750	4,886
CURRENT ASSETS				
Trade and other receivables	-	215	1,250	2,208
Cash and cash equivalents	80	112	281	255
	<u>80</u>	<u>327</u>	<u>1,531</u>	<u>2,463</u>
CURRENT LIABILITIES				
Trade and other payables	1	87	502	1,386
Amount due to a related company	-	251	2	2
Amounts due to directors	2	202	299	219
Hire purchase payables	-	33	93	62
Provision for taxation	-	-	20	-
	<u>3</u>	<u>573</u>	<u>916</u>	<u>1,669</u>
NET CURRENT ASSETS/(LIABILITIES)	77	(246)	615	794
	<u>6,127</u>	<u>6,072</u>	<u>7,003</u>	<u>7,129</u>
Financed by:-				
Share capital	6,130	6,130	6,130	6,130
(Accumulated loss)/Retained profit	(3)	(77)	739	883
Shareholders' funds	<u>6,127</u>	<u>6,053</u>	<u>6,869</u>	<u>7,013</u>
NON CURRENT LIABILITY				
Hire purchase payables	-	19	134	116
	<u>6,127</u>	<u>6,072</u>	<u>7,003</u>	<u>7,129</u>
Net tangible assets ("NTA")	77	3	994	1,839
Number of ordinary shares of RM0.10 each assumed to be issued				
	61,300	61,300	61,300	61,300
NTA per share (sen)				
	0.13	0.005	1.62	3.00

13. ACCOUNTANTS' REPORT (Cont'd)

Notes:-

- (i) Goodwill is a result of the acquisition of eCSB and MMSB in Year 2004.
- (ii) NTA per share is calculated based on NTA over the number of shares in issue at the years/period end.

13. ACCOUNTANTS' REPORT (Cont'd)

(b) M-Mode (Company level)

The following financial information is based on the audited financial statements of M-Mode as at 30 June 2004.

	Year 2003 RM'000	As at 30/6/04 RM'000
NON CURRENT ASSETS		
Investment in subsidiaries	-	6,050
Deferred expenditure	-	327
CURRENT ASSET		
Bank balance	*	23
	<u> *</u>	<u> 23</u>
CURRENT LIABILITIES		
Trade payables	-	-
Other payables	-	133
Amount due to a subsidiary	-	138
Amount due to directors	-	9
	<u> -</u>	<u> 280</u>
NET CURRENT ASSETS/(LIABILITIES)	*	(257)
	<u> *</u>	<u> 6,120</u>
Financed by:-		
Share capital	*	6,130
Accumulated loss	-	(10)
	<u> *</u>	<u> 6,120</u>
Net tangible assets ("NTA")	*	6,120
NTA per share of RM1.00 each (sen)	100	100

* Share capital of RM2 @ RM2.00 each

Note:-

- (i) NTA per share is calculated based on NTA over the number of shares in issue at the year/period end.

13. ACCOUNTANTS' REPORT (Cont'd)**(c) eCentury**

The following financial information is based on the audited financial statements of eCentury as at 31 December 2001 to 31 December 2003 and as at 30 June 2004.

	Year 2001 RM'000	Year 2002 RM'000	Year 2003 RM'000	As at 30/6/04 RM'000
NON CURRENT ASSETS				
Property, plant and equipment	-	268	511	832
Development cost	-	-	125	288
CURRENT ASSETS				
Trade receivables	-	204	676	1,889
Other receivables	-	11	180	153
Amount due by holding company	-	-	-	138
Amount due by a related company	-	-	410	137
Cash and bank balances	*	32	178	188
	<u>*</u>	<u>247</u>	<u>1,444</u>	<u>2,505</u>
CURRENT LIABILITIES				
Trade payables	-	-	155	99
Other payables	1	87	331	794
Amount due to a related company	-	251	2	2
Amounts due to directors	2	202	299	210
Hire purchase payables	-	33	93	62
Provision for taxation	-	-	20	-
	<u>3</u>	<u>573</u>	<u>900</u>	<u>1,167</u>
NET CURRENT (LIABILITIES)/ASSETS	(3)	(326)	544	1,338
	<u>(3)</u>	<u>(58)</u>	<u>1,180</u>	<u>2,458</u>
Financed by:-				
Share capital	*	*	250	250
Accumulated (loss)/Retained profit	(3)	(77)	796	2,092
Shareholders' funds	(3)	(77)	1,046	2,342
NON CURRENT LIABILITY				
Hire purchase payables	-	19	134	116
	<u>(3)</u>	<u>(58)</u>	<u>1,180</u>	<u>2,458</u>
Net tangible (liabilities)/assets ("NTL") / "NTA"	(3)	(77)	921	2,054
(NTL)/NTA per share of RM1.00 each (sen)	(29,780)	(775,820)	368.71	822.07

* Share capital of RM10 @ RM1.00 each

Note:-

- (i) (NTL)/NTA per share is calculated based on (NTL)/NTA over the number of shares in issue at the years/period end.

13. ACCOUNTANTS' REPORT (Cont'd)

(d) MMSB

The following financial information is based on the audited financial statements of MMSB as at 31 December 2003 and as at 30 June 2004.

	Year 2003 RM'000	As at 30/6/04 RM'000
NON CURRENT ASSET		
Property, plant and equipment	2	2
CURRENT ASSETS		
Trade receivables	393	165
Other receivables	1	1
Cash and bank balances	23	44
	<u>417</u>	<u>210</u>
CURRENT LIABILITIES		
Trade payables	13	43
Other payables	3	317
Amount due to a related company	411	138
	<u>427</u>	<u>498</u>
NET CURRENT LIABILITIES	(10)	(288)
	<u>(8)</u>	<u>(286)</u>
Financed by:-		
Share capital	50	50
Accumulated losses	(58)	(336)
	<u>(8)</u>	<u>(286)</u>
Net tangible liabilities ("NTL")	(8)	(286)
NTL per share of RM1.00 each (sen)	(15.27)	(572.01)

Note:-

- (i) NTL per share is calculated based on NTL over the number of shares in issue at the year/period end.

13. ACCOUNTANTS' REPORT (Cont'd)

7 PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

The following proforma consolidated statement of assets and liabilities of the Company and M-Mode Group is prepared based on the audited financial statement of the Company and M-Mode Group as at 30 June 2004 by incorporating the effect of Public Issue. The proforma consolidated statement of assets and liabilities are to be read in conjunction with the accompanying notes thereon.

	NOTE	Company RM'000	Proforma Group RM'000
NON CURRENT ASSETS			
Property, plant and equipment	7.1.4	-	834
Investment in subsidiaries		6,050	-
Deferred expenditure	7.1.5	327	327
Development cost	7.1.6	-	288
Goodwill	7.1.7	-	4,886
CURRENT ASSETS			
Trade and other receivables	7.1.8	-	2,208
Cash and bank balances		23	7,949
		23	10,157
CURRENT LIABILITIES			
Trade and other payables	7.1.9	133	1,386
Amount due to a related company		138	2
Amounts due to directors	7.1.10	9	219
Hire purchase payables	7.1.11	-	62
Provision for taxation		-	-
		280	1,669
NET CURRENT (LIABILITIES)/ASSETS		(257)	8,488
		6,120	14,823
Financed by:-			
Share capital	7.1.12	6,130	8,173
Share premium		-	5,651
Retained profits		(10)	883
Shareholders' funds		6,120	14,707
NON CURRENT LIABILITY			
Hire purchase payables	7.1.11	-	116
		6,120	14,823
Net tangible assets ("NTA")		6,120	9,533
Number of ordinary shares of RM0.10 each assumed to be issued		61,300	81,733
NTA per share (sen)		9.98	11.66

13. ACCOUNTANTS' REPORT (Cont'd)

7.1 Notes to Proforma Statement of Assets and Liabilities**7.1.1 Principal Activities**

The principal activities of the Group are of investment holding and providing mobile content and data application services.

7.1.2 Significant Accounting Policies

The new applicable approved accounting standards adopted in these statement of assets and liabilities of proforma M-Mode Group is MASB 25, Income Taxes which has been applied retrospectively (*Effective date : Accounting periods beginning on or after 1 July 2002*).

As the financial impact of adopting MASB 25 – Income Taxes is immaterial to the statement of assets and liabilities, hence no prior and current year adjustments are to be made as at 30 June 2004.

(a) Basis of preparation

The financial statements of the Group are prepared in compliance with applicable approved accounting standards in Malaysia and with the provisions of the Companies Act, 1965.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries 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 from their activities.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired during the financial years/period are included in the consolidated income statement from the effective date of acquisition as appropriate. The assets and liabilities of a subsidiary are measured at their 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 arising on consolidation.

13. ACCOUNTANTS' REPORT (Cont'd)

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.

(c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 7.1.2 (g). Goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

(d) Investments in subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for recognition and measurement of impairment losses is in accordance with Note 7.1.2 (g).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated by writing off the cost of the property, plant and equipment on the straight line basis over the year of their expected useful lives at the following rates:-

Computer equipment	20%
Renovation	10%
Motor vehicles	20%
Furniture and fittings	10%
Office equipment	10%
Research & development equipment	10% - 20%

Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

13. ACCOUNTANTS' REPORT (Cont'd)

(f) Research and development cost

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised over 10 years.

(g) Impairment

The carrying amount of the Group's assets, other than financial assets, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

13. ACCOUNTANTS' REPORT (Cont'd)

(h) Receivables

Trade receivables are carried at anticipated realisable value. Known bad debts are written off in the year in which they are identified. Specific allowances are made for receivables' accounts which are considered to be doubtful in collection; based on management's estimate of possible losses arising from non-collection of these debts.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances.

(j) Payables

Trade and other payables are stated at cost.

(k) Hire purchase

Property, plant and equipment acquired under hire purchase agreements are capitalised in the balance sheets and depreciated in accordance with the policy set out in Note 7.1.2 (e). Outstanding obligations due under the hire purchase agreements after deducting finance charges are included as liabilities in the balance sheets.

Hire purchase finance charges are allocated to the income statement over the hire purchase period so as to give a constant periodic rate of interest on the remaining liabilities.

(l) Income Tax

Deferred taxation is now provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheets.

Previously, the tax expense is determined on the basis of tax effect accounting using the liability method. Deferred taxation is recognised for all timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future. The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of its realisation.

13. ACCOUNTANTS' REPORT (Cont'd)

(m) Financial instruments**(i) Financial instruments recognised on the balance sheet**

The recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statement associated with each item.

(ii) Fair value estimation for disclosure purposes

The face values, less any estimated credit adjustments, for financial assets and liabilities with tenure to maturity of less than one year are assumed to approximate their fair values.

7.1.3 Summary of Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate risk, credit risk, cash flow risk and market risk.

(i) Interest rate risk

The Group has no significant interest-bearing assets. Interest-bearing liability consists of hire purchase finance with short term tenure. As such, the interest rate risk is not expected to be significant.

(ii) Credit risk

The Group is exposed to minimum credit risk as it has a credit policy in place to ensure that sales are made to customers with an appropriate credit history. The exposure to credit risk is monitored on an ongoing basis.

(iii) Cash flow risk

The Group's exposure to cash flow risk arises mainly from business activities and its policy is to maintain sufficient cash funding for working capital requirements.

(iv) Market risk

The Group's main market risk exposure are rapid changes in technology, frequent introduction of new and more advanced IT products, changes in customer demand and evolving industry standards. The Group's policy is to keep abreast with the latest technologies in order to compete successfully with its competitors.

13. ACCOUNTANTS' REPORT (Cont'd)**7.1.4 Property, plant and equipment**

	Computer Equip. RM'000	Renovation RM'000	Motor Vehicle RM'000	Office Equip. and Others RM'000	R & D Equip. RM'000	Total RM'000
Cost						
As at 01.01.2004	29	11	563	41	68	712
Addition	-	-	-	8	423	431
Disposal	-	-	-	-	-	-
As at 30.06.2004	29	11	563	49	491	1,143
Accumulated Depreciation						
As at 01.01.2004	9	2	169	6	13	199
Addition	3	1	56	2	48	110
Disposal	-	-	-	-	-	-
As at 30.06.2004	12	3	225	8	61	309
Net Book Value						
As at 30.06.2004	17	8	338	41	430	834

The net book value of motor vehicles acquired under hire purchase instalment plan is RM338,824. The motor vehicles are held in trust in the name of Directors.

7.1.5 Deferred expenditure

The deferred expenditure represents amount incurred in the exercise of listing M-Mode in the Bursa Malaysia Securities Berhad and will be set-off against share premium account.

7.1.6 Development cost

	Proforma Group RM'000
At start of period	125
Additions	170
Amortisation charge	(7)
At end of period	288

13. ACCOUNTANTS' REPORT (Cont'd)

7.1.7 Goodwill

	Proforma Group RM'000
Arising from acquisition of subsidiaries	5,011
Amortisation charge	(125)
	<u>4,886</u>

7.1.8 Trade and other receivables

	Proforma Group RM'000
Trade receivables	2,054
Deposits	33
Prepayments	24
Other receivables	97
	<u>2,208</u>

7.1.9 Trade and other payables

	Proforma Group RM'000
Trade payables	142
Accruals	68
Other payables	1,176
	<u>1,386</u>

7.1.10 Amounts due to directors

The amounts due to directors are interest free, unsecured and have no fixed term of repayment.

13. ACCOUNTANTS' REPORT (Cont'd)

7.1.11 Hire purchase payables

	Proforma Group RM'000
Minimum hire purchase payments	201
Future finance charges on hire purchase payables	(23)
Present value of hire purchase liabilities	<u>178</u>
Present value of hire purchase liabilities:	
- not later than 6 months	62
- later than 6 months and not later than 2 years	116
	<u>178</u>

7.1.12 Share capital

	Proforma Group RM'000
Issued and fully paid:	
Ordinary shares of RM0.10 each	
At start of period	*
Acquisition of eCentury	6,000
Acquisition of MMSB	50
Cash subscription	80
Public issue	2,043
	<u>8,173</u>

* Share capital of RM2 @ RM0.10 each

13. ACCOUNTANTS' REPORT (Cont'd)

8 PROFORMA CONSOLIDATED CASH FLOW STATEMENTS

The proforma consolidated cash flow statements for the six (6) months' period ended 30 June 2004 of M-Mode Group is prepared on the assumption that the Group had been in existence throughout the period under review before public issue:-

	Proforma Group RM'000
CASH FLOW FROM OPERATING ACTIVITIES	
Profit before taxation	882
Adjustment for:	
Amortisation of development cost	7
Amortisation of goodwill	125
Capitalisation of depreciation	41
Depreciation of property, plant and equipment	69
Interest expense	7
Operating profit before working capital changes	<u>1,131</u>
Net movement in working capital:	
Trade and other receivables	(958)
Trade and other payables	884
Cash from operations	<u>1,057</u>
Taxation paid	(19)
<i>Net cash generated from operating activities</i>	<u>1,038</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(431)
Deferred expenditure incurred	(327)
Development cost paid	(170)
<i>Net cash used in investing activities</i>	<u>(928)</u>
CASH FLOW FROM FINANCING ACTIVITIES	
Advances from/(Repayment to) directors	(80)
Hire purchase principal payment	(49)
Interest paid	(7)
<i>Net cash used in financing activities</i>	<u>(136)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	281
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	<u>255</u>

13. ACCOUNTANTS' REPORT (Cont'd)**9 NET TANGIBLE ASSETS PER ORDINARY SHARE**

Based on the proforma statement of assets and liabilities of M-Mode Group as at 30 June 2004 as set out in Section 7 of this Report, the proforma net tangible assets per ordinary share after Public Issue is calculated as follows:-

	Proforma Group RM'000
Net tangible assets as at 30 June 2004	1,839
Add : Proceeds from Public Issue of 20,433,000 new ordinary shares of RM0.10 each at RM0.45 per ordinary share	9,195
Less : Estimated listing expenses	(1,500)
	<u>9,534</u>
Enlarged number of ordinary shares of RM0.10 each ('000)	81,733
The net tangible assets per share of M-Mode (sen)	<u>11.66</u>

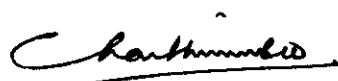
10 SUBSEQUENT EVENT

Based on the latest audited financial statements for the six (6) months' period ended 30 June 2004, no events have arisen subsequent to the balance sheet date which requires disclosure in the Report.

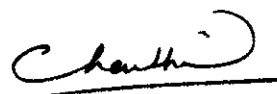
11 AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Group have been made up in respect of any period/year subsequent to 30 June 2004.

Yours faithfully



CHANTHIRAN & CO
Firm Number: AF 1385
Chartered Accountants



N. CHANTHIRAN A/L NAGAPPAN
2007/06/06 (J/PH)
Partner