

11 OTHER INFORMATION CONCERNING THE GROUP

11.1 SUMMARY OF LANDED PROPERTIES

The Group does not own any landed properties.

11.2 MSC-STATUS

TMS and M-Apps obtained their MSC status on 14 September 1999 and 29 May 2003 respectively. TMS had on 27 September 2004 obtained approval from the MDC for a further extension of five (5) years to its tax free status. The salient terms and conditions of the MSC status of both TMS and M-Apps are as follows:-

	Conditions of MSC Status	Status of compliance
(a)	Commence operations of and undertake the MSC-Qualifying Activities as proposed to and accepted by MDC. Any proposed changes to the qualifying activities must receive the consent of MDC.	Complied. No change in the qualifying activities since obtaining the MSC status approval.
(b)	Locate the Company's headquarters and principal place of business and/or the operation of the MSC-Qualifying Activities within MSC-designated cybercities.	Complied. Both TMS' and M-Apps' Research and Development facility is located at Suite 06, 2320 Century Square, Jalan Usahawan 63000 Cyberjaya, Selangor Darul Ehsan.
(c)	Ensure that at all times at least 15% of the total number of employees (excluding support staff) of the Company shall be "knowledge workers" (as defined by MDC).	Complied. More than 50% of total staff for both TMS and M-Apps are "knowledge workers".
(d)	Continuously comply with the MSC's environmental guidelines as determined by MDC from time to time.	Complied.
(e)	Submission of account and reports to MDC.	Complied. 31 December 2003 and 30 June 2004 accounts for TMS and M-Apps respectively submitted.
(f)	Comply with statutory, regulatory and/or licensing requirements.	Complied.

The MSC status granted to TMS and M-Apps shall not be transferable or assignable in any way whatsoever without the written consent of MDC.

MSC status entitles TMS and M-Apps to the incentives, rights and privileges provided for under the Bill of Guarantees subject to their continued adherence to the necessary set of criteria. The clauses of the Bill of Guarantees, inter alia, are as follows:-

- (i) To provide a world-class physical and information infrastructure;
- (ii) To allow unrestricted employment of local and foreign knowledge workers;
- (iii) To ensure freedom of ownership by exempting companies with MSC status from local ownership requirements;
- (iv) To give the freedom to source capital globally for MSC infrastructure, and the right to borrow funds globally; and
- (v) To provide competitive financial incentives, including Pioneer status (100 percent tax exemption) for 5 years and no duties on the importation of multimedia equipment.

11 OTHER INFORMATION CONCERNING THE GROUP (Cont'd)

TMS and M-Apps intend to capitalise on this prestigious credential not only as a marketing tool but also to benefit from the various incentives as set out in the Bill of Guarantees above.

11.3 LICENCES AND PERMITS

As at 25 October 2004, being the latest practicable date prior to the printing of this Prospectus the Company holds a service tax licence under the Service Tax Act, 1975, issued by Royal Customs and Excise Malaysia. This license applies to consultancy services rendered by the Company whereby a service tax of 5.0% has to be charged and levied on the taxable service (i.e. the consultancy services) provided by the Company. The service tax license does not have an expiry date.

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12 DIRECTORS' REPORT



eSolutions driven by Simplicity

THE MEDIA SHOPPE BERHAD (383028-D)
Unit C-902, Penthouse, Kelana Square
17, Jalan SS7/26, Kelana Jaya
47301 Petaling Jaya, Malaysia
Tel: (603) 7804 3877
Fax: (603) 7803 9143

05 NOV 2004

Registered Office:-
C15-1, Level 15, Tower C, Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

The Shareholders of The Media Shoppe Berhad

Dear Sir/ Madam

On behalf of the Board of Directors of The Media Shoppe Berhad ("TMS" or the "Company") (the "Directors"), I report after due enquiry that during the period from 31 July 2004 (being the date of the last audited accounts of TMS and subsidiaries were made) to 05 NOV 2004 (being a date not earlier than fourteen (14) days before the issuance of this Prospectus) :-

- (i) the business of the Company and its subsidiaries ("Group") have, in the opinion of the Directors, has been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts 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, in respect of payments of either interest and/or principal sums in relation to any borrowings in which they are aware of; and
- (vi) save as disclosed in the Accountants' Report and proforma consolidated balance sheets in this Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting the profits of the Group.

Yours faithfully
For and on behalf of the Board of Directors
The Media Shoppe Berhad

Christopher Chan Hooi Guan
Chairman and Executive Director

13 ACCOUNTANTS' REPORT



Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

Level 16 Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

603.2166.0000 Main
603.2166.1000 Fax

www.horwath.com.my
horwath@po.jaring.my

5 November 2004

The Board of Directors
THE MEDIA SHOPPE BERHAD
No. Unit C-902, Penthouse,
Kelana Square,
17, Jalan SS 7/26,
Kelana Jaya,
47301 Petaling Jaya

Dear Sirs

THE MEDIA SHOPPE BERHAD ("TMS" OR "THE COMPANY")

ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of TMS to be dated 19 November 2004 in connection with the Public Issue of 24,680,000 new ordinary shares of RM0.10 each at an issue price of RM0.35 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of TMS comprising 131,643,600 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

2. DETAILS OF TMS AND ITS SUBSIDIARIES

2.1 THE COMPANY

TMS was incorporated in Malaysia on 9 April 1996 as a private company limited by shares under the Malaysian Companies Act, 1965 under the name of The Media Shoppe Sdn. Bhd. The Company assumed its present name upon its conversion to a public company on 29 March 2004.

The Company is principally engaged in the business of research and development and marketing of computer software, and the provision of systems networking support.



2.2 LISTING SCHEME

In conjunction with and as an integral part of the listing of TMS on the MESDAQ Market of the Bursa Securities, the Company undertook the following proposed transactions which have been approved by the relevant authorities:-

- (a) Acquisition of 100% of the issued and paid-up capital of M-Apps Solutions Sdn Bhd ("M-Apps") comprising 307,500 ordinary shares of RM1.00 each for a total consideration of RM3,600,000 to be satisfied by the issuance of 1,360,000 new ordinary shares of RM1.00 each in TMS and cash consideration of RM2,240,000 to IDSS Management Sdn Bhd ("IDSS");
- (b) Conversion of 2,100,680 Redeemable Convertible Preference Shares ("RCPS") each in TMS into 2,100,680 new ordinary shares of RM1.00 each in TMS;
- (c) Disposal of 447,620 ordinary shares of RM1.00 each in TMS by the founders of TMS to the selected employees of TMS for RM1.00 per employee;
- (d) The options granted under the existing Employees' Share Option Scheme ("ESOS") to eligible employees to subscribe for 933,640 ordinary shares of RM1.00 each in TMS shall be fully exercised at RM3.00 per share;
- (e) Sub-division of existing ordinary shares of RM1.00 each into ten ordinary shares of RM0.10 each;
- (f) Public issue of 24,680,000 new ordinary shares of RM0.10 each in TMS at an indicative issue price of RM0.35 each by way of private placement and/or public offer to the public, eligible employees and business associates of the TMS Group; and
- (g) The listing of and quotation for TMS's entire enlarged issued and paid-up share capital of RM13,164,360 comprising 131,643,600 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Securities.

2.3 DETAILS OF THE SUBSIDIARIES

A summary of the details of the subsidiaries of TMS as at the date of this report is as follows:-

Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
TMSPL	29 June 2000 Singapore	SGD100,000	100	Dormant
M-Apps	6 May 1999 Malaysia	RM307,500	100	Provision of information technology systems integration services

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13 ACCOUNTANTS' REPORT (Cont'd)



2.3 DETAILS OF THE SUBSIDIARIES (CONT'D)

Notes:-

TMSPL - The Media Shoppe (S) Pte Ltd
M-Apps - M-Apps Solutions Sdn Bhd

3. SHARE CAPITAL

As at the date of this report, the authorised share capital of TMS was RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital of TMS as of the date of this report was RM10,696,360 comprising 106,963,600 ordinary shares of RM0.10 each.

The changes in the issued and paid-up share capital of the Company since the date of incorporation are as follows:-

Date of Allotment	Number of ordinary shares issued	Resultant number of ordinary shares in issue	Par Value RM per share	Consideration/ Type of issue	Cumulative issued and paid-up ordinary share capital RM
9 April 1996	5	5	1.00	Subscribers' shares	5
26 August 1997	72,000	72,005	1.00	Cash	72,005
3 November 1997	48,000	120,005	1.00	Cash	120,005
13 March 2000	99,995	220,000	1.00	Cash	220,000
1 March 2000	3,800,000	4,020,000	1.00	Cash	4,020,000
1 March 2000	82,040	4,102,040	1.00	Cash	4,102,040
15 March 2000	2,200,000	6,302,040	1.00	Cash	6,302,040
10 September 2004	*1,360,000	7,662,040	1.00	Acquisition of M-Apps	7,662,040
24 September 2004	**2,100,680	9,762,720	1.00	Conversion of RCPS	9,762,720
13 October 2004	^933,640	10,696,360	1.00	Exercise of ESOS	10,696,360
13 October 2004	Nil	106,963,600	0.10	Sub-division	^^10,696,360

Notes:-

* Issuance of 1,360,000 TMS ordinary shares of RM1.00 each as part settlement for the acquisition of M-Apps;

** Conversion of 2,100,680 RCPS of RM1.00 each into 2,100,680 TMS ordinary shares of RM1.00 each;

^ Eligible employees exercising their rights to subscribe for 933,640 TMS ordinary shares of RM1.00 each for RM3.00 per share; and

^^ Sub-division of the par value of TMS ordinary shares from RM1.00 each to RM0.10 each by sub-dividing every 1 ordinary share of RM1.00 each to ten ordinary shares of RM0.10 each.

Upon completion of the Public Issue as detailed in paragraph 2.2(f), the issued and fully paid-up share capital of TMS will be enlarged to RM13,164,360 comprising 131,643,600 ordinary shares of RM0.10 each.

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4. RELEVANT FINANCIAL PERIOD

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows:-

Company	Relevant Financial Period
TMS	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003; and financial period ended 31 July 2004.
TMSPL	Financial period/years ended 31 December 2000, 2001, 2002 and 2003; and financial period ended 31 July 2004.
M-Apps	Financial years ended 30 June 2000, 2001, 2002 and 2003; and financial periods ended 31 December 2003 and 31 July 2004.



5. ACCOUNTING STANDARDS AND POLICIES

5.1 BASIS OF PREPARATION

The financial statements of TMS and its subsidiaries ("TMS Group" or "the Group") are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5.2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Group in the preparation of this report are as follows:-

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 31 July 2004.

A subsidiary is defined as a company in which the parent company holds directly or indirectly more than 50% of the equity share capital and has control over the financial and operating policies.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of a subsidiary acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of a subsidiary to ensure consistency of accounting policies with those of the Group.

(b) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.



5. Significant Accounting Policies (Cont'd)

(b) Financial Instruments (Cont'd)

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(c) Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

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

(d) Impairment of Assets

The carrying amounts of assets, other than those to which MASB 23 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.



5. Significant Accounting Policies (Cont'd)

(e) Investment in a Subsidiary

Investment in a subsidiary is initially stated at cost in the balance sheet of the Company, and is reviewed for impairment at the end of the financial period if events or circumstances indicate that its carrying value may not be recoverable.

(f) Software Development Costs

Software development costs comprise expenditure incurred for the development of specific software products which are expected to generate future economic benefits. The net development costs, after deducting approved government grants are amortised on a straight-line method over a period of 5 years when the products are ready for sale or use. In the event that the expected future economic benefits are no longer probable of being recovered, the development costs are written down to their recoverable amounts.

(g) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(h) Payables

Trade and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(i) Assets under Hire Purchase

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5(c) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the period of the respective lease and hire purchase agreements.

(j) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.



5. Significant Accounting Policies (Cont'd)

(k) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the appropriate rates ruling on that date. All exchange differences are taken to the income statement.

The income statement of the foreign subsidiary is translated into Ringgit Malaysia at the average rates for the financial year, and the balance sheet is translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the net investment in the foreign subsidiary are taken to the exchange fluctuation reserve account. On the disposal of the subsidiary, such translation differences are recognised in the income statements as part of the gain or loss on the disposal.

(l) Taxation

Taxation 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 period and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise 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 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 assets and liabilities are 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 the tax rates that have been enacted or substantially enacted at the balance sheet date.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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5. Significant Accounting Policies (Cont'd)

(n) Revenue Recognition

(i) Sales of Goods

Sales are recognised upon delivery of goods and customers' acceptance, and where applicable, net of returns and trade discounts.

(ii) Software Maintenance Income

Software maintenance income is recognised over the period of the service contracts.

(iii) Interest Income

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

(o) Retirement Benefits

(i) Short Term Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined Contribution Plans

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further liabilities in respect of the defined contribution plans.

5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the significant accounting policies adopted by the Group during the Relevant Financial Period except for the change in the accounting policy adopted by the Group during the financial year ended 31 December 2003 with respect to deferred taxation. The change in the accounting policy was to comply with MASB 25 - Income Taxes which became effective from 1 July 2002. However, the change in this accounting policy has no significant effect on the financial statements of the Group for the Relevant Financial Period.



6. AUDITORS AND AUDIT REPORTS

6.1 AUDITORS

We have acted as auditors for TMS Group for all the relevant financial years/periods except for the following financial periods/years:

Company	Financial Periods/Years
TMS	Financial years ended 31 December 1999, 2000 and 2001
TMSPL	Financial period from 29 June 2000 (date of incorporation) to 31 December 2000; financial years ended 31 December 2001, 2002 and 2003; and financial period from 1 January 2004 to 31 July 2004.
M-Apps	Financial period from 6 May 1999 (date of incorporation) to 30 June 2000 and financial years ended 30 June 2001, 2002 and 2003.

6.2 AUDIT REPORTS

The audited financial statements for TMS, TMSPL and M-Apps for the Relevant Financial Period were reported upon without any qualification.

13 ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED INCOME STATEMENTS

7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF TMS GROUP

The proforma consolidated income statements of TMS Group for the Relevant Financial Period have been prepared on the assumption that TMS Group has been in existence throughout the Relevant Financial Period. The proforma consolidated results are prepared for illustration purposes only and should be read in conjunction with the notes hereto:-

	Financial Year Ended 31 December ("FY")					7 months ended
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	31.7.2004 RM'000
Turnover	956	2,663	3,710	4,464	6,360	5,227
Earnings before interest, depreciation, taxation and amortisation ("EBITDA")	(251)	(1,780)	(1,256)	502	1,305	2,347
Interest expense	(5)	(2)	-	(2)	(3)	(2)
Depreciation	(91)	(168)	(235)	(287)	(237)	(111)
Amortisation of development cost	-	(4)	(71)	(163)	(313)	(252)
Interest income	2	30	69	105	125	35
(Loss)/Profit before tax	(345)	(1,924)	(1,493)	155	877	2,017
Taxation	-	-	-	-	(84)	(10)
(Loss)/Profit after tax	(345)	(1,924)	(1,493)	155	793	2,007
Weighted average number of ordinary shares of RM1.00 in issue ('000)	120	-	-	-	-	-
Weighted average number of ordinary shares of RM0.10 in issue ('000)	-	62,460	103,929	105,713	106,030	106,030
Gross (loss)/earnings per share (Sen)	(287.50)	(3.08)	(1.44)	0.15	0.83	*3.26
Net (loss)/earnings per share (Sen)	(287.50)	(3.08)	(1.44)	0.15	0.75	*3.24
Diluted gross earnings per share (Sen)	N/A	N/A	N/A	0.15	0.83	*3.26
Diluted net earnings per share (Sen)	N/A	N/A	N/A	0.15	0.75	*3.24

Note:-

* Annualised.

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7.1 PROFORMA CONSOLIDATED RESULTS OF TMS GROUP (CONT'D)

Notes:-

- (a) *The proforma consolidated income statements are presented for illustrative purposes only and are prepared based on the audited financial statements of TMS, TMSPL and M-Apps for the Relevant Financial Period on the basis that the acquisition of the entire issued and paid-up capital of TMSPL and M-Apps had been in effect throughout the Relevant Financial Period.*
- (b) *The proforma consolidated income statements for the Relevant Financial Period have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the TMS Group.*
- (c) *The results of M-Apps have been time apportioned to 31 December to be co-terminus with that of the Group.*
- (d) *The difference between the effective tax rate and the statutory tax rate is explained in the notes to the financial statements in each individual company.*
- (e) *There were no extraordinary or exceptional items during the Relevant Financial Period under review.*
- (f) *The proforma gross EPS for the financial years ended 2000 to 2003 and financial period ended 31 July 2004 is computed by dividing the profit before taxation by the assumed weighted average number of ordinary shares in issue, based on the existing paid-up capital after the Acquisition but before the Public Issue.*
- (g) *The proforma net EPS for the financial years ended 2000 to 2003 and the financial period ended 31 July 2004 is computed by dividing the profit after taxation by the assumed weighted average number of ordinary shares in issue, based on the existing paid-up capital after the Acquisition but before the Public Issue.*
- (h) *The proforma gross EPS for the financial year ended 1999 is computed by dividing the profit before taxation by the assumed weighted average number of ordinary shares in issue.*
- (i) *The proforma net EPS for the financial year ended 1999 is computed by dividing the profit after taxation by the assumed weighted average number of ordinary shares in issue.*
- (j) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*

13 ACCOUNTANTS' REPORT (Cont'd)



7.2 INCOME STATEMENTS OF TMS

The summarised income statements of TMS based on its audited financial statements for the Relevant Financial Period are set out below:-

	Financial Year Ended 31 December ("FY")					7 months ended
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	31.7.2004 RM'000
Turnover	638	2,082	3,223	4,464	5,820	4,210
Cost of sales	(121)	(399)	(673)	(1,126)	(2,345)	(1,265)
Gross profit	517	1,683	2,550	3,338	3,475	2,945
Other operating income	4	30	69	107	126	35
Operating overheads	521	1,713	2,619	3,445	3,601	2,980
Finance costs	(671)	(2,703)	(4,907)	(3,443)	(3,141)	(1,846)
(LBT)/PBT	(157)	(998)	(2,290)	(3)	455	1,130
Taxation	-	-	-	-	(84)	(10)
(LBT)/PAT	(157)	(998)	(2,290)	(3)	371	1,120
Weighted average number of ordinary shares of RM1 each in issue ('000)	120	5,221	6,302	8,086	8,403	8,403
Gross (LPS)/EPS (Sen)	(130.83)	(19.12)	(36.34)	^	5.41	*23.05
Net (LPS)/EPS (Sen)	(130.83)	(19.12)	(36.34)	^	4.42	*22.85

Note:-

- ^ Negligible, less than 1 sen.
- * Annualised.

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7.2 INCOME STATEMENTS OF TMS (CONT'D)

Notes to the income statements of TMS:-

- (a) *TMS was incorporated on 9 April 1996 and is principally engaged in the business of research and development of computer software, and the provision of systems networking support.*
- (b) *Turnover for FY1999 increased by approximately 27% mainly due to the development and sale of new software by the TMS, namely tmsINTRANET and tmsSEED. However, despite the increase in turnover, TMS suffered a LAT due to the loss on the disposal of a subsidiary and bad debts written off.*
- (c) *Turnover for FY2000 increased by 226% mainly due to development and launching of tmsPUBLISHER which was well received by the market. The sales of custom and customised development projects had also contributed to the increase and accounted for approximately 52% of the sales for FY2000. Despite the significant increase in turnover, TMS suffered a higher LAT due to the writing off of bad debts, increase in payroll costs and setting up costs incurred in a representative office in Hong Kong.*
- (d) *Turnover for FY2001 increased by 55% mainly due to the increase in sales from custom and customised development projects as a result of new projects secured during the year, namely Smart School Project for Telekom Smart School Sdn Bhd, Neighbourhood Watch Community Project for USJ Neighbourhood Watch and Travel Portal for Marco Polo Holidays Sdn Bhd. LAT for FY2001 increased further due to the writing off of advances to a subsidiary and the provision for diminution in the value of investment in a subsidiary.*
- (e) *Turnover for FY2002 increased by 39% mainly due to new government projects secured in FY2002, namely Integrated Management System for Education, Information and Communications Technologies Community Projects.*
- (f) *Turnover for FY2003 increased by approximately 30% due to the introduction of a new software, namely tmsFRAMEWORK, and training fee. As a result of rationalisation of operations by closing all foreign operations in the previous year and lower operating expenses in FY2003, TMS achieved a Profit After Tax ("PAT") of approximately RM371,000.*
- (g) *Turnover got FP2004 for the same period in FY2003 (time apportioned) has increased by approximately 24% due to major contracts secured for tmsPUBLISHER and product customisation work.*
- (h) *TMS was granted the Multimedia Super Corridor status on 14 September 1999 and enjoys pioneer status under the Promotion of Investments Act, 1986, for which 100% of its statutory income is tax exempted for a period of 5 years to 14 September 2004. TMS had on 2 July 2004 applied to the relevant authorities for an extension of the pioneer period by another 5 years. As at the date of this report, the application is pending approval.*
- (i) *The tax payable for the year/period ended 31 December 2003 and 31 July 2004 is in respect of fixed deposit interest income.*

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7.2 INCOME STATEMENTS OF TMS (CONT'D)

Notes to the income statements of TMS (cont'd):-

- (j) There were no exceptional and/or extraordinary items during the Relevant Financial Period under review.*
- (k) The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (l) The net EPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (m) No account is taken on the conversion of the RCPS and ESOS granted to employees in the computation of diluted earnings per share as the effect on the basic earnings per share is anti-dilutive.*

13 ACCOUNTANTS' REPORT (Cont'd)



7.3 INCOME STATEMENTS OF TMSPL

The summarised income statements of TMSPL based on its audited financial statements for the Relevant Financial Period is set out below:-

	Financial Year Ended 31 December ("FY")				7 months ended
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	31.7.2004 RM'000
Turnover	-	43	-	-	-
Cost of sales	-	-	-	-	-
Gross (loss)/profit	-	43	-	-	-
Other operating income	-	-	-	-	-
Operating overheads	-	43	-	-	-
Finance costs	(54)	(314)	(11)	(6)	(7)
LBT	(54)	(271)	(11)	(6)	(7)
Taxation	-	-	-	-	-
LAT	(54)	(271)	(11)	(6)	(7)
Weighted average number of ordinary shares of RM1 each in issue	218	218	218	218	218
Gross loss per share ("LPS") (Sen)	(24.77)	(124.31)	(5.05)	(2.75)	*(5.50)
Net LPS (Sen)	(24.77)	(124.31)	(5.05)	(2.75)	*(5.50)

NOTE:-

* Annualised.



7.3 INCOME STATEMENTS OF TMSPL (CONT'D)

Notes to the income statements of TMSPL:-

- (a) *TMSPL commenced its business operations during FY2001 and is principally engaged in the business of distributing and marketing internet based software applications. However, TMSPL ceased its operations in the same year and has remained dormant since.*
- (b) *Turnover for FY2001 comprised sales of software, namely tmsPUBLISHER and tmsINTRANET. However, due to the high operational costs in Singapore, TMSPL suffered a loss after tax.*
- (c) *There was no tax charge for FY2001 due to the losses.*
- (d) *There were no exceptional and/or extraordinary items during the Relevant Financial Period under review.*
- (e) *The gross LPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (f) *The net LPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*

13 ACCOUNTANTS' REPORT (Cont'd)



7.4 INCOME STATEMENTS OF M-APPS

The summarised income statements of M-Apps based on its audited financial statements for the Relevant Financial Period are set out below:-

	Financial Year Ended				Financial Period Ended	
	30 June 2000	30 June 2001	30 June 2002	30 June 2003	31 December 2003 (6 months) RM'000	31 July 2004 (7 months) RM'000
	RM'000	RM'000	RM'000	RM'000		
Turnover	-	-	-	260	780	1,017
Cost of sales	-	-	-	(10)	(60)	(111)
Gross profit	-	-	-	250	720	906
Other operating income	-	-	-	-	-	-
Operating overheads	-	-	-	250	720	906
Finance costs	-	(5)	(2)	(5)	(4)	(12)
(LBT)/PBT	-	(5)	(2)	245	716	894
Taxation	-	-	-	-	-	-
(LAT)/PAT	-	(5)	(2)	245	716	894
Weighted average number of ordinary shares of RM1 each in issue (RM'000)	^	^	6	308	308	308
Gross EPS (Sen)	N/A	^^	(33.33)	79.55	*464.94	*497.59
Net EPS (Sen)	N/A	^^	(33.33)	79.55	*464.94	*497.59

Notes:-

- ^ - The paid-up share capital amounted to RM2.
- ^^ - Gross and net eps of (RM2,500).
- * - Annualised.



7.4 INCOME STATEMENTS OF M-APPS (CONT'D)

Notes to the income statements of M-Apps:-

- (a) *M-Apps commenced its business operations during the financial year ended 30 June 2003 and was principally involved in the provision of information technology systems integration services.*
- (b) *Turnover for the financial year ended 30 June 2003 comprised a contract secured to provide Integrated Security Surveillance System. There were no significant expenses incurred other than the amortisation of the development expenditure.*
- (c) *Turnover for the financial period ended 31 December 2003 increased by RM520,000 or 200% mainly due to the 6 months billings as compared to 2 months in the preceding period for the same contract.*
- (d) *Turnover for the financial period ended 31 July 2004 (annualised) has increased by approximately 68% as compared to FYE 31 December 2003. This is due to additional billings for the period ended 31 July 2004 for the same contract secured in FYE 31 December 2003.*
- (e) *M-Apps has been granted the Multimedia Super Corridor status as of 29 May 2003 and enjoys pioneer status under the Promotion of Investments Act, 1986, for which 100% of its statutory income is tax exempt for a period of 5 years to 29 May 2008.*
- (f) *There were no exceptional and/or extraordinary items during the Relevant Financial Period under review.*
- (g) *The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (h) *The net EPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*

13 ACCOUNTANTS' REPORT (Cont'd)



8. SUMMARISED BALANCE SHEETS

8.1 TMS

The summarised balance sheets of TMS based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	31 December 1999 RM'000	31 December 2000 RM'000	31 December 2001 RM'000	31 December 2002 RM'000	31 December 2003 RM'000	31 July 2004 RM'000
Investment in subsidiaries	-	222	-	-	-	-
Plant and equipment	14	528	375	705	675	599
Software development expenditure	28	351	731	1,039	1,299	1,489
	42	1,101	1,106	1,744	1,974	2,088
Current assets	203	4,080	2,352	6,840	6,978	8,755
Current liabilities	(344)	(96)	(663)	(730)	(739)	(1,517)
Net current (liabilities)/assets	(141)	3,984	1,689	6,110	6,239	7,238
	(99)	5,085	2,795	7,854	8,213	9,326
Financed by:-						
Share capital						
- Ordinary Shares	120	6,302	6,302	6,302	6,302	6,302
- Redeemable Convertible Preference Shares	-	-	-	2,101	2,101	2,101
Share premium	-	-	-	2,899	2,899	2,899
Accumulated losses	(219)	(1,217)	(3,507)	(3,510)	(3,139)	(2,019)
Shareholders' equity	(99)	5,085	2,795	7,792	8,163	9,283
Long term liabilities	-	-	-	62	50	43
	(99)	5,085	2,795	7,854	8,213	9,326
(NTL)/NTA per ordinary share (RM)	(1.06)	0.75	0.33	1.07	1.09	1.24

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13 ACCOUNTANTS' REPORT (Cont'd)



8.2 TMSPL

The summarised balance sheets of TMSPL based on its audited financial statements as at the end of the Relevant Financial Period are as follows:

	31 December 2000 RM'000	31 December 2001 RM'000	31 December 2002 RM'000	31 December 2003 RM'000	31 July 2004
Equipment	5	-	-	-	-
Current assets	202	7	43	39	58
Current liabilities	(42)	(123)	(177)	(181)	(205)
Net current liabilities	160	(116)	(134)	(142)	(147)
	165	(116)	(134)	(142)	(147)
Financed by:-					
Share capital	218	218	218	218	218
Accumulated losses	(53)	(334)	(352)	(360)	(365)
Shareholders' equity	165	(116)	(134)	(142)	(147)
Long term liabilities		-	-	-	-
	165	(116)	(134)	(142)	(147)
(NTL)/NTA per share (RM)	0.76	(0.53)	(0.61)	(0.65)	(0.67)

13 ACCOUNTANTS' REPORT (Cont'd)



8.3 M-APPS

The summarised balance sheets of M-Apps based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	30 June 2000 RM'000	30 June 2001 RM'000	30 June 2002 RM'000	30 June 2003 RM'000	31 December 2003 RM'000	31 July 2004 RM'000
Software development expenditure	-	-	-	440	880	769
Pre-operating and preliminary expenses	4	-	-	-	-	-
Current assets	-	-	1	260	1,040	388
Current liabilities	(4)	(5)	(2)	(6)	(509)	(513)
Net current assets/(liabilities)	(4)	(5)	(1)	254	405	(125)
	-	(5)	(1)	694	1,411	644
Financed by:-						
Share capital	^	^	6	308	308	308
Share premium	-	-	-	148	148	148
(Accumulated losses)/Retained profits	-	(5)	(7)	238	954	188
Shareholders' equity	-	(5)	(1)	694	1,411	644
Long term liabilities	-	-	-	-	-	-
	-	(5)	(1)	694	1,411	644
NTA/(NTL) per share (RM)	1.00	(2,500.00)	(0.17)	0.82	1.72	(0.41)

Note:-

^ - The paid-up share capital is RM2.



9. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIOD

TMS, TMSPL and M-Apps have not paid or declared any dividend during the Relevant Financial Period except for the financial period ended 31 July 2004 when M-Apps declared a first and second interim tax exempt dividend amounting to RM1,168,500 and RM492,000 respectively.

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

The proforma statements of assets and liabilities of TMS at 31 July 2004 are prepared based on the audited financial statements of TMS, TMSPL and M-Apps as at 31 July 2004.

The Proforma Group's statements of assets and liabilities are provided for illustrative purposes only to show the effects of the acquisition of M-Apps, conversion of RCPS to ordinary shares, exercise of existing ESOS, sub-division of shares, public issue and utilisation of proceeds from the public issue as if these transactions had been completed as at 31 July 2004.

The Proforma Group's statement of assets and liabilities should be read in conjunction with the accompanying notes thereon.


PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

	Notes	Audited as at 31 July 2004 RM'000	Proforma Group RM'000
Non-current assets			
Plant and equipment	10.1	599	599
Software development cost	10.2	1,489	2,258
Goodwill		-	2,956
		<u>2,088</u>	<u>5,813</u>
Current assets			
Trade receivables	10.3	4,522	4,022
Other receivables, deposits and prepayments		1,880	781
Fixed deposits with licensed banks	10.4	2,045	2,045
Cash and bank balances		296	8,382
		<u>8,743</u>	<u>15,230</u>
Current Liabilities			
Trade payables	10.5	215	215
Other payables and accruals		1,286	199
Provision for taxation		12	12
Hire purchase payable	10.6	12	12
		<u>1,525</u>	<u>438</u>
Net current assets		<u>7,218</u>	<u>14,792</u>
		<u>9,306</u>	<u>20,605</u>
Financed by:			
Share capital	10.7	8,403	13,164
Share premium	10.8	2,899	9,437
Exchange fluctuation reserve		(7)	(7)
Accumulated losses		(2,032)	(2,032)
Shareholders' equity		9,263	20,562
Non-current liability	10.6	43	43
		<u>9,306</u>	<u>20,605</u>
No. of ordinary shares of:- RM1.00/0.10 each			
- RM1.00 each		6,302	-
- RM0.10 each		-	131,644
NTA per ordinary share (RM)		*0.44	0.12

Note:-

- * The computation of NTA per ordinary share has taken into account the cash repayment of RM2.38 per RCPS in the event of a winding-up or reduction in capital or other return of capital.



PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

Notes to the Proforma Statements of Assets and Liabilities:-

10.1 PLANT AND EQUIPMENT

AT 31.7.2004	COST RM'000	ACCUMULATED DEPRECIATION RM'000	NET BOOK VALUE RM'000
Computer equipment	1,180	(856)	324
Furniture and fittings	108	(61)	47
Motor vehicle	105	(53)	52
Office equipment	112	(74)	38
Renovation	242	(104)	138
	1,747	(1,148)	599

Included in the net book value of plant and equipment of the Group and of the Company at the balance sheet date was a motor vehicle with carrying value of RM52,667 (2003 – RM64,956) acquired under hire purchase terms.

10.2 SOFTWARE DEVELOPMENT COST

	RM'000
Software development, at cost:-	
At 1.1.2004	1,779
Additions during the financial year/period	1,522
At 31.7.2004	3,301
Grant received/receivable from the government	(241)
	3,060
Less: Amortisation of software development cost	
At 1.1.2004	550
Amortisation for the financial year/period	252
	(802)
As per Group Proforma	2,258

This relates to the expenditure incurred for the development of "tmsIntranet", "tmsSEED", "tmsPublisher", "tmsSyndicator" and "tmsFramework" software.

Included in the development costs during the financial year are the following items:-

	31.7.2004 RM'000
Depreciation of equipment	62
Director's non-fee emoluments	87
Staff costs	424
	573

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**10.3 TRADE RECEIVABLES**

	RM'000
Gross trade receivables	4,090
	(68)
	<u>4,022</u>
Allowance for doubtful debts	<u>4,022</u>

The Group's normal trade credit term is 120 days. Other credit terms are assessed and approved on a case-by-case basis. The currency exposure profile of trade receivables is as follows:-

	31.7.2004 RM'000
US Dollar	59
Indonesian Rupiah	<u>79</u>

10.4 FIXED DEPOSITS WITH LICENSED BANKS

The effective interest rate of the fixed deposits at the balance sheet date was 3.06% (2003 – 3.32%) per annum. The fixed deposits have an average maturity period of 365 days.

10.5 TRADE PAYABLES

The normal trade credit terms granted to the Group range from 30 days to 120 days.

10.6 HIRE PURCHASE PAYABLES

	31.7.2004 RM'000
Minimum lease payments:	
- not later than one year	15
- later than one year but not later than five years	55
	<u>70</u>
Less: Future finance charges	(15)
	<u>55</u>
Present value of hire purchase liability	<u>55</u>
Current:	
- not later than one year	12
Non-current:	
- later than one year but not later than five years	43
	<u>55</u>
Present value of hire purchase liability	<u>55</u>

The effective interest rate for hire purchase payables of the Group and of the Company was 3.9% (2003 – 3.9%) per annum.

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10.7 SHARE CAPITAL

As at the date of this report, TMS has an authorised share capital of RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each and an issued and paid-up capital of RM10,696,360 comprising 106,963,600 ordinary shares of RM0.10 each.

The movements in the issued and paid-up share capital of TMS are as follows:

	No. ('000)	Par value RM per share	RM'000
As at 31 July 2004	6,302	1.00	6,302
Acquisition of M-Apps	1,360	1.00	1,360
Proposed conversion of RCPS	2,101	1.00	2,100
Subscription of shares under the ESOS	934	1.00	934
Proposed share split	96,267	0.10	-
Proposed public issue	24,680	0.10	2,468
Per Group Proforma	<u>131,644</u>	0.10	<u>13,164</u>

10.8 SHARE PREMIUM

	2003 RM'000
At 31 July 2004	2,899
Premium arising from:	
- ESOS	1,868
- Public issue	6,170
	<u>10,937</u>
Less: Listing expenses	(1,500)
Per Group Proforma	<u>9,437</u>



11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement of TMS Group set out below is based on the audited financial statements of TMS, TMSPL and M-Apps for the financial period from 1 January 2004 to 31 July 2004, and is presented on the basis that the TMS Group had been in existence throughout the Relevant Financial Period.

	Note	RM'000
Cash Flows From Operating Activities		
Profit before taxation		2,017
Adjustments for:-		
Amortisation of development costs		252
Allowance for doubtful debts		68
Bad debts written off		2
Depreciation of plant and equipment		111
Effect of exchange rate changes		2
Interest expense		2
Interest income		(35)
		<hr/>
Operating profit before working capital changes		2,419
Increase in trade and other receivables		(877)
Increase in trade and other creditors		796
		<hr/>
Cash From Operations		2,338
Interest paid		(2)
Income tax paid		(25)
		<hr/>
Net Cash From Operating Activities		<u>2,311</u>
Cash Flows For Investing Activities		
Interest received		35
Purchase of plant and equipment		(35)
Government grant		241
Software development expenditure		(572)
		<hr/>
Net Cash For Investing Activities		<u>(331)</u>
Cash Flows For Financing Activities		
Repayment of hire purchase obligations		(7)
		<hr/>
Net Cash For Financing Activities		<u>(7)</u>
Net Increase In Cash And Cash Equivalents		1,973
Cash And Cash Equivalents At Beginning Of The Financial Year		<u>755</u>
Cash And Cash Equivalents At End Of The Financial Period	11.1	<u><u>2,728</u></u>

13 ACCOUNTANTS' REPORT (Cont'd)



11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

11.1 ANALYSIS OF CASH AND CASH EQUIVALENTS

	RM'000
Fixed deposits with licensed banks	2,044
Cash and bank balances	684
Bank overdraft	-
	<u>2,728</u>

12. NET TANGIBLE ASSETS PER ORDINARY SHARE

The net tangible assets cover of TMS based on the Proforma Group's statements of assets and liabilities as at 31 July 2004 as set out in Paragraph 10 above is illustrated below:-

	RM'000
Shareholders' equity before public issue	13,424
Less: Intangible assets – software development costs – goodwill	<u>(2,956)</u>
Net tangible assets of TMS Group before the Public Issue	8,210
Increase in net tangible assets arising from the Public Issue	8,638
Less: Estimated listing expenses	<u>(1,500)</u>
	<u>15,348</u>

Number of ordinary shares of RM0.10 each in TMS that are in issue:-

	Number of ordinary shares '000
Existing ordinary shares in issue	106,964
Additional shares to be issued pursuant to the Public Issue	<u>24,680</u>
	<u>131,644</u>

On the basis of the enlarged issued and paid-up share capital of 131,643,600 ordinary shares of RM0.10 each in TMS, the Group net tangible assets cover per ordinary share of TMS is approximately RM0.12.

13 ACCOUNTANTS' REPORT (Cont'd)



13. SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which will affect materially the content of this report.

14. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 July 2004 for TMS Group.

Yours faithfully

A handwritten signature in black ink, appearing to be "JAC".

Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "Onn Kien Hoe".

Onn Kien Hoe
Approval No : 1772/11/06 (J/PH)
Partner

14 **PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER
THEREON**



Horwath *AF No 1018*
Kuala Lumpur Office
Chartered Accountants

Level 16 Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

603.2166.0000 Main
603.2166.1000 Fax

www.horwath.com.my
horwath@po.jaring.my

5 November 2004

The Board of Directors
THE MEDIA SHOPPE BERHAD
No. Unit C-902, Penthouse,
Kelana Square,
17, Jalan SS7/26,
Kelana Jaya,
47301 Petaling Jaya

Dear Sirs/Madam

**THE MEDIA SHOPPE BERHAD ("TMS")
PROFORMA CONSOLIDATED BALANCE SHEETS**

We have reviewed the Proforma Consolidated Balance Sheets of TMS and its subsidiaries ("TMS Group") as at 31 July 2004 together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the accompanying statements (initialled by us for the purpose of identification only) for inclusion in the Prospectus of TMS to be dated 19 November 2004 in connection with the following:-

- (a) Acquisition of 100% of the issued and paid-up capital of M-Apps Solutions Sdn. Bhd. ("M-Apps") comprising 307,500 ordinary shares of RM1.00 each for a total consideration of RM3,600,000 to be satisfied by the issuance of 1,360,000 new ordinary shares of RM1.00 each in TMS and cash consideration of RM2,240,000 to IDSSS Management Sdn. Bhd. ("IDSSS");
- (b) Conversion of 2,100,680 Redeemable Convertible Preference Shares ("RCPS") each in TMS into 2,100,680 new ordinary shares of RM1.00 each in TMS;
- (c) Disposal of 447,620 ordinary shares of RM1.00 each in TMS by the founders of TMS to selected employees of TMS for RM1.00 per employee;
- (d) The options granted under the existing Employees Share Option Scheme ("ESOS") to eligible employees to subscribe for 933,640 ordinary shares of RM1.00 each in TMS at an exercise price of RM3.00 per share;
- (e) Sub-division of existing ordinary shares of RM1.00 each into ten ordinary shares of RM0.10 each;

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**14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER
THEREON (Cont'd)**



- (f) Public issue of 24,680,000 new ordinary shares of RM0.10 each in TMS at an indicative issue price of RM0.35 each by way of private placement and/or public offer to the public, eligible employees and business associates of the TMS Group; and
- (g) The listing and quotation of TMS's entire enlarged issued and paid-up share capital of RM13,164,360 comprising 131,643,600 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

In our opinion,

- (i) the Proforma Consolidated Balance Sheets, which are prepared for illustrative purposes only, have been properly compiled on the bases set out in the accompanying notes to the Proforma Consolidated Balance Sheets;
- (ii) the bases are consistent with the accounting policies normally adopted by the Group; and
- (iii) the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

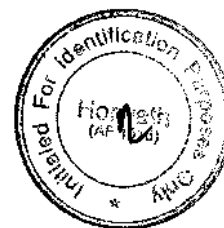
We understand that this letter will be used solely for the purpose stated above, in connection with the aforementioned transactions. As such, this letter should not be used for any other purpose without our prior consent. Neither the firm nor any other member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

Horwath
Firm No : AF 1018
Chartered Accountants

Onn Kien Hoe
Approval No : 1772/11/06 (J/PH)
Partner

14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)

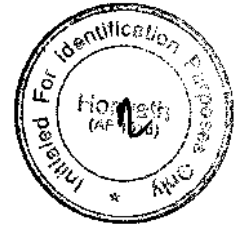


**THE MEDIA SHOPPE BERHAD ("TMS") AND ITS SUBSIDIARIES ("TMS GROUP")
PROFORMA CONSOLIDATED BALANCE SHEETS**

	Audited as at 31 July 2004	Proforma I After Acquisition of M-Apps	Proforma II After Proforma I and Conversion of RCPS	Proforma III After Proforma II and ESOS	Proforma IV After Proforma III and Share Split	Proforma V After Proforma IV and Public Issue
	RM	RM	RM	RM	RM	RM
Non-current assets						
Plant and equipment	599,357	599,357	599,357	599,357	599,357	599,357
Software development expenditure	1,489,124	2,258,291	2,258,291	2,258,291	2,258,291	2,258,291
Goodwill	-	2,955,139	2,955,139	2,955,139	2,955,139	2,955,139
	<u>2,088,481</u>	<u>5,812,787</u>	<u>5,812,787</u>	<u>5,812,787</u>	<u>5,812,787</u>	<u>5,812,787</u>
Current assets	<u>8,742,812</u>	<u>7,531,198</u>	<u>7,531,198</u>	<u>10,332,118</u>	<u>10,332,118</u>	<u>15,230,118</u>
Current liabilities	<u>1,525,481</u>	<u>2,678,173</u>	<u>2,678,173</u>	<u>2,678,173</u>	<u>2,678,173</u>	<u>498,173</u>
Net current assets	<u>7,217,331</u>	<u>4,853,025</u>	<u>4,853,025</u>	<u>7,653,945</u>	<u>7,653,945</u>	<u>14,791,945</u>
	<u>9,305,812</u>	<u>10,665,812</u>	<u>10,665,812</u>	<u>13,466,732</u>	<u>13,466,732</u>	<u>20,604,732</u>
Financed by:						
Share capital	8,402,720	9,762,720	9,762,720	10,696,360	10,696,360	13,164,360
Share premium	2,899,320	2,899,320	2,899,320	4,766,600	4,766,600	9,436,600
Exchange fluctuation reserve	(7,417)	(7,417)	(7,417)	(7,417)	(7,417)	(7,417)
Accumulated losses	<u>(2,031,811)</u>	<u>(2,031,811)</u>	<u>(2,031,811)</u>	<u>(2,031,811)</u>	<u>(2,031,811)</u>	<u>(2,031,811)</u>
Shareholders' equity	9,262,812	10,622,812	10,622,812	13,423,732	13,423,732	20,561,732
Non-current liabilities	<u>43,000</u>	<u>43,000</u>	<u>43,000</u>	<u>43,000</u>	<u>43,000</u>	<u>43,000</u>
	<u>9,305,812</u>	<u>10,665,812</u>	<u>10,665,812</u>	<u>13,466,732</u>	<u>13,466,732</u>	<u>20,604,732</u>
No of shares of RM1.00 each	<u>6,302,040</u>	<u>7,662,040</u>	<u>9,762,720</u>	<u>10,696,360</u>	-	-
No of shares of RM0.10 each	-	-	-	-	<u>106,963,600</u>	<u>131,643,600</u>
Net tangible assets per ordinary share (RM/share)	<u>0.44*</u>	<u>0.55</u>	<u>0.55</u>	<u>0.77</u>	<u>0.08</u>	<u>0.12</u>

* The computation of net tangible assets ("NTA") per ordinary share has taken into account the cash repayment of RM2.38 per RCPS in the event of a winding-up or reduction in capital or other return of capital.

14 **PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER
THEREON (Cont'd)**



**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**

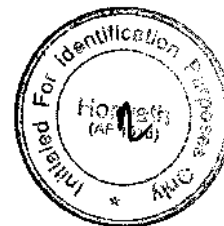
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1. Basis of Preparation

The Proforma Balance Sheets of TMS have been prepared based on the audited balance sheets of TMS and its subsidiaries as at 31 July 2004 together with the accompanying notes thereto, which have been prepared solely for illustrative purposes, to show the effects of the following as though they were effected as of that date.

- (a) Acquisition of 100% of the issued and paid-up capital of M-Apps Solutions Sdn. Bhd. ("M-Apps") comprising 307,500 ordinary shares of RM1.00 each for a total consideration of RM3,600,000 to be satisfied by the issuance of 1,360,000 new ordinary shares of RM1.00 each in TMS and cash consideration of RM2,240,000 to IDSSS Management Sdn. Bhd. ("IDSSS");
- (b) Conversion of 2,100,680 Redeemable Convertible Preference Shares ("RCPS") each in TMS into 2,100,680 new ordinary shares of RM1.00 each in TMS;
- (c) Disposal of 447,620 ordinary shares of RM1.00 each in TMS by the founders of TMS to the selected employees of TMS for RM1.00 per share;
- (d) The options granted under the existing Employees Share Option Scheme ("ESOS") to eligible employees to subscribe for 933,640 ordinary shares of RM1.00 each in TMS shall be fully exercised at RM3.00 per share;
- (e) Sub-division of existing ordinary shares of RM1.00 each into ten (10) ordinary shares of RM0.10 each;
- (f) Public issue of 24,680,000 new ordinary shares of RM0.10 each in TMS at an indicative issue price of RM0.35 each by way of private placement and/or public offer to the public, eligible employees and business associates of the TMS Group; and
- (g) The listing and quotation of TMS's entire enlarged issued and paid-up share capital of RM13,164,360 comprising 131,643,600 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Securities.

14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1.1 Proforma I

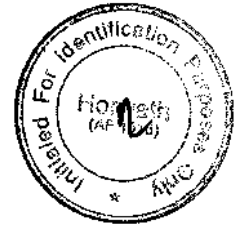
Proforma I incorporates the effects of the acquisition of the entire issued and fully paid-up share capital of M-Apps Solutions Sdn. Bhd. (M-Apps) comprising of 307,500 ordinary shares of RM1.00 each for a purchase consideration of RM3,600,000 to be satisfied by way of cash consideration of RM2,240,000 and 1,360,000 new TMS ordinary shares at RM1.00 each. The Sale and Purchase Agreement ("SPA") for the acquisition of M-Apps was signed on 27 February 2004 and was completed on 10 September 2004.

The assumptions made in arriving at Proforma I are as follows:

- (i) Pursuant to the SPA, RM100,000 of the total cash consideration was paid upon signing of the said agreement with the balance of RM2,000,000 and RM140,000 to be paid prior to the proposed public issue and 45 days after the listing of TMS's shares on the MESDAQ market respectively. The total payment of RM2,140,000 is reflected in Proforma V; and
- (ii) The goodwill of RM2,955,139 in respect of the acquisition of M-Apps was computed as follows:

	RM
Cost of investment in M-Apps	3,600,000
Less: Net assets acquired at 31 July 2004	<u>(644,861)</u>
Goodwill on consolidation	<u><u>2,955,139</u></u>

**14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER
THEREON (Cont'd)**



**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

1.2 Proforma II

Proforma II incorporates the effects of Proforma I and the conversion of the existing 2,100,680 RCPS of RM1.00 each in TMS on the basis of one new ordinary share of RM1.00 each for every one existing RCPS held.

1.3 Proforma III

Proforma III incorporates the effects of Proforma II and the exercise of the existing options granted under the ESOS to eligible employees to subscribe for 933,640 new ordinary shares of RM1.00 each at RM3.00 per share.

1.4 Proforma IV

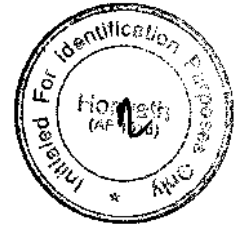
Proforma IV incorporates the effects of Proforma III and the sub-division of the par value of the ordinary shares in TMS from RM1.00 per share to RM0.10 per share.

1.5 Proforma V

Proforma V incorporates the effects of Proforma IV and the Public Issue of 24,680,000 new ordinary shares of RM0.10 each in TMS at an issue price of RM0.35 per new ordinary share payable in full comprising:

- (i) 1,200,000 new ordinary shares of RM0.10 each made available for application by the public;
- (ii) 21,880,000 new ordinary shares of RM0.10 each for placement to selected investors; and
- (iii) 1,600,000 new ordinary shares of RM0.10 each for allocation to eligible directors, employees and business associates of The Media Shoppe Berhad.

**14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER
THEREON (Cont'd)**



**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**

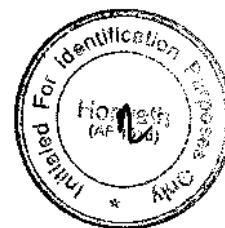
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

The total proceeds from the Proposed Public Issue of RM8.6 million will be utilised as follows:

	RM
Development expenditure	3,000,000
Acquisition of M-Apps	140,000
Estimated listing expenses	1,500,000
Working capital	<u>3,998,000</u>
	<u>8,638,000</u>

The estimated listing expenses of RM1,500,000 have been debited against the share premium.

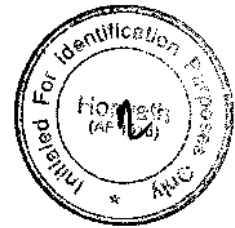
14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)


**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**
NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)
2. Share Capital

The movements in the issued and paid-up share capital of TMS are as follows: -

	Par Value RM	Ordinary Shares		RCPS		Total	
		No.	RM	No.	RM	No.	RM
As at 31 July 2004	1.00	6,302,040	6,302,040	2,100,680	2,100,680	8,402,720	8,402,720
Acquisition of M-Apps		1,360,000	1,360,000	-	-	1,360,000	1,360,000
As per Proforma I	1.00	7,662,040	7,662,040	2,100,680	2,100,680	9,762,720	9,762,720
Proposed conversion of RCPS		2,100,680	2,100,680	(2,100,680)	(2,100,680)	-	-
As per Proforma II	1.00	9,762,720	9,762,720	-	-	9,762,720	9,762,720
Subscription of shares under the ESOS		933,640	933,640	-	-	933,640	933,640
As per Proforma III	1.00	10,696,360	10,696,360	-	-	10,696,360	10,696,360
Proposed share split		96,267,240	-	-	-	96,267,240	-
As per Proforma IV	0.10	106,963,600	10,696,360	-	-	106,963,600	10,696,360
Proposed public issue		24,680,000	2,468,000	-	-	24,680,000	2,468,000
As per Proforma V	0.10	131,643,600	13,164,360	-	-	131,643,600	13,164,360

14 PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)



**TMS GROUP
PROFORMA CONSOLIDATED BALANCE SHEETS**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

3. Share Premium Account

The estimated listing expenses have been debited against the share premium account. The movements in the share premium account are as follows:-

	RM
As at 31 July 2004, Proforma I and Proforma II	2,899,320
Exercise of ESOS	1,867,280
As per Proforma III and Proforma IV	<u>4,766,600</u>
Premium arising from the proposed public issue	6,170,000
Estimated listing expenses	<u>(1,500,000)</u>
As per Proforma V	<u><u>9,436,600</u></u>