

6. APPROVAL AND CONDITIONS

6.1 APPROVALS AND CONDITIONS

The Bonus Issue, Acquisitions, Sub-division, Public Issue and Listing was approved by the following authorities as follows:-

Authorities	Date
MITI	27 October 2004, 30 October 2004 and 3 June 2005
SC	6 May 2005

In addition, Bursa Securities had via its letter dated 24 February 2005 granted its approval-in-principle on the following:-

- (i) The Listing on a "Ready" basis pursuant to the Rules of Bursa Securities or such variations to the enlarged issued and paid-up share capital as may be imposed by the SC; and
- (ii) The additional listing of such number of new Shares representing up to 15% of the issued and paid-up share capital of the Company to be issued pursuant to the exercises of Options under the ESOS.

Conditions Imposed by Bursa Securities	Status of Compliance
<i>Bursa Securities' letter dated 24 February 2005</i>	
(i) Subject to the approval from the SC being obtained and where there are conditions and/or variations imposed by the SC, compliance of the said conditions and/or variations in relation to the issuance and listing of the securities of the Company (" SC Approval "); and	SC Approval was obtained via its letter dated 6 May 2005/ To be complied
(ii) in the event that the SC Approval affects or vary the issued and paid-up capital of the Listing submitted in the application to Bursa Securities (collectively to be referred to as " Variations "), compliance of the Variations with the Listing Requirements.	No Variations noted as per SC Approval via its letter dated 6 May 2005

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6. APPROVAL AND CONDITIONS (Cont'd)

Conditions Imposed by the MITI	Status of Compliance
<u>MITI's letter dated 27 October 2004, 30 October 2004 and 3 June 2005</u>	
(i) To obtain the SC's approval for the Listing Scheme and compliance with the guideline on acquisitions, mergers and take-overs;	Complied
(ii) To obtain MESDAQ's approval	With effect from 1 January 2005, Bursa Securities has ceased to approve the issue and listing of securities on the MESDAQ Market and all applications will be decided solely by the SC. The SC's approval has been obtained via its letter dated 6 May 2005

Conditions Imposed by the SC	Status of Compliance
<u>SC's letter dated 6 May 2005</u>	
(i) Elsoft to ensure that, upon the implementation of the acquisitions of STSB and AGS, the net tangible assets ("NTA") of STSB and AGS should not be less than their respective audited NTA as at 30 June 2004, which is the basis used by Elsoft for the purchase consideration of STSB and AGS;	Complied
(ii) Elsoft to disclose the status of utilisation of listing proceeds in its quarterly and annual reports until the proceeds are fully utilised;	To be complied
(iii) Elsoft/its promoters to adhere to the moratorium requirement under Rule 2.10 of the Listing Requirements; and	To be complied
(iv) Elsoft to fully disclose in its Listing Prospectus the risk of dependence on the major customers of the Group, in particular Agilent Technologies Sdn Bhd, and detailed steps taken/to be taken to mitigate this risk.	Complied. Please refer to Sections 3(g) and 4.5

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6. APPROVAL AND CONDITIONS (Cont'd)**6.2 MORATORIUM ON SHARES**

Pursuant to the Listing Requirements, Shares held by the Promoters amounting to 45% of the enlarged issued and paid-up capital of the Company as at the date of admission of the Company to the Official List of the MESDAQ Market are to be placed under moratorium.

The Promoters of Elsoft whose Shares are subject to the moratorium are as follows:-

Name of Promoters	Under Moratorium After Public Issue ⁽¹⁾		Under Moratorium After Full Exercise of ESOS ⁽²⁾	
	No. of Shares	%	No. of Shares	%
Tan Cheik Eaik	38,522,183	21.40	38,522,183	18.61
Tan Ai Jiew	20,714,973	11.51	20,714,973	10.01
Koay Kim Chiew	18,780,892	10.43	18,780,892	9.07
Tan Ah Lek	15,131,952	8.41	15,131,952	7.31
	93,150,000	51.75	93,150,000	45.00

Notes:-

- (1) Computed based on the enlarged issued and paid-up share capital of 180,000,000 Shares.
- (2) Computed based on the enlarged issued and paid-up share capital assuming full exercise of ESOS of 207,000,000 Shares.

The moratorium has been fully accepted by the Promoters. They will not be allowed to sell, transfer or assigned any part of their interest in the Shares under moratorium within one (1) year from the date of admission of the Company to the Official List of the MESDAQ Market, and thereafter, they are permitted to sell, transfer or assign up to a maximum of one third per annum of their respective shareholdings under moratorium on a straight-line basis.

The restriction will be specifically endorsed on the share certificates of Elsoft representing the respective shareholdings of the Promoters which are under moratorium to ensure that the Company's Registrars will not register any transfer not in compliance with the moratorium restrictions.

Tan Cheik Eaik, Tan Ai Jiew, Koay Kim Chiew and Tan Ah Lek have provided their respective undertakings that they shall not sell, transfer or assign their respective shareholdings during the moratorium period.

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6. APPROVAL AND CONDITIONS (Cont'd)

6.3 CONDITIONS IMPOSED BY MDC

The following are the conditions imposed by MDC in granting the MSC status to Elsoft:-

Conditions	Compliance
<p>The MSC-Status Company hereby agrees to:</p> <p>1. Complete business registration of the proposed entity as a locally incorporated company under the Companies Act 1965 within one (1) month from 31 December 2003, commence operations of the proposed entity within six (6) months from 31 December 2003, and undertake such activities specified in the company's business plan as approved by MDC below ("MSC-Qualifying Activities") within six (6) months from 31 December 2003 or by such date as may be specified in the company's business plan as approved, which date may be extended or modified with the written consent of MDC, and thereafter continue with such business and activities unless otherwise approved by MDC. The MSC-Qualifying Activities are as follows:-</p> <ul style="list-style-type: none"> • Research, design and development of test and burn-in system; and • Research, design and development of application specific embedded system. <p>Any changes proposed to the above MSC Qualifying Activities as detailed in the Business Plan must receive the prior written consent of MDC.</p>	<p>Met. Elsoft commenced its operation in January 2004</p>
<p>2. Locate the implementation and operation of the MSC Qualifying Activities in Technology Park Malaysia, within six (6) months from 31 December 2003, and will seek MDC's prior written approval in the event of any changes in the location or address of the company.</p>	<p>Met. Elsoft's relocation status to MSC-designated cybercity at Plot 9, Bayan Lepas Industrial Zone, Penang has been recognised by MDC via MDC's letter dated 6 January 2005</p>
<p>3. Ensure that at all times at least 15% of the total number of employees (excluding support staff) of the MSC-Status Company shall be "knowledge workers" (as defined by MDC).</p>	<p>Met</p>
<p>4. Continuously comply with the MSC's environmental guidelines as determined by MDC from time to time.</p>	<p>Met</p>
<p>5. Submit to MDC a copy of the Company's Annual Report and Audited Statements in parallel with submission to the Companies Commission of Malaysia.</p>	<p>Met</p>
<p>6. Inform and obtain the prior approval of MDC for any proposed change in the name of the MSC-Status Company.</p>	<p>Met</p>
<p>7. Inform MDC of any changes in the equity structure or shareholding structure of the MSC-Status Company, or such other changes that may affect the direction or operation of the MSC-Status Company. MDC must be informed of any change before steps are taken to effect such change.</p>	<p>Met</p>
<p>8. Comply with all such statutory, regulatory and/or licensing requirements as may be applicable.</p>	<p>Met</p>

7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST

7.1 EXISTING AND PROPOSED RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST

The Group does not have any ongoing trade transactions with companies, which the Promoters, Directors and/or substantial shareholders of Elsoft are Directors and/or substantial shareholders.

7.2 TRANSACTIONS THAT ARE UNUSUAL IN THEIR NATURE OR CONDITIONS

There is no transactions that is unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which the corporation or any of its parent or subsidiaries was a party in respect of the past one (1) financial year and the subsequent financial period thereof immediately preceding the date of this Prospectus.

7.3 OUTSTANDING LOANS MADE BY CORPORATION OR ANY OF ITS PARENT OR SUBSIDIARIES TO/FOR THE BENEFIT OF RELATED PARTIES

There is no outstanding loan (including guarantees of any kind) made by the Company or any of its parent or subsidiaries to or for the benefit of related party(ies) for the past one (1) financial year and subsequent financial period thereof immediately preceding the date of this Prospectus.

7.4 INTEREST IN SIMILAR BUSINESS

None of the Directors and/or substantial shareholders and/or key management of Elsoft and its subsidiaries are interested, directly or indirectly in any business carrying on a similar trade as the Company and its subsidiaries.

7.5 PROMOTIONS OF ANY MATERIAL ASSETS ACQUIRED/TO BE ACQUIRED WITHIN TWO (2) YEARS PRECEDING THE DATE OF THIS PROSPECTUS

Save as disclosed below, none of the Directors and/or substantial shareholders have any interest, direct or indirect, in the promotion of or in any material assets acquired or proposed to be acquired or disposed or proposed to be disposed of or leased or proposed to be leased to the Company or any of its subsidiaries within the two (2) years preceding the date of this Prospectus:-

- (a) On 6 September 2004, Elsoft entered into a share sale agreement to acquire the entire issued and paid-up share capital of STSB comprising 500,000 ordinary shares of RM1.00 each for a purchase consideration of RM8,600,000 based on the audited NTA value as at 30 June 2004. The purchase consideration was satisfied by the issuance of 8,600,000 new Shares in Elsoft at an issue price of RM1.00 per Share.

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7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST (Cont'd)

Acquisition of STSB by Elsoft		
Name	Nature Interest in Elsoft	Nature of Interest in STSB
Tan Cheik Eaik	Director and substantial shareholder	Director and substantial shareholder
Koay Kim Chiew	Director and substantial shareholder	Director and substantial shareholder
Tan Ai Jiew	Director and substantial shareholder	Director and substantial shareholder
Tan Ah Lek	Director and substantial shareholder	Director and substantial shareholder
Tan Cheik Kooi	Substantial shareholder	Substantial shareholder

- (b) On 18 May 2005, Elsoft entered into a share sale agreement with STSB to acquire sixty percent (60%) of the issued and paid-up share capital of AGS comprising 300,000 ordinary shares of RM1.00 each for a purchase consideration of RM464,845 based on the audited NTA as at 30 June 2004. The purchase consideration was satisfied wholly by cash of RM464,845.

Acquisition of AGS by Elsoft		
Name	Nature Interest in Elsoft	Nature of Interest in AGS
Tan Cheik Eaik	Director and substantial shareholder	Director and substantial shareholder
Koay Kim Chiew	Director and substantial shareholder	Alternate Director and substantial shareholder

7.6 CONTRACTS OR ARRANGEMENTS 'N WHICH THE DIRECTORS OR SUBSTANTIAL SHAREHOLDERS IS INTERESTED AND SIGNIFICANT IN RELATION TO THE BUSINESS OF THE GROUP

None of the Directors and/or substantial shareholders of Elsoft and its subsidiaries, and persons connected to them have material interest, directly and indirectly in any contract or arrangement, which is significant in relation to the business of the Group and subsisting at the date of this Prospectus.

7.7 DECLARATION BY THE ADVISERS

- (a) AmMerchant Bank hereby confirms that as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Adviser to Elsoft Group for the Public Issue.
- (b) Messrs Ghazi & Lim hereby confirm that as at the date of this Prospectus, there is no existing or potential conflict of interest in their capacity as Solicitors to Elsoft Group for the Public Issue.
- (c) Messrs UHY Diong hereby confirm¹ that as at the date of this Prospectus, there is no existing or potential conflict of interest in their capacity as Reporting Accountants to Elsoft Group for the Public Issue.

8. OTHER INFORMATION CONCERNING THE CORPORATION/ GROUP

8.1 INFORMATION ON LAND AND BUILDINGS

A summary of the land and buildings owned by the Group is as follows:-

No	Name of Registered Owner / Postal Address / Title Identification	Approximate Age of Building / Tenure / Date of Expiry of Lease	Description/ Existing Use	Land area / Built up area Sq ft	Restriction in Interest/ Encumbrances	Prices Paid/ Date of Transaction/Date of Issuance of Certificate of Fitness RM	Audited Net Book Value as at 31.12.2004 RM
1.	STSB Plot 9, Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, 11900 Penang erected on the leasehold land held under No. HSD 16397 No. Lot PT 5047 Daerah Barat Daya, Mukim 12, Penang.	4 years/ Leasehold land 60 years/ 17.01.2062	2-story factory building/ Manufacturing plant, office and warehouse	87,370/ 22,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than as approved by the Penang Development Corporation and State Authority (d) Encumbrances – a charged registered on 27.11.2002 in favour of Hong Leong Bank Berhad	RM4,170,877/ 01.04.1999/ 06.09.2004	3,770,011
2.	STSB 303-4-20, Krystal Point, Jalan Sultan Azlan Shah MK12, Penang erected on part of the land held under No. GM1333, No. Lot 12033 Tempat Sungai Nibong Mukim 12, Daerah Barat Daya, Penang.	6 years/ Freehold/ Not Applicable	Office Lot/ Office	Not Applicable/ 1,049	Nil	RM213,930/ 10.01.1997/ 02.10.1998	183,940
3.	Elsoft All that piece of land in South West District (Daerah Barat Daya) and forming part of Mukim 12 the site whereof is marked Plot 85(b) Bayan Lepas Industrial Park IV Penang	Not Applicable/ Leasehold land 60 years/ 60 years from the date of alienation	Vacant industrial land/ Not applicable	185,453/ Not Applicable	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned	RM3,710,406/ 05.11.2004/ Not Applicable	3,648,606

9. FINANCIAL INFORMATION (Cont'd)**9.1 HISTORICAL FINANCIAL INFORMATION**

The summarised proforma consolidated financial results of the Group for the past five (5) financial years ended 31 December 2004, prepared based on the audited financial statements of all companies on the assumption that the Group has been in existence throughout the years under review.

The proforma consolidated financial results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 10 of this Prospectus.

	<---- For the Financial Year Ended 31 December ---->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	12,882	7,954	12,406	18,474	27,095
EBIDTA before R&D	3,767	3,776	6,077	9,522	14,301
R&D expenses	-	(710)	(1,160)	(1,721)	(2,198)
EBIDTA	3,767	3,066	4,917	7,801	12,103
Interest expense	(23)	(80)	(42)	(2)	-
Depreciation	(229)	(230)	(200)	(222)	(340)
Amortisation	-	-	-	-	-
Exceptional items	-	-	-	-	-
Share of profits of associated companies	-	-	-	-	-
PBT	3,515	2,756	4,675	7,577	11,763
Taxation	(570)	(784)	(1,304)	(1,874)	(220)
PAT	2,945	1,972	3,371	5,703	11,543
Extraordinary items	-	-	-	-	-
MI	(1)	5	15	40	(166)
PAT after MI	2,944	1,977	3,386	5,743	11,377
No. of ordinary shares of RM1.00 each assumed in issue ('000) #	14,825	14,825	14,825	14,825	14,825
Gross EPS (RM) #	0.24	0.19	0.32	0.51	0.78
Net EPS (RM) #	0.20	0.13	0.23	0.39	0.77

Notes:-

- # The number of ordinary shares assumed in issue throughout the financial years under review represent the number of shares in issue after the Bonus Issue and Acquisitions but before the completion of the Sub-division into RM0.10 each, Public Issue and ESOS.
- (1) AGS's financial statements with the financial period from 3 November 1999 (date of incorporation) to 30 November 2000, for the financial years ended 30 November 2001 and 30 November 2002, for the financial period from 1 December 2002 to 31 December 2003 and for the financial year ended 31 December 2004 were deemed consolidated as financial year ended 31 December in the proforma historical consolidated financial results of Elsoft for the financial years ended 31 December 2000 to 31 December 2004.
- (2) The Group's main contributors to revenue were from Test and Burn-In Systems and Embedded Peripherals segments.

9. FINANCIAL INFORMATION (Cont'd)

- (3) *The revenue of the Group took a plunge by approximately RM5 million in the financial year 2001 as compared to financial year 2000 was mainly due to the slowdown of the world market where most of the semiconductor industries were affected.*

In financial year 2002, revenue reflected an increase mainly because the MNCs managed to ramp and launch new products and required new application test systems. The successful qualifications from the MNCs' customers on new test solutions drove continual growth in the Test and Burn-In Systems. Towards the end of financial year 2003, the Group developed a new product known as "Test Handler Systems", a new venture into the automation equipment/systems under AGS. This development further increased the Group's revenue in financial year 2004. The significant increase in revenue for the financial year ended 31 December 2004 was due to the introduction of new test systems in optoelectronic and image sensor.

- (4) *The PBT of the Group has improved progressively from financial year 2002 to 2003. In financial year 2000, the Group registered a lower PBT mainly due to significant capital expenditure incurred for that year but the economic benefits associated with the plant and machinery only flow into the Group after the recovery of the world market in financial year 2002. The decrease in PBT in financial year 2001 was in tandem with the decrease in revenue when the world market economy took a downturn. From financial year 2002 onwards, the increase in PBT was in tandem with the increase in revenue generated by the Group.*

- (5) *Depreciation of the Group was mainly due to charges made on the plant and machinery and the newly constructed factory building. No significant changes were noted for the financial years 2001 and 2002 as compared to financial year 2000 because the Group did not invest in any major capital expenditure. However, towards the end of financial year 2003, with further investment in plant and equipment for the new development of Test Handler Systems as mentioned above, depreciation reflected an increase in financial year 2004. Interest expense for financial year 2000 was mainly due to the term loan obtained by the Group from a financial institution for the construction of the factory building. The significant increase in financial year 2001 was due to full draw down of the said term loan. The term loan was fully repaid in financial year 2003 and thus resulted in a significant decrease in the interest expense.*

- (6) *There were no exceptional or extraordinary items noted during the financial years under review.*

- (7) *The gross EPS is calculated based on the PBT after MI and on the proforma number of ordinary shares of RM1.00 each assumed in issue after the Bonus Issue and Acquisitions.*

- (8) *The net EPS is calculated based on the PAT after MI and on the proforma number of ordinary shares of RM1.00 each assumed in issue after the Bonus Issue and Acquisitions.*

The financial statements of the Elsoft Group for the years under review were not subjected to any audit qualification.

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9. FINANCIAL INFORMATION (Cont'd)

9.2 ANALYSIS OF HISTORICAL FINANCIAL INFORMATION

9.2.1 Segmental Analysis of Revenue and PBT

Analysis of Revenue by Companies:-

	<----- Financial Year Ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Elsoft	-	-	-	-	20,365
STSB	12,221	7,840	12,109	18,380	6,240
AGS	661	114	297	629	2,774
Proforma consolidated adjustments*	-	-	-	(535)	(2,284)
Proforma consolidated revenue	12,882	7,954	12,406	18,474	27,095

Analysis of Revenue by Products and Services:-

	<----- Financial Year Ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Test and Burn-in Systems	6,569	5,183	10,364	15,563	18,267
Embedded Peripherals	5,652	2,657	1,745	2,817	2,856
Electronic Devices/Modules Assembly	-	-	-	-	5,482
Automation Equipment/ Systems	661	114	297	629	2,774
Proforma consolidated adjustments*	-	-	-	(535)	(2,284)
Proforma consolidated revenue	12,882	7,954	12,406	18,474	27,095

Analysis of Revenue by Export and Local:-

	<----- Financial Year Ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Export	11,086	6,900	11,220	17,576	24,141
Local	1,796	1,054	1,186	1,433	5,238
Proforma consolidated adjustments*	-	-	-	(535)	(2,284)
Proforma consolidated revenue	12,882	7,954	12,406	18,474	27,095

Analysis of PBT/(LBT) by Companies:-

	<----- Financial Year Ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Elsoft	-	-	-	(8)	10,624
STSB	3,511	2,767	4,713	7,659	639
AGS	4	(11)	(38)	(74)	500
Proforma consolidated PBT	3,515	2,756	4,675	7,577	11,763

Note:-

* Being inter-company sales.

9. FINANCIAL INFORMATION (Cont'd)**Analysis of PBT by Export and Local:-**

	<----- Financial Year Ended 31 December ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Export	3,047	2,291	4,123	6,975	9,328
Local	416	301	321	305	2,024
Other income	52	164	231	297	411
Proforma consolidated PBT	3,515	2,756	4,675	7,577	11,763

Other income for the financial years under review mainly consists of dividend income derived from the Group's investments in unit trusts and bond funds, interest income received from fixed deposits placed with financial institutions and rental income.

9.2.2 Overview of Revenue and PBT**Revenue****31 December 2000**

The major contributors of the Group's revenue were from Test and Burn-In Systems and Embedded Peripherals in STSB.

31 December 2001

In the financial year 2001, the Group's revenue plunged by approximately RM4.93 million mainly due to the slowdown of the world market in which most of the semiconductor industries were affected.

31 December 2002

The significant contributor to the revenue growth of approximately RM4.45 million in the financial year 2002 was STSB. This was primarily due to the launching of new products by the MNCs, thereby generating the demand for new application test systems. The successful qualifications from the MNCs customers on these new test solutions drove continuous growth in the Test and Burn-In Systems of STSB.

31 December 2003

In the financial year 2003, the Group's revenue growth was driven by the increase in STSB's revenue. This was mainly contributed by the higher demand for Test and Burn-In Systems from the MNCs as explained above. During the financial year, the Group also commenced the development of the "Test Handler Systems", a new venture into the automation system which contributed to the Group's revenue growth.

31 December 2004

The Group managed to achieve approximately RM27.10 million in the financial year 2004 mainly due to the successful penetration of the Test Handler Systems business and the introduction of new test systems in optoelectronic and image sensor. With the Group restructuring exercises, STSB focuses on Electronic Devices/Modules Assembly which accounted for approximately 20.2% of the Group's total revenue while Elsoft will be concentrating on the Test and Burn-In Systems and Embedded Peripherals which accounted for approximately 78.0% of the Group's total revenue.

9. FINANCIAL INFORMATION (Cont'd)**PBT**

The movement of PBT for the Group over the financial years under review is generally in line with the movement of revenue as stated above.

9.2.3 Impact of Foreign Exchange, Interest Rates and Commodity Prices on Operating Profits

	<---- Financial Year Ended 31 December ---->				
	2000	2001	2002	2003	2004
Interest expense (RM'000)	23	80	42	2	-
Earnings before interest and taxation (RM'000)	3,538	2,836	4,717	7,579	11,763
Interest coverage (times)	154	35	112	3,790	-
Foreign exchange gain/(loss) (RM'000)	11	1	(4)	(13)	(38)

There is no material impact of interest rates as the Group's borrowings are not substantial.

There is no material impact of foreign exchange as the Group's direct export sales accounted to approximately 26.0% whilst approximately 55.0% of its raw materials were imported in USD. The imposition of currency controls in 1998 and the setting of the Ringgit peg at RM3.80:USD1.00 has, to a certain extent, stabilised the risks to the fluctuations of foreign exchange.

Elsoft Group is not materially affected by commodity prices.

9.2.4 Taxation

	<---- Financial Year Ended 31 December ---->				
	2000	2001	2002	2003	2004
Taxation (RM'000)	570	784	1,304	1,874	220
PBT (RM'000)	3,515	2,756	4,675	7,577	11,763
Effective tax rate (%)	16	28	28	25	2
Statutory tax rate (%)	28	28	28	20 and 28	20 and 28

The effective tax rate for the financial year 2000 was lower than the statutory tax rate mainly due to utilisation of the reinvestment allowances claimed during the year.

9. FINANCIAL INFORMATION (Cont'd)

For years of assessment 2003 and 2004, the Malaysian Government enacted a change in the statutory income tax rate for small and medium scale companies ("SMI") with paid-up capital of RM2.50 million or below. These SMIs will be subject to corporate tax rate of 20% on the first chargeable income of RM100,000 and RM500,000 respectively. For chargeable income in excess of RM100,000 and RM500,000 respectively, the corporate tax rate of 28% is still applicable.

The effective tax rate for the financial year 2003 was lower than the statutory tax rate mainly due to double deduction on R&D expenses which are allowable under Section 34A of Income Tax Act, 1967.

The effective tax rate for financial year 2004 was lower than the statutory tax rate of 28% and 20% mainly because the Group has restructured its operations to Elsoft, which has been accorded MSC status by the MDC, and is thus 100% exempted from tax on its statutory business income.

9.2.5 Exceptional and Extraordinary Items

There were no exceptional or extraordinary items noted during the financial years under review.

9.3 FINANCIAL PERFORMANCE, POSITION AND OPERATIONS

Save as disclosed in Sections 3 and 9.2 of this Prospectus, as at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), the Directors are of the view that the financial performance, position and operations of the Group are not affected by any of the following:-

- (a) Any known trend, demand, commitment, event or uncertainty that have had, or that the Group reasonably expects to have, a material favourable or unfavourable impact on financial performance, position and operations of the Group;
- (b) Any material capital expenditure commitment, the purpose of such commitments and the anticipated source of funds;
- (c) Any unusual, infrequent event or transaction or any significant economic change that have materially affected the financial performance, position and operations of the Group and the extent to which the financial performance, position and operations of the Group was so affected;
- (d) Any substantial increase in revenue; and
- (e) Any known event, circumstance, trend, uncertainty and commitment that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

Detailed discussions on the Group's revenue throughout the periods under review are contained in Section 9.2 of this Prospectus.

9. FINANCIAL INFORMATION (Cont'd)

9.4 WORKING CAPITAL, MATERIAL LITIGATIONS, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

(a) Working Capital

The Directors of Elsoft are of the opinion that, after taking into consideration the cash flow position, the banking facilities available and the net proceeds from the Public Issue, the Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

(b) Material Litigations

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), neither the Company nor its subsidiaries are engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on the business or financial position of the Company and/or its subsidiaries and the Board has no knowledge of any proceeding pending or threatened against the Company and/or its subsidiaries or of any fact likely to give rise to any proceeding which might materially and adversely affect the business or financial position of the Company or its subsidiaries.

(c) Borrowings

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), the Group does not have any outstanding bank borrowings.

(d) Contingent Liabilities

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), there are no contingent liabilities incurred by the Group.

(e) Material Commitments

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), there are no material commitments for capital expenditure incurred or known to be incurred by the Group, which may have a substantial impact on the financial position of the Group.

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9. FINANCIAL INFORMATION (Cont'd)

9.5 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED
BALANCE SHEETS AS AT 31 DECEMBER 2004
(Prepared for inclusion in the Prospectus)



22 JUN 2005

The Board of Directors
Elsoft Research Berhad
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Jalan Sultan Ahmad Shah
10050 Penang

51-21-F Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang, Malaysia.

Tel 604-2276888
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Dear Sirs,

**ELSOFT RESEARCH BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004**

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Elsoft Research Berhad ("Elsoft") and its subsidiaries ("the Group") as at 31 December 2004 together with the accompanying notes thereon which have been prepared for illustration purposes only, for which the Directors are solely responsible, as set out in the accompanying statement for inclusion in the Prospectus in connection with the public issue of 31,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 per ordinary share pursuant to the listing of and quotation for Elsoft's entire enlarged issued and paid-up share capital on the MESDAQ Market of the Bursa Malaysia Securities Berhad.

In our opinion:

- (a) the abovementioned Proforma Consolidated Balance Sheets have been properly compiled on the basis stated which is consistent with the accounting policies of the Group;
- (b) the adjustments are appropriate for the purpose of the Proforma Consolidated Balance Sheets.

Yours faithfully

UHY DIONG
AF-1411
Chartered Accountants

KOAY THEAM HOCK
2141/04/07 (J)
Partner

A member of UHY, an international association of independent accounting and consulting firms

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9. FINANCIAL INFORMATION (Cont'd)**9.6 PROFORMA CONSOLIDATED BALANCE SHEETS OF ELSOFT GROUP AS AT 31 DECEMBER 2004**
(Prepared for inclusion in the Prospectus)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)

UHY **DIONG**
Chartered Accountants**PROFORMA CONSOLIDATED BALANCE SHEETS OF ELSOFT RESEARCH BERHAD (“ELSOFT”) AND ITS SUBSIDIARIES (“THE GROUP”)**

The proforma consolidated balance sheets have been prepared for illustrative purposes only after taking into account the Bonus Issue, Acquisitions, Public Issue, utilisation of the listing proceeds and ESOS; are based on the audited financial statements of the respective companies as at 31 December 2004 and on the accounting policies consistent with those normally adopted in the preparation of the audited financial statements.

	The Company As at 31 December 2004 RM'000	The Company Proforma (1) After Bonus Issue RM'000	The Group Proforma (2) After (1) & Acquisitions RM'000	The Group Proforma (3) After (2), Sub-division . Public issue & Utilisation of proceeds RM'000	The Group Proforma (4) After (3), and ESOS RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	3,767	3,767	8,301	14,401	14,401
Other investments	0	0	45	45	45
CURRENT ASSETS					
Inventories	1,072	1,072	1,952	1,952	1,952
Receivables, deposits and prepayments	1,258	1,258	2,766	2,766	2,766
Marketable investments	6,000	6,000	8,398	8,398	8,398
Deposits, cash and bank balances	3,557	3,557	4,926	16,276	32,476
	<u>11,887</u>	<u>11,887</u>	<u>18,042</u>	<u>29,392</u>	<u>45,592</u>
CURRENT LIABILITIES					
Payables	7,077	7,077	8,553	8,553	8,553
Amount due to Directors	1,880	1,880	1,980	1,980	1,980
	<u>8,957</u>	<u>8,957</u>	<u>10,533</u>	<u>10,533</u>	<u>10,533</u>
NET CURRENT ASSETS					
	<u>2,930</u>	<u>2,930</u>	<u>7,509</u>	<u>18,859</u>	<u>35,059</u>
	<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>	<u>49,505</u>
SHARE CAPITAL					
	100	6,225	14,825	18,000	20,700
SHARE PREMIUM	0	0	0	14,275	27,775
RETAINED PROFITS	6,597	472	455	455	455
RESERVE ON CONSOLIDATION	0	0	121	121	121
SHAREHOLDERS' EQUITY	<u>6,697</u>	<u>6,697</u>	<u>15,401</u>	<u>32,851</u>	<u>49,051</u>
NON-CURRENT LIABILITIES					
Minority interest	0	0	308	308	308
Deferred taxation	0	0	146	146	146
	<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>	<u>49,505</u>
Net tangible assets per share (RM)	66.97	1.08	1.04	0.18	0.24

9. FINANCIAL INFORMATION (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)


NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF ELSOFT RESEARCH BERHAD ("ELSOFT") AND ITS SUBSIDIARIES ("THE GROUP") (CONTINUED)

The Proforma Consolidated Balance Sheets together with the notes thereon have been prepared on the basis of accounting principles and basis consistent with those normally adopted by Elsoft and are presented in a form suitable for inclusion in the Prospectus.

The Proforma Consolidated Balance Sheets of the Group have been prepared for illustrative purposes only and are based on consolidated balance sheet of the Group as at 31 December 2004.

1. Proforma 1

Elsoft has undertaken a bonus issue of 6,125,000 new ordinary shares of RM1.00 each to the existing shareholders of Elsoft on the basis of 61.25 new ordinary shares of RM1.00 each for every 1 existing ordinary share of RM1.00 each held in Elsoft. All the bonus issue issues rank pari passu in all respects with the then existing ordinary shares of Elsoft. With completion of the Bonus Issue on the 16 May 2005, the issued and paid-up share capital of Elsoft was increased from 100,000 ordinary shares of RM1.00 each to 6,225,000 ordinary shares of RM1.00 each.

2. Proforma 2

Acquisitions of the issued and fully paid-up share capital of the following companies:

Company	Par value RM	No. of ordinary shares acquired	Issued and fully paid-up share capital acquired %	Purchase consideration RM	No. of new ordinary shares of RM1.00 each to be issued	Cash consideration RM
STSB	1.00	500,000	100	8,600,000	8,600,000	0
AGS	1.00	300,000	60	464,845	0	464,845
Total		800,000		9,064,845	8,600,000	464,845

The purchase consideration was based on the audited net tangible assets of STSB and AGS as at 30 June 2004. The acquisition of STSB was completed on 17 May 2005 while the acquisition of AGS was completed on 18 May 2005.

3. Proforma 3

Public issue of 31,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 per ordinary share comprising of the following:-

- 2,500,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
- 21,750,000 new ordinary shares of RM0.10 each available for placement to selected investors; and
- 7,500,000 new ordinary shares of RM0.10 each available for application by the eligible directors, employees and business associates of Elsoft.

The estimated listing expenses of approximately RM1,600,000 will be charged against the share premium account.

9. FINANCIAL INFORMATION (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)



NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF ELSOFT RESEARCH BERHAD ("ELSOFT") AND ITS SUBSIDIARIES ("THE GROUP") (CONTINUED)

4. Proforma 4

Employee Share Option Scheme (ESOS) of up to a maximum of 27,000,000 ordinary shares of RM0.10 representing 15% of the enlarged issued and paid up capital of 180,000,000 ordinary shares of RM0.10 each, at an assumed exercise price of RM0.60 per ordinary share.

The proceeds from the Public Issue are expected to be utilised in the following manner:

Proceeds:	RM'000
Proceeds from Public Issue	<u>19,050</u>
Utilisation:	
Purchase of machinery and equipment	2,100
Expansion of operations and facilities	4,000
Research and development expenditure	4,790
Estimated listing expenses	1,600
Working capital	<u>6,560</u>
	<u>19,050</u>

Note: For illustration purposes, the above proceeds from the public issue have been utilised except for the research and development expenses which will be retained in cash and cash equivalents for future utilisation.

The movements in share capital and share premium are as follows:

	No. of ordinary share capital '000	Share capital RM'000	Share premium RM'000
Upon incorporation of Elsoft	100	100	-
Proforma 1 - Bonus issue	6,125	6,125	-
	6,225	6,225	-
Proforma 2 - Acquisitions	8,600	8,600	-
	14,825	14,825	-
- Sub-division (from RM1.00 to RM0.10)	148,250	14,825	-
Proforma 3 - Public Issue	31,750	3,175	-
	180,000	18,000	15,875
Less : Listing expenses	-	-	(1,600)
	180,000	18,000	14,275
Proforma 4 - ESOS	27,000	2,700	13,500
	<u>207,000</u>	<u>20,700</u>	<u>27,775</u>

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



22 JUN 2005

The Board of Directors
Elsoft Research Berhad
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Jalan Sultan Ahmad Shah
10050 Penang

51-21-F Menara BHL Bank
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Dear Sirs,

**ELSOFT RESEARCH BERHAD
ACCOUNTANTS' REPORT**

This report has been prepared by UHY Diong, an approved company auditors, for inclusion in the Prospectus of Elsoft Research Berhad (hereinafter referred to as "Elsoft" or "the Company") to be dated 29 JUN 2005 in connection with the public issue of 31,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 per ordinary share pursuant to the listing of and quotation for Elsoft's entire enlarged issued and paid-up share capital on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

1.0 GENERAL INFORMATION

1.1 Incorporation

- (a) The Company was incorporated on 4 June 2003 in Malaysia under the Companies Act, 1965 as a private limited liability company under the name of Elsoft Research Sdn. Bhd. It was subsequently converted to a public limited company under the name of Elsoft Research Berhad on 10 August 2004.
- (b) At the date of incorporation, Elsoft's authorised share capital was RM100,000 consisting of 100,000 ordinary shares of RM1.00 each. Subsequently, on 16 May 2005, the authorised share capital was increased to RM25,000,000 consisting of 25,000,000 ordinary shares of RM1.00 each. The 25,000,000 ordinary shares of RM1.00 each was then subsequently subdivided into 250,000,000 ordinary shares of RM0.10 each on 18 May 2005.

1.2 Principal activities

The Company was dormant from 4 June 2003 (date of incorporation) and only commenced operations in January 2004. The principal activities of the Company are that of research, design and development of test and burn-in systems and application specific embedded systems. There have been no significant changes in the nature of these activities during the periods under review.

Further with the acquisitions of Siangtronics Technology Sdn. Bhd. ("STSB") and AGS Automation (Malaysia) Sdn. Bhd. ("AGS") in conjunction with the listing of Elsoft's shares on the MESDAQ Market of the Bursa Securities, the Company's principal activities also includes investment holding.

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10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)

*Accountants' Report***UHY** DIONG
Chartered Accountants**1.0 GENERAL INFORMATION (CONTINUED)****1.3 Floatation Scheme**

In conjunction with the listing of Elsoft's shares on the MESDAQ Market of the Bursa Securities, Elsoft is undergoing the floatation scheme as set out below, which involves the following exercises:

(i) Bonus issue

Elsoft has undertaken a bonus issue of 6,125,000 new ordinary shares of RM1.00 each to the existing shareholders of Elsoft on the basis of 61.25 new ordinary shares of RM1.00 each for every 1 existing ordinary share of RM1.00 each held in Elsoft. All the bonus issue issues rank pari passu in all respects with the then existing ordinary shares of Elsoft. With completion of the Bonus Issue on the 16 May 2005, the issued and paid-up share capital of Elsoft was increased from 100,000 ordinary shares of RM1.00 each to 6,225,000 ordinary shares of RM1.00 each.

(ii) Acquisitions

In conjunction with, and as in integral part of the listing of and quotation for the entire enlarged issued and paid-up ordinary shares of Elsoft on the MESDAQ Market of Bursa Securities, the Company acquisitions of the entire issued and fully paid-up share capital of STSB and AGS as stated below for a total purchase consideration of RM9,064,845 satisfied through an issue of 8,600,000 new ordinary shares of RM1.00 each in Elsoft and cash consideration of RM464,845 respectively as set out below:

Company	Par value RM	No. of ordinary shares acquired	Issued and fully paid-up share capital acquired %	Purchase consideration RM	No. of new ordinary shares of RM1.00 each to be issued	Cash consideration RM
STSB	1.00	500,000	100	8,600,000	8,600,000	0
AGS	1.00	300,000	60	464,845	0	464,845
Total		800,000		9,064,845	8,600,000	464,845

The purchase consideration was based on the audited net tangible assets of STSB and AGS as at 30 June 2004. The acquisition of STSB was completed on 17 May 2005 while the acquisition of AGS was completed on 18 May 2005.

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)
Accountants' Report

UHY DIONG
 Chartered Accountants

1.0 GENERAL INFORMATION (CONTINUED)**1.3 Floatation Scheme (Continued)****(ii) Acquisitions (Continued)**

Upon completion of the above floatation scheme exercise, Elsoft has interest in the following subsidiaries:

Name	Date of incorporation	Country	Effective interest	Issued and fully paid-up share capital RM	Business activities
STSB	7 May 1996	Malaysia	100%	500,000	Electronic devices/modules assembly, test and burn-in systems integration and customised manufacturing solutions.
AGS	3 November 1999	Malaysia	60%	500,000	Design and production of specialised machinery and equipment namely material handling equipment and robotic factory automation equipment.

(iii) Public Issue

Public issue of 31,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 per ordinary share comprising of the following:-

- 2,500,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
- 21,750,000 new ordinary shares of RM0.10 each available for placement to selected investors; and
- 7,500,000 new ordinary shares of RM0.10 each available for application by the eligible directors, employees and business associates of Elsoft.

(iv) Listing

Listing of and quotation for the enlarged issued and paid-up share capital of Elsoft comprising of 180,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of the Bursa Securities.

The above scheme was approved by the Securities Commission ("SC") on 6 May 2005.

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)
Accountants' Report



1.0 GENERAL INFORMATION (CONTINUED)

1.3 Floatation Scheme (Continued)

(v) Employee Share Option Scheme

Employee Share Option Scheme (ESOS) of up to a maximum of 27,000,000 ordinary shares of RM0.10 representing 15% of the enlarged issued and paid up capital of 180,000,000 ordinary shares of RM0.10 each, at an assumed exercise price of RM0.60 per ordinary share.

2.0 AUDITORS AND AUDITED FINANCIAL STATEMENTS

The financial statements of Elsoft for the financial period from 4 June 2003 (date of incorporation) to 31 December 2003 and for the financial year ended 31 December 2004 were audited by another firm of accountants.

The financial statements of STSB for the financial years ended 31 December 2000 to 31 December 2004 were audited by another firm of accountants.

The financial statements of AGS for the financial period from 3 November 1999 (date of incorporation) to 30 November 2000, for the financial years ended 30 November 2001 and 30 November 2002, for the financial period from 1 December 2002 to 31 December 2003 and for the financial year ended 31 December 2004 were audited by another firm of accountants.

All the audited financial statements mentioned above for the relevant financial years/periods were reported without any audit qualifications.

3.0 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This report is based on audited financial statements which have been prepared in accordance with the applicable Approved Accounting Standards issued by the Malaysian Accounting Standards Board ("MASB") as well as generally accepted accounting principles in Malaysia and is presented on a basis consistent with the accounting policies normally adopted by the Group.

10. ACCOUNTANTS' REPORT (Cont'd)**ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)***Accountants' Report***UHY DIONG**
Chartered Accountants**4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS****4.1 Elsoft – The Group****4.1.1 Proforma historical consolidated financial results**

The proforma historical consolidated financial results of the Group for the financial years ended 31 December 2000 to 31 December 2004 set out below are based on audited financial statements of the respective companies and have been presented on the assumption that the Group structure has been in existence throughout the periods under review. Elsoft, was incorporated on 4 June 2003; accordingly there are no financial results of this company to be included in the proforma historical consolidated financial results for the financial years ended from 31 December 2000 to 31 December 2002.

	← Financial years ended 31 December →				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	12,882	7,954	12,406	18,474	27,095
Profit before interest, depreciation, taxation and R&D	3,767	3,776	6,077	9,522	14,301
R&D expenses	0	(710)	(1,160)	(1,721)	(2,198)
Profit before interest, depreciation and taxation	3,767	3,066	4,917	7,801	12,103
Depreciation	(229)	(230)	(200)	(222)	(340)
Interest expense	(23)	(80)	(42)	(2)	0
Profit before taxation	3,515	2,756	4,675	7,577	11,763
Taxation	(570)	(784)	(1,304)	(1,874)	(220)
Profit after taxation	2,945	1,972	3,371	5,703	11,543
Minority interest (MI)	(1)	5	15	40	(166)
Profit after taxation and MI	2,944	1,977	3,386	5,743	11,377
Number of ordinary shares of RM1.00 each in issue ('000)	14,825	14,825	14,825	14,825	14,825
Gross earnings per share after MI (RM)	0.24	0.19	0.32	0.51	0.78
Net earnings per share after MI (RM)	0.20	0.13	0.23	0.39	0.77

* The number of ordinary shares in issue refers to the number of ordinary shares issued after Bonus Issue and Acquisitions but before the completion of Sub-division, Public Issue and ESOS.

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)

Accountants' Report**4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS (CONTINUED)****4.1 Elsoft – The Group (Continued)****4.1.1 Proforma historical consolidated financial results (Continued)**

- a) The Group's main contributors to revenue were from Test and Burn-In Systems and Embedded Peripherals segments.
- b) The revenue of the Group took a plunged by approximately RM5 million in the financial year 2001 as compared to year 2000 was mainly due to the slowdown of the world market where most of the semiconductor industries were affected.

In 2002, revenue reflected an increased mainly because the multinational companies (MNCs) managed to ramp and launch new products and required new application test systems. The successful qualifications from the MNCs' customers on new test solutions drove continual growth in the Test and Burn-In Systems. Towards the end of 2003, the Group developed a new product known as "Test Handler Systems", a new venture into the automation equipment/systems under AGS. This development further increased the Group's revenue in 2004. The significant increased in revenue for the financial year ended 31 December 2004 was also due to the introduction of new test systems in optoelectronic and image sensor.

- c) The profit before taxation of the Group has improved progressively from year 2002 to 2003. In 2000, the Group registered a lower profit before taxation mainly due to the significant capital expenditure incurred for that year but the economic benefits associated with the plant and machinery only flow into the Group after the recovery of the world market in 2002. The decreased of profit before taxation in 2001 was in tandem with the decreased in revenue when the world market economy took a downturn. From 2002 onwards the increased in profit before taxation was in tandem with the increased in revenue generated by the Group.
- d) Depreciation of the Group was mainly due to charges made on the plant and machinery and the newly constructed factory building. No significant changes were noted for the financial years ended 2001 and 2002 as compared to year 2000 because the Group did not invest in any major capital expenditure. However, towards the end of 2003, with the further investment in plant and equipment for the new development of Test Handler Systems as mentioned above, depreciation reflected an increased in 2004. Interest expense for 2000 was mainly due to the term loan obtained by the Group from a financial institution for the construction of the factory building. The significant increased in 2001 was due to the full drawn down of the said term loan. The term loan was fully repaid in 2003 and thus resulted in a significant decreased in interest expense.
- e) There were no exceptional or extraordinary items noted during the financial years under review.

Note:

- i) AGS's financial statements with financial period from 3 November 1999 (date of incorporation) to 30 November 2000, for the financial years ended 30 November 2001 and 30 November 2002, for the financial period from 1 December 2002 to 31 December 2003 and for the financial year ended 31 December 2004 were deemed consolidated as financial year ended 31 December in the proforma historical consolidated financial results of Elsoft for the financial years ended 31 December 2000 to 31 December 2004.

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)

Accountants' Report



4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS (CONTINUED)

4.1 Elsoft – The Group (Continued)

4.1.2 Proforma consolidated balance sheets

As the Acquisitions stated in Note 1.3(ii) above only deemed to take place after 1 July 2004, it is therefore impracticable to present the proforma balance sheets throughout the financial years under review. The summarised balance sheets of each company within the Group are based on their respective audited financial statements as of the end of the relevant financial years are presented in Note 5.2, 6.2 and 7.2 respectively.

However for illustrative purposes, the proforma consolidated balance sheets have been prepared after taking into account the Bonus Issue, Acquisitions, Public Issue, utilisation of the listing proceeds and ESOS and are based on the audited financial statements of the respective companies as at 31 December 2004 and on the accounting policies consistent with those normally adopted in the preparation of the audited financial statements.

	Notes	The Company As at 31 December 2004 RM'000	The Company Proforma (1) After Bonus Issue RM'000	The Group Proforma (2) After (1) & Acquisitions RM'000	The Group Proforma (3) After (2), Sub-division, Public issue & Utilisation of proceeds RM'000	The Group Proforma (4) After (3), and ESOS RM'000
NON-CURRENT ASSETS						
Property, plant and equipment	11.0	3,767	3,767	8,301	14,401	14,401
Other investments	12.0	0	0	45	45	45
CURRENT ASSETS						
Inventories	13.0	1,072	1,072	1,952	1,952	1,952
Receivables, deposits and prepayments	14.0	1,258	1,258	2,766	2,766	2,766
Marketable investments	15.0	6,000	6,000	8,398	8,398	8,398
Deposits, cash and bank balances		3,557	3,557	4,926	16,276	32,476
		<u>11,887</u>	<u>11,887</u>	<u>18,042</u>	<u>29,392</u>	<u>45,592</u>
CURRENT LIABILITIES						
Payables	16.0	7,077	7,077	8,553	8,553	8,553
Amount due to Directors	17.0	1,880	1,880	1,980	1,980	1,980
		<u>8,957</u>	<u>8,957</u>	<u>10,533</u>	<u>10,533</u>	<u>10,533</u>
NET CURRENT ASSETS						
		<u>2,930</u>	<u>2,930</u>	<u>7,509</u>	<u>18,859</u>	<u>35,059</u>
		<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>	<u>49,505</u>
SHARE CAPITAL						
SHARE PREMIUM	18.0	100	6,225	14,825	18,000	20,700
RETAINED PROFITS		0	0	0	14,275	27,775
RESERVE ON CONSOLIDATION		6,597	472	455	455	455
SHAREHOLDERS' EQUITY		<u>0</u>	<u>0</u>	<u>121</u>	<u>121</u>	<u>121</u>
		<u>6,697</u>	<u>6,697</u>	<u>15,401</u>	<u>32,851</u>	<u>49,051</u>
NON-CURRENT LIABILITIES						
Minority interest		0	0	308	308	308
Deferred taxation	19.0	0	0	146	146	146
		<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>	<u>49,505</u>
Net tangible assets per share (RM)		66.97	1.08	1.04	0.18	0.24

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)
Accountants' Report

UHY DIONG
 Chartered Accountants

4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS (CONTINUED)**4.1 Elsoft – The Group (Continued)****4.1.3 Proforma consolidated cash flow statement**

The proforma consolidated cash flow statement has been prepared for illustrative purposes only and is based on the audited financial statements of the respective companies for the financial year ended 31 December 2004 and on the assumption that the Group structure has been in existence throughout the periods under review but before the completion on Sub-division into RM0.10 each, Public Issue and ESOS.

	Financial year ended 31 December 2004 RM'000
CASH FLOW FROM OPERATING ACTIVITIES	
Profit before taxation for the financial year	11,763
Adjustments for:	
Depreciation	340
Dividend income	(276)
Interest income	(119)
Loss on disposal of property, plant and equipment	3
Loss on disposal of marketable investments	62
Property, plant and equipment written off	4
Operating profit before working capital changes	<u>11,777</u>
Inventories	(1,697)
Receivables, deposits and prepayments	1,994
Payables	7,180
Amount owing to Directors	(1,198)
Cash generated from operations	<u>18,056</u>
Taxation paid	(876)
Net cash flow from operating activities	<u>17,180</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Proceeds from disposal of marketable investments	7,339
Proceeds from disposal of property, plant and equipment	12
Proceeds from disposal of investments	100
Purchase of marketable investments	(8,252)
Dividend income	276
Interest income	119
Purchase of property, plant and equipment	(4,182)
Net cash flow from investing activities	<u>(4,588)</u>
CASH FLOW FROM FINANCING ACTIVITY	
Dividend paid	<u>(11,617)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	975
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	3,951
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	<u>4,926</u>

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)
Accountants' Report



4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS (CONTINUED)

4.1 Elsoft – The Group (Continued)

4.1.4 Notes to the proforma consolidated balance sheets

1. Proforma 1

Elsoft has undertaken a bonus issue of 6,125,000 new ordinary shares of RM1.00 each to the existing shareholders of Elsoft on the basis of 61.25 new ordinary shares of RM1.00 each for every 1 existing ordinary share of RM1.00 each held in Elsoft. All the bonus issue issues rank pari passu in all respects with the then existing ordinary shares of Elsoft. With completion of the Bonus Issue on the 16 May 2005, the issued and paid-up share capital of Elsoft was increased from 100,000 ordinary shares of RM1.00 each to 6,225,000 ordinary shares of RM1.00 each.

2. Proforma 2

Acquisitions of the issued and fully paid-up share capital of the following companies:

Company	Par value RM	No. of ordinary shares acquired	Issued and fully paid-up share capital acquired %	Purchase consideration RM	No. of new ordinary shares of RM1.00 each to be issued	Cash consideration RM
STSB	1.00	500,000	100	8,600,000	8,600,000	0
AGS	1.00	300,000	60	464,845	0	464,845
Total		800,000		9,064,845	8,600,000	464,845

The purchase consideration was based on the audited net tangible assets of STSB and AGS as at 30 June 2004. The acquisition of STSB was completed on 17 May 2005 while the acquisition of AGS was completed on 18 May 2005.

3. Proforma 3

Public issue of 31,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 per ordinary share comprising of the following:-

- 2,500,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
- 21,750,000 new ordinary shares of RM0.10 each available for placement to selected investors; and
- 7,500,000 new ordinary shares of RM0.10 each available for application by the eligible directors, employees and business associates of Elsoft.

The estimated listing expenses of approximately RM1,600,000 will be charged against the share premium account.

4. Proforma 4

Employee Share Option Scheme (ESOS) of up to a maximum of 27,000,000 ordinary shares of RM0.10 representing 15% of the enlarged issued and paid up capital of 180,000,000 ordinary shares of RM0.10 each, at an assumed exercise price of RM0.60 per ordinary share.

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4.0 PROFORMA HISTORICAL CONSOLIDATED FINANCIAL RESULTS AND PROFORMA CONSOLIDATED BALANCE SHEETS (CONTINUED)**4.1 Elsoft – The Group (Continued)****4.1.4 Notes to the proforma consolidated balance sheets (Continued)**

The proceeds from the Public Issue are expected to be utilised in the following manner:

Proceeds:	RM'000
Proceeds from Public Issue	<u>19,050</u>
Utilisation:	
Purchase of machinery and equipment	2,100
Expansion of operations and facilities	4,000
Research and development expenditure	4,790
Estimated listing expenses	1,600
Working capital	<u>6,560</u>
	<u>19,050</u>

Note: For illustration purposes, the above proceeds from the public issue have been utilised except for the research and development expenses which will be retained in cash and cash equivalents for future utilisation.

The movements in share capital and share premium are as follows:

	No. of ordinary share capital '000	Share capital RM'000	Share premium RM'000
Upon incorporation of Elsoft	100	100	-
Proforma 1- Bonus issue	6,125	6,125	-
	6,225	6,225	-
Proforma 2 - Acquisitions	8,600	8,600	-
	14,825	14,825	-
- Sub-division (from RM1.00 to RM0.10)	148,250	14,825	-
Proforma 3 - Public issue	31,750	3,175	-
	180,000	18,000	15,875
Less : Listing expenses	-	-	(1,600)
	180,000	18,000	14,275
Proforma 4 - ESOS	27,000	2,700	13,500
	<u>207,000</u>	<u>20,700</u>	<u>27,775</u>

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5.0 ELSOFT RESEARCH BERHAD**5.1 Summarised income statements**

	Financial period from 4 June (date of incorporation) to 31 December 2003 RM'000	Financial year ended 31 December 2004 RM'000
Revenue	0	20,365
(Loss)/Profit before interest, depreciation, taxation and R&D	(8)	12,903
R&D expenses	0	(2,198)
(Loss)/Profit before interest, depreciation and taxation	(8)	10,705
Depreciation	0	(81)
Interest expense	0	0
(Loss)/Profit before taxation	(8)	10,624
Taxation	0	(19)
(Loss)/Profit after taxation	(8)	10,605
Minority interest	0	0
(Loss)/Profit after taxation and minority interest	(8)	10,605
Number of ordinary shares of RM1.00 each in issue ('000)	100	100
Gross (loss)/earnings per share (RM)	(0.08)	106.24
Net (loss)/earnings per share (RM)	(0.08)	106.05

Note:

- a) The Company was incorporated on 4 June 2003 in Malaysia under the Companies Act, 1965 as a private limited liability company under the name of Elsoft Research Sdn. Bhd.. It was subsequently converted to a public limited company under the name of Elsoft Research Berhad on 10 August 2004.
- b) The Company was dormant in 2003 and only commenced operations in January 2004. The Company's main revenue was generated from overseas market and multinational companies. A significant increased was noted in the financial year ended 31 December 2004 was mainly due to the Group's restructuring to transfer the Test and Burn-In Systems and Embedded Peripherals' operations to the Company.
- c) The Company was accorded MSC status from Multimedia Development Corporation on 31 December 2003.
- d) There were no exceptional or extraordinary items noted during the financial periods under review.

10. ACCOUNTANTS' REPORT (Cont'd)

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	← As at 31 December →	
	2003	2004
	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	0	3,767
CURRENT ASSETS	98	11,886
CURRENT LIABILITIES	6	8,957
NET CURRENT ASSETS	92	2,929
	92	6,696
Financed by:		
SHARE CAPITAL	100	100
(ACCUMULATED LOSS)/RETAINED PROFIT	(8)	6,596
SHAREHOLDERS' EQUITY	92	6,696
Net tangible assets (RM'000)	92	6,696
NTA per ordinary share (RM)	0.92	66.96

10. ACCOUNTANTS' REPORT (Cont'd)

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6.0 SIANGTRONICS TECHNOLOGY SDN. BHD.**6.1 Summarised income statements**

	← Financial years ended 31 December →				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	12,221	7,840	12,109	18,380	6,240
Profit before interest, depreciation, taxation and R&D	3,754	3,782	6,109	9,588	866
R&D expenses	0	(710)	(1,160)	(1,721)	0
Profit before interest, depreciation and taxation	3,754	3,072	4,949	7,867	866
Depreciation	(220)	(225)	(194)	(206)	(227)
Interest expense	(23)	(80)	(42)	(2)	0
Profit before taxation	3,511	2,767	4,713	7,659	639
Taxation	(570)	(783)	(1,305)	(1,847)	(117)
Profit after taxation	2,941	1,984	3,408	5,812	522
Minority interest	0	0	0	0	0
Profit after taxation and minority interest	2,941	1,984	3,408	5,812	522
Number of ordinary shares of RM1.00 each in issue ('000)	200	500	500	500	500
Gross earnings per share (RM)	17.56	5.53	9.43	15.32	1.28
Net earnings per share (RM)	14.71	3.97	6.82	11.62	1.04

Note:

- a) In year 2001, the revenue reflected a significant dropped of approximately 36% as compared to year 2000 was mainly due to the down turn of the world market whereby most of the semiconductor companies were affected. Revenue picked up again in 2002 and 2003 when the world market recovered and the multinational companies managed to ramp and launch new products. However, in 2004, with the Group restructuring exercise, the Company transferred its operations to its related company and only concentrated on electronic devices/modules assembly for semiconductors, optoelectronics and automation industries. This caused the revenue to decline.
- b) Depreciation did not reflect any significant changes during the financial years under review. The slight fluctuation in 2004 was mainly due to additions of property, plant and equipment. Interest expense in 2000 was due to the term loan obtained from a financial institution for the construction of factory building. The significant increased in 2001 was due to the full drawn down of the said term loan. The term loan was fully repaid in 2003 and thus resulted in a significant decreased in interest expense.
- c) There were no exceptional or extraordinary items noted during the financial years under review.

10. ACCOUNTANTS' REPORT (Cont'd)

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	← As at 31 December →				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
PROPERTY, PLANT AND EQUIPMENT	4,712	4,574	4,432	4,294	4,190
INVESTMENT IN SUBSIDIARIES	0	0	0	581	481
OTHER INVESTMENTS	2,532	3,267	4,535	7,592	45
CURRENT ASSETS	4,422	5,215	5,438	7,644	4,732
CURRENT LIABILITIES	1,388	2,780	2,803	4,193	626
NET CURRENT ASSETS	3,034	2,435	2,635	3,451	4,106
	10,278	10,276	11,602	15,918	8,822
Financed by:					
SHARE CAPITAL	200	500	500	500	500
RETAINED PROFITS	8,668	8,600	11,008	15,320	8,225
SHAREHOLDERS' EQUITY	8,868	9,100	11,508	15,820	8,725
NON-CURRENT LIABILITIES					
Hire purchase payables	45	11	0	0	0
Term loans (secured)	1,278	1,076	0	0	0
Deferred taxation	87	89	94	98	97
	10,278	10,276	11,602	15,918	8,822
Net tangible assets (RM'000)	8,868	9,100	11,508	15,820	8,725
NTA per ordinary share (RM)	44.34	18.20	23.02	31.64	17.45

10. ACCOUNTANTS' REPORT (Cont'd)

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7.0 AGS AUTOMATION SDN. BHD.**7.1 Summarised income statements**

	3 November 1999 to 30 November 2000 RM'000	1 December 2000 to 30 November 2001 RM'000	1 December 2001 to 30 November 2002 RM'000	1 December 2002 to 31 December 2003 RM'000	1 January to 31 December 2004 RM'000
Revenue	661	114	297	629	2,774
Profit/(Loss) before interest, depreciation, taxation and R&D	13	(6)	(32)	(58)	532
R&D expenses	0	0	0	0	0
Profit/(Loss) before interest, depreciation and taxation	13	(6)	(32)	(58)	532
Depreciation	(9)	(5)	(6)	(16)	(32)
Interest expense	0	0	0	0	0
Profit/(Loss) before taxation	4	(11)	(38)	(74)	500
Taxation	0	(1)	1	(27)	(84)
Profit/(Loss) after taxation	4	(12)	(37)	(101)	416
Minority interest	0	0	0	0	0
Profit/(Loss) after taxation and minority interest	4	(12)	(37)	(101)	416
Number of ordinary shares of RM1.00 each in issue ('000)	100	100	100	500	500
Gross earnings per share (RM)	0.04	(0.11)	(0.38)	(0.15)	1.00
Net earnings per share (RM)	0.04	(0.12)	(0.37)	(0.20)	0.83

Note:

- The revenue for year 2000 was mainly derived from machine designing, fabrication and automation. A significant decreased in 2001 was mainly affected by the downturn of world market industries. In 2001, the Company began its exploration to export market and pursued aggressively in local sector which resulted an increase in revenue in year 2002.
- In 2003, the Company commenced a new development of "Test Handler Systems", a new venture into automation equipment/systems. Revenue progressively increased in 2003 and 2004 by then.
- There were no exceptional or extraordinary items noted during the financial years/periods under review.

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7.0 AGS AUTOMATION SDN. BHD. (CONTINUED)**7.2 Summarised balance sheets**

	← As at 30 November →			As at 31 December	
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
PROPERTY, PLANT AND EQUIPMENT	83	40	89	184	344
CURRENT ASSETS	95	56	206	661	1,442
CURRENT LIABILITIES	74	5	241	465	968
NET CURRENT ASSETS/ (LIABILITIES)	21	51	(35)	196	474
	104	91	54	380	818
Financed by:					
SHARE CAPITAL	100	100	100	500	500
RETAINED PROFITS/ (ACCUMULATED LOSSES)	4	(9)	(46)	(147)	269
SHAREHOLDERS' EQUITY	104	91	54	353	769
NON-CURRENT LIABILITY					
Deferred taxation	0	0	0	27	49
	104	91	54	380	818
Net tangible assets (RM'000)	104	91	54	353	769
NTA per ordinary share (RM)	1.04	0.91	0.54	0.71	1.54

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8.0 DIVIDENDS

No dividends have been paid or declared by Elsoft since its incorporation except for the tax exempt interim dividend of 4,000% amounting to RM4,000,000 in respect of the financial year ended 31 December 2004.

No dividends have been declared by the subsidiary companies within the proforma Group during the relevant years/periods under review except for the following financial years/periods:

- (i) STSB declared and paid an interim tax exempt dividend of 876% amounting to RM1,752,000 in respect of the financial year ended 31 December 2001;
- (ii) STSB declared and paid an interim tax exempt dividend of 200% amounting to RM1,000,000 in respect of the financial year ended 31 December 2002;
- (iii) STSB declared and paid an interim tax exempt dividend of 300% amounting to RM1,500,000 in respect of the financial year ended 31 December 2003;
- (iv) STSB declared and paid a final tax exempt dividend in specie of up to 100,000 ordinary shares representing the entire equity interest in Elsoft in respect of the financial year ended 31 December 2003; and
- (v) STSB declared and paid interim dividend of 200% tax exempt dividend amounting to RM1,000,000 and an interim dividend of 1,810.16861%, less Income Tax of 28%, amounting to RM6,516,607 in respect of the financial year ended 31 December 2004.

9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies adopted by the Group are consistent with those applied in previous financial years/periods.

(a) Basis of preparation

The financial statements of the Group have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies.

The financial statements of the Group have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Approved Accounting Standards in Malaysia.

(b) Basis of consolidation

Consolidated financial statements include the financial statements of the Company and all its subsidiary companies. Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation (continued)

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

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

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

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 9(n).

Long term leasehold land is amortised on a straight line basis over the term of the lease period of 60 years. Depreciation on other property, plant and equipment are provided on the straight line method in order to write off the cost of each asset to its residual value over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold factory building	2%
Freehold shop office unit	2%
Machinery and equipment	10% - 14%
Motor vehicles	20%
Office equipment and furniture and fittings	8% - 12%

(d) Investments

Investments in subsidiary companies are stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Investments in other non-current investments are stated at cost and an allowance for diminution in value is made where, in the opinion of the directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in value of an investment, such a decline is recognised as an expense in the period in which the decline is identified.

9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investments (Continued)

Marketable investments are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived using the weighted average basis. Market value is calculated by reference to selling prices quoted by the respective unit trusts funds at the close of the business at the balance sheet date. Increases or decreases in the carrying amounts of marketable investments are recognised as gain or losses in the income statement.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(e) Inventories

Inventories comprising raw materials and work-in-progress are stated at the lower of cost and net realisable value.

Cost is determined on a first-in, first-out basis. Work-in-progress includes the cost of raw materials, direct labour and an appropriate proportion of production and other overheads.

(f) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the financial year in which they are identified. An estimate is made for doubtful debts on a review of all outstanding amounts at the financial year end.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, 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.

(h) Share capital

Ordinary shares with discretionary dividends are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

(j) Foreign currency transactions and balances

Transactions in foreign currencies are recorded in Malaysian Ringgit at rates of exchange ruling at the time of the transactions. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at balance sheet date.

Gain and losses from conversion of short term assets and liabilities, whether realised or unrealised, are included in operating profit as they arise. All other foreign exchange differences are taken to the income statement in the financial year in which they arise.

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**9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Foreign currency transactions and balances (Continued)**

The principal closing rates used in translation of foreign currency amounts are as follows:

Foreign currency	31.12.2004 RM
1 US Dollar	3.8000
1 Singapore Dollar	2.2000
1 Korean Won	0.0030

(k) Income tax

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

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

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

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9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Revenue recognition

Revenue from sales of goods is recognised upon delivery of products and customer acceptance.

Rental income is recognised on an accrual basis.

Interest income is recognised on cash receipt basis.

Dividend income is recognised when the shareholder's right to receive payment is established.

(m) Research and development costs

Research and development costs are expensed in the year in which they are incurred except when the cost incurred on development projects are recognised as development assets to the extent that such expenditure is expected to generate future economic benefits.

Capitalised development costs are amortised on a systematic basis over their expected useful lives.

(n) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(o) Financial instruments

Financial instruments carried on the balance sheet include fixed deposits, cash and bank balances, marketable investments, receivables and payables. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interests, dividends, gain and losses relating to financial instruments classified as 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 Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

9.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

(i) Short term benefit

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when employees render services that increase their entitlement to future compensated absences. Non-accumulating compensated absences, such as sick and medical leaves are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as the additional amount expected to be paid as a result of the unused entitlements that have accumulated at the balance sheet date.

(ii) Defined contribution plans

Contributions to the respective countries' statutory pension scheme are recognised as an expense in the income statement in the period to which they relate.

10.0 FINANCIAL RISK MANAGEMENT POLICIES

The Group's operation is subject to a variety of financial risks, including interest rate risk, credit risk, foreign currency risk, market risk and liquidity and cash flow risks. The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policies in respect of the major areas of treasury activity are set out as follows:

(i) Interest rate risk

The Group's policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objective for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

(ii) Credit risk

The credit risk is controlled by the application of credit approvals, limits and monitoring procedures. This is done through reference to published credit ratings by prime financial institution. In the absence of published ratings, an internal credit review is conducted if the credit risk is material.

(iii) Foreign currency risk

The Group is exposed to foreign currency risk as a result of its normal trading activities where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The Group's policy is to minimise the exposure of overseas transaction risk by matching local currency income against local currency costs.

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10.0 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**(iv) Market risk**

The Group's principal exposure to market risk arises mainly from the changes in equity and unit trust prices. Investments in unit trust classified as current assets are available for sale and the Group manages disposal of its investments to optimise returns on realisation.

(v) Liquidity and cash flow risks

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

11.0 PROPERTY, PLANT AND EQUIPMENT

	Long leasehold land and factory building RM'000	Freehold shop office unit RM'000	Machinery and equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Total RM'000
The Group As at 31.12.2004						
At cost	7,559	188	371	228	294	8,640
Accumulated depreciation	140	4	40	121	34	339
Net book value	7,419	184	331	107	260	8,301

The carrying value of long term leasehold land and factory building have been charged to a licensed bank for bank borrowings granted to one of the subsidiary company amounting to RM3,770,011.

12.0 OTHER INVESTMENTS

	The Group 31.12.2004 RM'000
At cost	
Shares in corporation quoted in Malaysia	45
At market value	72

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13.0 INVENTORIES

	The Group 31.12.2004 RM'000
At cost	
Raw materials	1,319
Work-in-progress	633
	<u>1,952</u>

14.0 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group 31.12.2004 RM'000
Trade receivables	1,461
Other receivables, deposits and prepayments	1,305
	<u>2,766</u>

The Group's normal trade credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case by case basis.

15.0 MARKETABLE INVESTMENTS

	The Group 31.12.2004 RM'000
Unit trust and bond funds – at cost	<u>8,398</u>

16.0 PAYABLES

	The Group 31.12.2004 RM'000
Trade payables	1,574
Other payables and accruals	6,979
	<u>8,553</u>

The normal trade credit terms granted to the Group ranges from 60 to 90 days.

17.0 AMOUNT DUE TO DIRECTORS

The amount due to Directors is unsecured, interest free and has no fixed terms of repayment.

10. ACCOUNTANTS' REPORT (Cont'd)

ELSOFT RESEARCH BERHAD (COMPANY NO.: 617504-K)
Accountants' Report

UHY DIONG
 Chartered Accountants

18.0 SHARE CAPITAL

	No. of ordinary shares 31.12.2004 '000	Par Value 31.12.2004 RM	The Group 31.12.2004 RM'000
Authorised:	<u>250,000</u>	<u>0.10</u>	<u>25,000</u>
Issued and fully paid-up:			
Balance as at 31 December 2004	100	1.00	100
Issued as consideration for Bonus Issue	6,125	1.00	6,125
Issued as consideration for the Acquisitions of subsidiaries	<u>8,600</u>	<u>1.00</u>	<u>8,600</u>
	14,825	1.00	14,825
Sub-division	<u>148,250</u>	<u>0.10</u>	<u>-</u>
	148,250	0.10	14,825
Public issue	<u>31,750</u>	<u>0.10</u>	<u>3,175</u>
	180,000	0.10	18,000
ESOS	<u>27,000</u>	<u>0.10</u>	<u>2,700</u>
	<u>207,000</u>	<u>0.10</u>	<u>20,700</u>

On 16 May 2005, the authorised share capital was increased to RM25,000,000 consisting of 250,000,000 ordinary shares of RM0.10 each.

19.0 DEFERRED TAXATION

	The Group 31.12.2004 RM'000
The recognised deferred tax liabilities are as follows:	
As at 1 January 2004	125
Recognised on the income statement	
- Property, plant and equipment	<u>21</u>
As at 31 December 2004	<u>146</u>


20.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully



UHY DIONG
 AF-1411
 Chartered Accountants



KOAY THEAM HOCK
 2141/04/07 (J)
 Partner

11. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



ELSOFT RESEARCH BERHAD (617504-K)

Plot 9, Medan Bayan Lepas, Technoplex,
Bayan Lepas Industrial Zone 4,
11900 Penang, Malaysia.
Tel : +604-6468122 Fax: +604-6433918

22 JUN 2005

The Shareholders of
ELSOFT RESEARCH BERHAD
51-21-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after due enquiry that between the period from 31 December 2004 (being the date to which the last audited financial statements of the Company and its subsidiaries ("Group") has been made up) to 22 JUN 2005 (being a date not earlier than 14 days before the issuance of this Prospectus), that:-

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;
- (e) in the opinion of the Directors, since the last audited financial statements of the Group where, they are not aware of any 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; and
- (f) save as disclosed in the "Proforma Consolidated Balance Sheets" and the "Accountants' Report" of this Prospectus, there have been no material changes in 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
ELSOFT RESEARCH BERHAD

A handwritten signature in black ink, appearing to read "Tan Cheik Eaik".

Tan Cheik Eaik
Executive Chairman/ Chief Executive Officer