(Prepared for the inclusion in this Prospectus)

ERNST & YOUNG
AF: 0039

Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur, Malaysia

Mail Address:
P.O. Box 11040
50734 Kuala Lumpur, Malaysia

Phone : (03) 2087-7000
Fax : (03) 2095-5332
(General Line)
(03) 2095-9076
(03) 2095-9078
www.ey.com/my

SOLUTION ENGINEERING HOLDINGS BERHAD
ACCCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

22 June 2005

The Board of Directors
Solution Engineering Holdings Berhad
G-2A, Incubator 3,
Technology Park Malaysia, Bukit Jalil
57000, Kuala Lumpur

Dear Sirs

1. INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 30 June 2005 in connection with the Initial Public Offering of Solution Engineering Holdings Berhad ("Solution" or the "Company') and its subsidiary, Solution Engineering Sdn Bhd ("SESB") (collectively referred to as the "Group") on the MESDAQ Market of the Bursa Malaysia Securities Exchange Berhad ("Bursa Securities"). The Initial Public Offering entails the following:

(a) Public Issue

Public issue of 34,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.25 per share payable in full on application. The public issue is to be allocated as follows:

- 6,326,100 new ordinary shares of RM0.10 each is to be allocated to eligible directors, employees and business associates of the Group;
- 6,326,100 new ordinary shares of RM0.10 each to be offered to the Malaysian public; and
- 21,347,800 new ordinary shares of RM0.10 each by way of private placement to investors to be identified.

(b) Listing and Quotation

Admission to the Official List and the listing and quotation of the entire enlarged issued and paid up share capital of Solution of RM12,652,200 comprising 126,522,000 Solution shares on the MESDAQ Market of Bursa Securities.

ERNST & YOUNG
AF: 0039

This report has been prepared solely for the purpose stated above, in connection with the aforementioned prospectus. This report is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

2. GENERAL INFORMATION

2.1 Incorporation and share capital

Solution was incorporated in Malaysia as a private limited company under the name, Solution Engineering Holdings Sdn Bhd on 1 June 2004. The Company was converted to a public company on 22 June 2004 and adopted its present name. Details of the changes in the authorised and issued and paid-up share capital are as follows:

Authorised share capital	**Date**	**Par value of share (RM)**	**Number of ordinary shares**	**RM**
At incorporation	1 June 2004	1.00	100,000	100,000
Subdivided into ordinary shares of RM0.10 each	10 June 2004	0.10	1,000,000	-
Increased in authorised share capital	5 March 2005	0.10	249,000,000	24,900,000
		0.10	250,000,000	25,000,000
Issued and paid-up share capital				
At incorporation	1 June 2004	1.00	95	95
Subdivided into ordinary shares of RM0.10 each	10 June 2004	0.10	950	-
Acquisition of SESB	27 May 2005	0.10	92,521,050	9,252,105
At 27 May 2005 before Public Issue		0.10	92,522,000	9,252,200
Public issue		0.10	34,000,000	3,400,000
Pro forma balance after Public Issue		0.10	126,522,000	12,652,200

2.2 Principal activities

The principal activities of Solution are investment holding and the provision of management services. The principal activities of its subsidiary are set out in Section 2.3 below.

There has been no significant change in the nature of this principal activity since its incorporation.

ERNST & YOUNG
AF: 0039

2.3 Subsidiary

Details of SESB, a wholly owned subsidiary of Solution, are as follows:

(i) Date of incorporation and principal activities

SESB was incorporated in Malaysia as a private limited company under the Companies Act, 1965 on 13 October 1988. The principal activities of SESB are the design and development of equipment for engineering education and research, and the provision of training and curriculum content development.

(ii) Share capital

SESB's authorised share capital as at the date of incorporation was RM100,000. On 29 January 1999, the authorised share capital was increased to RM1,000,000 with the creation of 900,000 new ordinary shares of RM1.00 each. There has been no changes in the authorised share capital since.

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

Date of allotment	No. of ordinary shares of RM1 each RM	Consideration	Cumulative total paid-up share capital RM
13.10.1988	4	Subscribers share	4
05.11.1988	59,996	Cash	60,000
24.09.1990	30,000	Cash	90,000
12.01.1992	10,000	Cash	100,000
15.05.1997	100,000	Bonus issue	200,000
18.01.1999	72,000	Cash	272,000
29.01.1999	528,000	Bonus issue	800,000
07.06.2000	200,000	Bonus issue	1,000,000

3. FINANCIAL STATEMENTS AND AUDITORS

The financial statements included in this Report, which are the responsibility of the directors of Solution and SESB, have been prepared on the basis consistent with the accounting policies normally adopted by Solution and SESB respectively and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

Solution

The first set of financial statements of Solution were from the date of its incorporation, 1 June 2004 to 31 December 2004. The financial statements were audited by Ernst & Young and were not subjected to any qualification.

SESB

The financial statements of SESB were audited by S.M. Tuang & Co. who reported on the financial statements for the financial years since the date of its incorporation to financial year ended 31 December 2002 without qualification. The financial statements of SESB for the financial years ended 31 December 2003 and 2004 were audited by Ernst & Young and were not subjected to any qualification.

4. SUMMARISED PRO FORMA CONSOLIDATED INCOME STATEMENTS AND PRO FORMA CONSOLIDATED BALANCE SHEETS

The financial information presented in Sections 4.1 and 4.3 of this Report represents the consolidated income statements and consolidated balance sheets of the Group prepared on a pro forma basis, using similar accounting polices of SESB, to account for the business combination between Solution and SESB. The pro forma consolidated income statements and consolidated balance sheets of the Group have been prepared using the merger method as the combination between Solution and SESB meets the relevant criteria set out in MASB 21 – "Business Combination".

The merger method has been applied retrospectively such that the comparative years will also be presented in a manner depicting the combination of Solution and SESB as if they had been in combination for the years covered in this Report.

4.1 Pro Forma Consolidated Income Statements

The following summarised pro forma consolidated income statements of the Group have been prepared assuming that the Group has been in existence since 1 January 2000:

	< ---- Year ended 31 December ---- >				
	2000	**2001**	**2002**	**2003**	**2004**
	RM	**RM**	**RM**	**RM**	**RM**
Revenue	6,206,082	6,016,683	8,040,419	20,619,548	13,353,045
Cost of sales	(4,649,097)	(3,983,501)	(4,353,866)	(15,418,940)	(9,061,053)
Gross profit	1,556,985	2,033,182	3,686,553	5,200,608	4,291,992
Other operating income	40,770	47,610	56,958	108,812	128,676
Amortisation and depreciation	(33,328)	(61,601)	(53,381)	(93,708)	(131,620)
Operating costs	(671,449)	(814,277)	(862,373)	(1,664,802)	(1,723,579)
Profit before interests and taxation	892,978	1,204,914	2,827,757	3,550,910	2,565,469
Finance costs	(67,005)	(54,406)	(143,796)	(137,826)	(127,261)
Profit before taxation	825,973	1,150,508	2,683,961	3,413,084	2,438,208
Taxation	5,816	(6,321)	(8,632)	(18,799)	(24,619)
Profit after taxation	831,789	1,144,187	2,675,329	3,394,285	2,413,589
Enlarged share capital of Solution:					
- Before Public Issue	92,522,000	92,522,000	92,522,000	92,522,000	92,522,000
- After Public Issue	126,522,000	126,522,000	126,522,000	126,522,000	126,522,000
Gross earnings per share (RM)					
- Before Public Issue	0.01	0.01	0.03	0.04	0.03
- After Public Issue	0.01	0.01	0.02	0.03	0.02
Net earnings per share (RM)					
- Before Public Issue	0.01	0.01	0.03	0.04	0.03
- After Public Issue	0.01	0.01	0.02	0.03	0.02

ERNST & YOUNG
AF: 0039

4.2 Notes to the Pro Forma Consolidated Income Statements

4.2.1 Revenue

Revenue of the Group can be further analysed as follows:

	Year ended 31 December									
	2000		2001		2002		2003		2004	
	RM	%	RM	%	RM	%	RM	%	RM	%
Sale of equipment for:										
- Process control	-		44,820	*1*	2,316,486	*29*	8,470,671	*41*	1,544,856	*12*
- Heat transfer and thermodynamics	179,124	*3*	495,025	*8*	2,399,897	*30*	842,767	*4*	1,268,404	*9*
- Fluid mechanics	263,709	*4*	146,296	*2*	107,000	*1*	555,782	*3*	305,735	*2*
- Environmental engineering	-	-			30,532	-	705,800	*3*	143,057	*1*
- Reaction engineering and biotechnology	104,700	*2*	384,709	*6*	138,509	*2*	326,150	*2*	-	-
- Automation and advanced manufacturing	283,200	*5*	998,000	*17*	581,800	*7*	-	-	1,013,957	*8*
- Wood technology	364,694	*6*	-	-	818,858	*10*	443,316	*2*	-	-
- Building services	247,920	*4*	9,520	-	12,400		265,330	*1*	32,000	-
- Unit operation	150,400	*2*	206,687	*3*	490,381	*6*	2,803,607	*14*	7,470,896	*56*
- Others:										
a) Trading and services	17,897	-	13,726	*1*	34,250	*1*	48,598	-	944,834	*7*
b) IT and automation systems services	4,570,688	*74*	947,262	*16*	899,513	*11*	6,092,457	*30*	610,515	*5*
c) Miscellaneous	23,750	-	2,770,638	*46*	210,793	*3*	65,070	-	18,791	-
	6,206,082	*100*	6,016,683	*100*	8,040,419	*100*	20,619,548	*10*	13,353,045	*100*

4.2.2 Other operating income

Other operating income comprised the following:

	Year ended 31 December				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Fixed deposits interest income	13,170	18,280	27,568	44,594	88,578
Rental income	27,600	25,950	27,640	36,400	33,100
Gain of disposal of leasehold land	-	-	-	26,018	-
Others	-	3,380	1,750	1,800	6,998
	40,770	47,610	56,958	108,812	128,676

ERNST & YOUNG
AF: 0039

4.2.3 Finance costs

Finance costs comprised the following:

	< Year ended 31 December				>
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Overdraft, trust receipts and bankers' acceptance interest	24,444	6,432	38,468	86,427	27,711
Term loan interest	24,045	25,275	70,169	22,462	37,275
Bank guarantee charges	18,516	18,308	24,075	12,492	40,355
Hire purchase interest	-	2,760	8,280	13,485	15,148
Bank charges	-	1,631	2,804	2,960	6,772
	67,005	54,406	143,796	137,826	127,261

4.2.4 Taxation

Taxation comprised the following:

	< Year ended 31 December				>
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Malaysian taxation based on results for the year					
- current	4,000	6,321	8,765	9,110	22,631
- under/(over) provision in prior years	2,672	-	(133)	9,689	1,988
	6,672	6,321	8,632	18,799	24,619
Deferred taxation	(12,488)	-	-	-	-
	(5,816)	6,321	8,632	18,799	24,619

The tax expenses for the financial years under review were in respect of interest income earned from fixed deposits and rental income. SESB currents enjoying 100% tax exemption on its statutory income under the MSC Status Financial Incentive. The MSC Status expires on 31 December 2009.

ERNST & YOUNG
AF: 0039

4.3 Pro Forma Consolidated Balance Sheets

The following summarised pro forma consolidated balance sheets of the Group have been prepared assuming the Group has been in existence since 1 January 2000. Adjustment has been made to the share capital to reflect the acquisition of SESB had the acquisition occurred on 1 January 2000 and the resulting differences between the cost of investment incurred by Solution and the nominal value of SESB shares received is debited to merger deficit:

		< ---As at 31 December--- >				
	Note	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
NON-CURRENT ASSET						
Property, plant and equipment	4.4.2	796,545	1,020,822	976,107	1,167,375	4,067,586
Development expenditure		-	-	-	-	37,270
		796,545	1,020,822	976,107	1,167,375	4,104,856
CURRENT ASSETS						
Inventories		127,609	129,361	126,238	303,963	389,129
Trade receivables	4.4.1	1,467,400	4,156,528	5,349,351	7,135,296	5,168,839
Other receivables	4.4.3	207,801	288,542	456,313	210,196	442,070
Tax recoverable		431	30,431	21,438	4,261	4,261
Fixed deposits with financial institutions		479,704	609,985	1,182,752	2,822,809	3,941,675
Cash and bank balances		235,125	25,727	84,091	1,197,674	454,710
		2,518,070	5,240,574	7,220,183	11,674,199	10,400,684
CURRENT LIABILITIES						
Trade payables		794,833	2,409,202	1,829,819	1,758,875	933,929
Other payables	4.4.4	12,454	16,800	26,559	101,622	86,249
Short term borrowings	4.4.5	104,820	152,233	123,340	1,308,483	258,482
Dividend payable		-	-	-	-	2,427,647
Provision for taxation		44,168	51,046	8,765	1,102	14,623
		956,275	2,629,281	1,988,483	3,170,082	3,720,930
NET CURRENT ASSETS		1,561,795	2,611,293	5,231,700	8,504,177	6,679,754
		2,358,340	3,632,115	6,207,807	9,671,492	10,784,610
FINANCED BY:						
Share capital		9,252,200	9,252,200	9,252,200	9,252,200	9,252,200
Accumulated losses		-	-	-	-	(14,058)
Merger deficit		(7,213,896)	(6,069,708)	(3,394,380)	-	-
Shareholders' funds		2,038,304	3,182,492	5,857,820	9,252,200	9,238,142
NON-CURRENT LIABILITY						
Long term borrowings	4.4.5	320,036	449,623	349,987	419,292	1,546,468
		2,358,340	3,632,115	6,207,807	9,671,492	10,784,610

ERNST & YOUNG
AF: 0039

4.4 Notes to the Pro Forma Consolidated Balance Sheets

4.4.1 Trade receivables

Trade receivables have been stated after the following reclassifications:

	As at 31 December				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Joint venture					
As stated	321,484	137,035	135,743	-	-
Reclassification	(321,484)	(137,035)	(135,743)	-	-
As restated	-	-	-	-	-
Trade receivables					
As stated	1,145,916	4,019,493	5,213,608	7,135,296	5,168,839
Reclassification	321,484	137,035	135,743	-	-
As restated	1,467,400	4,156,528	5,349,351	7,135,296	5,168,839

The above joint venture represents contractual arrangements with a third party to jointly undertake multimedia and information technology projects. The arrangement was such that it would fall under the classification of a jointly controlled operation in accordance with MASB 16 – "Financial Reporting of Interests in Joint Ventures". The reclassification is made to comply with the requirements of MASB 1 – "Presentation of Financial Statements".

Information on the jointly controlled operations are as follows:

	As at 31 December				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Share of revenue	3,038,614	584,854	4,304	4,294,160	-
Share of cost of sales and expenses	(2,383,055)	(538,487)	(27,049)	(3,591,995)	-
Profit/(loss) from jointly controlled operations	655,559	46,367	(22,745)	702,165	-

Details of jointly controlled operations are as follows:

Joint venture party	Kawalan Cecair Sdn Bhd	Maritime & Industrial Engineering Sdn Bhd
Nature of project	Supply, delivery, installation, testing, commissioning and training of intelligent building management system, security system, world wide manufacturing web and network cabling works in Technology Park Malaysia	Supply, delivery, installation and commissioning of campus network and ICT peripherals to Kuching Polytechnic
Name of customer	Tenaga JalGas Sdn Bhd	Maritime & Industrial Engineering Sdn Bhd
Profit ratio	50:50	50:50
Total revenue (RM)	7,255,544	8,588,320
Total cost (RM)	5,897,182	7,183,990
Total profit (RM)	1,358,362	1,404,330

There was no profit or loss from the jointly controlled operations during the financial year ended 31 December 2004

ERNST & YOUNG
AF: 0039

4.4.2 Property, plant and equipment

	As at 31 December				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Cost/Valuations					
At beginning of year	1,034,078	1,042,303	1,328,181	1,336,849	1,615,719
Additions	8,225	258,878	8,668	330,798	3,024,649
Disposals	-	-	-	(103,686)	(48,000)
Transfers	-	-	-	59,758	-
Write off	-	-	-	(8,000)	-
At end of year	1,042,303	1,328,181	1,336,849	1,615,719	4,592,368
Accumulated Depreciation					
At beginning of year	212,430	245,758	307,359	360,742	448,344
At end of year	245,758	307,359	360,742	448344	524,782
Net Book Values					
At 1 January	821,648	796,545	1,020,822	976,107	1,167,375
Additions	8,225	258,878	8,666	330,799	3,024,649
Depreciation charge	(33,328)	(61,601)	(53,381)	(93,708)	(124,436)
Disposals	-	-	-	(99,181)	(2)
Transfers	-	-	-	59,758	-
Write off	-	-	-	(6,400)	-
At 31 December	796,545	1,020,822	976,107	1,167,375	4,067,586

Long leasehold land and building is stated at valuation. However, these properties have not been revalued since they were first revalued in 1997. The directors have not adopted a policy of regular revaluations of such properties. As permitted under the transitional provisions of IAS16 (Revised): Property, Plant and Equipment, these properties continue to be stated at their 1997 valuation less accumulated depreciation. All other property, plant and equipment are stated at their costs.

4.4.3 Other receivables

Other receivables mainly comprised sundry debtors, deposits, advances and prepayments. Deposits are primarily for utilities and rentals, while prepayments consist of advance payments of rentals.

4.4.4 Other payables

	As at 31 December				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Accruals	12,454	9,000	18,759	93,822	78,049
Deposits received	-	7,800	7,800	7,800	8,200
	12,454	16,800	26,559	101,622	86,249

Accruals represent mainly accruals made for general and administrative expenses.

ERNST & YOUNG
AF: 0039

4.4.5 Borrowings

	As at 31 December				
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Short term					
Term loans	34,896	34,896	88,153	34,896	175,272
Bills payable	17,180	29,441	-	1,200,377	-
Bank overdrafts	52,744	52,292	-	-	-
Hire purchase payables	-	35,604	35,187	73,210	83,210
	104,820	152,233	123,340	1,308,483	258,482
Long term					
Term loans	320,036	319,095	254,647	242,435	1,388,223
Hire purchase payables	-	130,528	95,340	176,857	158,245
	320,036	449,623	349,987	419,292	1,546,468
Total borrowings	424,856	601,856	473,327	1,727,775	1,804,950

Details of the borrowings as at 31 December 2004 are disclosed in Section 5.12.

4.5 Summarised Income Statements and Balance Sheets

4.5.1 Summarised Income Statement of Solution

The summarised income statement of Solution since the date of its incorporation, based on the audited financial statements, is depicted below:

	1.6.2004 (Date of incorporation) to 31.12.2004 RM
Revenue	-
Operating costs	(14,058)
Loss before interests and taxation	(14,058)
Taxation	-
Loss after taxation	(14,058)
Based on share capital of Solution:	
- Number of ordinary share	95
- Gross loss per ordinary share (RM)	(148)
- Net loss per ordinary shares (RM)	(148)

4.5.2. Summarised Balance Sheet of Solution

The summarised balance sheet of Solution as at 31 December 2004, based on the audited financial statements, is depicted below:

	31.12.2004 RM
CURRENT ASSET	
Cash on hand	95
CURRENT LIABILITY	
Other payables	(14,058)
NET CURRENT LIABILITY	(13,963)
REPRESENTED BY:	
Share capital	95
Accumulated losses	(14,058)
	(13,963)

Included in other payables is an amount of RM6,705 owing to SESB which is intended to be a wholly owned subsidiary of the Company pursuant to the Initial Public Offering as mentioned in Section 1 of this Report.

4.5.3 Summarised Income Statements of SESB

The summarised income statements of SESB for the financial years ended 31 December 2000 to 2004, based on the audited financial statements, are depicted below:

	< ---- Year ended 31 December				---- >
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
Revenue	6,206,082	6,016,683	8,040,419	20,619,548	13,353,045
Cost of sales	(4,649,097)	(3,983,501)	(4,353,866)	(15,418,940)	(9,061,053)
Gross profit	1,556,985	2,033,182	3,686,553	5,200,608	4,291,992
Other operating income	40,770	47,610	56,958	108,812	128,676
Amortisation and depreciation	(33,328)	(61,601)	(53,381)	(93,708)	(131,620)
Operating costs	(671,449)	(814,277)	(862,373)	(1,664,802)	(1,709,831)
Profit before interests and taxation	892,978	1,204,914	2,827,757	3,550,910	2,579,217
Finance costs	(67,005)	(54,406)	(143,796)	(137,826)	(127,261)
Profit before taxation	825,973	1,150,508	2,683,961	3,413,084	2,452,266
Taxation	5,816	(6,321)	(8,632)	(18,799)	(24,619)
Profit after taxation	831,789	1,144,187	2,675,329	3,394,285	2,427,647
Based on share capital of SESB:					
- Number of ordinary share	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
- Gross profit per ordinary share (RM)	0.83	1.15	2.68	3.41	2.45
- Net profit per ordinary shares (RM)	0.83	1.14	2.68	3.40	2.43

ERNST & YOUNG
AF: 0039

4.5.4 Summarised Balance Sheets of SESB

The summarised balance sheets of SESB for the financial years ended 31 December 2000 to 2004, based on the audited financial statements, are depicted below:

	Note	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM
		<-------------------- As at 31 December				-------------------->
NON-CURRENT ASSET						
Property, plant and equipment		796,545	1,020,822	976,107	1,167,375	4,067,586
Development expenditure		-	-	-	-	37,270
		796,545	1,020,822	976,107	1,167,375	4,104,856
CURRENT ASSETS						
Inventories		127,609	129,361	126,238	303,963	389,129
Trade receivables		1,467,400	4,156,528	5,349,351	7,135,296	5,168,839
Other receivables		207,801	288,542	456,313	210,196	448,775
Tax recoverable		431	30,431	21,438	4,261	4,261
Fixed deposits with financial institutions		479,704	609,985	1,182,752	2,822,809	3,941,675
Cash and bank balances		235,125	25,727	84,091	1,197,579	454,710
		2,518,070	5,240,574	7,220,183	11,674,104	10,407,294
CURRENT LIABILITIES						
Trade payables		794,833	2,409,202	1,829,819	1,758,875	933,929
Other payables		12,454	16,800	26,559	101,622	78,896
Short term borrowings		104,820	152,233	123,340	1,308,483	258,482
Dividend payable		-	-	-	-	1,500,000
Provision for taxation		44,168	51,046	8,765	1,102	14,623
		956,275	2,629,281	1,988,483	3,170,082	2,785,930
NET CURRENT ASSETS		1,561,795	2,611,293	5,231,700	8,504,022	7,621,364
		2,358,340	3,632,115	6,207,807	9,671,397	11,726,220
FINANCED BY:						
Share capital		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retained profits		1,038,304	2,182,492	4,857,820	8,252,105	9,179,752
Shareholders' funds		2,038,304	3,182,492	5,857,820	9,252,105	10,179,752
NON-CURRENT LIABILITY						
Long term borrowings		320,036	449,623	349,987	419,292	1,546,468
		2,358,340	3,632,115	6,207,807	9,671,397	11,726,220

ERNST & YOUNG
AF: 0039

5. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

The following pro forma statement of assets and liabilities has been prepared based on the financial statements of Solution and SESB for the financial year ended 31 December 2004. The pro forma statement of assets and liabilities has been prepared after considering the acquisition of SESB by Solution, for illustrative purposes only, to show the effects of the Public Issue as set out in Section 1 of this Report. The pro forma statement of assets and liabilities should be read in conjunction with the notes thereto:

	Note	Pro forma Group Before Public Issue as at 31 December 2004 RM	Pro forma Group After Public Issue as at 31 December 2004 RM
NON-CURRENT ASSET			
Property, plant and equipment	5.3	4,067,586	4,067,586
Development expenditure	5.4	37,270	37,270
		4,104,856	4,104,856
CURRENT ASSETS			
Inventories	5.5	389,129	389,129
Trade receivables	5.6	5,168,839	5,168,839
Other receivables	5.7	442,070	442,070
Tax recoverable		4,261	4,261
Fixed deposits with licensed banks	5.8	3,941,675	3,941,675
Cash and bank balances	5.9	454,710	8,954,710
		10,400,684	18,900,684
CURRENT LIABILITIES			
Trade payables	5.10	933,929	933,929
Other payables	5.11	86,249	86,249
Borrowings	5.12	258,482	258,482
Dividend payable	5.14	2,427,647	2,427,647
Provision for taxation		14,623	14,623
		3,720,930	3,720,930
		6,679,754	15,179,754
		10,784,610	19,284,610
FINANCED BY :			
Share capital	5.15	9,252,200	12,652,200
Share premium	5.16	-	5,100,000
Accumulated losses		(14,058)	(14,058)
		9,238,142	17,738,142
NON-CURRENT LIABILITY			
Borrowings	5.12	1,546,468	1,546,468
		10,784,610	19,284,610

5.1 Significant Accounting Policies and Notes to Pro Forma Statement of Assets and Liabilities

5.2 Significant Accounting Policies

(a) Basis of preparation

The financial statements of the Group have been prepared under the historical cost convention modified to include the revaluation of certain property, plant and equipment.

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

(b) Basis of consolidation

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

SESB is consolidated using the merger accounting principles. The arrangement for its acquisition falls under the internal group restructuring pursuant to MASB 21 – "Business Combination". When the merger method is used, the cost of investment in the Company's book is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares acquired is treated as merger reserve or deficit. The results of the companies being merged are included as if the merger had been affected through the current and previous financial years.

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

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

(c) Development expenditure

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

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- the assets will generate future economic benefits (eg. a potential market exists the product or its usefulness in case of internal use is demonstrated) and;
- adequate technical, financial and other resources required for completion of the project available.

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

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised as an expense in the income statement based on a straight-line basis over 5 years.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses.

Long leasehold land and building is stated at valuation. Long term leasehold land and building of SESB have not been revalued since they were first revalued in 1997. The directors have not adopted a policy of regular revaluations of such assets. As permitted under the transitional provisions of IAS16 (Revised): Property, Plant and Equipment, these assets continue to be stated at their 1997 valuation less accumulated depreciation. All other property, plant and equipment are stated at their costs.

Leasehold lands are depreciated over the remaining period of the lease of 90 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life as follows:

Buildings	2%
Office equipment, furniture and fittings	10%
Tools	10%
Motor vehicles	10%
Signboard	10%
Renovations	10%

Upon the disposal of an asset, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the attributable portion of the revaluation surplus is taken directly to retained profits.

(e) Inventories

Inventories, which comprise engineering equipment components, are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of includes purchase, conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

(f) Cash and cash equivalents

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

(g) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Section 5.2(d).

(h) Provisions for Liabilities

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

(i) Income Tax

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

Deferred taxation is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from 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 tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly with equity.

(j) Employee Benefits

(i) Short term benefits
Wages, salaries, bonuses and social security contributions are recognised as an expense in the 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 services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans
As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement in the income statement as incurred.

(k) Revenue Recognition

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

(i) Sale of goods
Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

(ii) Interest income
Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

(l) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

The principal exchange rates for every unit of foreign currency ruling at 31 December 2004 used are as follows:

	31 December 2004
United States Dollar	3.80
Euro Dollar	4.66

(m) 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, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(n) Financial Instruments

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

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.

(i) Trade receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off as identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(n) Financial Instruments (contd.)

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

(iii) Interest bearing borrowings
Interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs. Borrowing costs are recognised as an expense in the income statement as an expense in the period in which they are incurred.

(iv) Equity instruments
Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(v) Financial instruments
The Group uses financial instruments, including forward foreign exchange contracts, to hedge its exposure to foreign exchange arising from operational activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

The underlying foreign currency assets or liabilities are translated at their respective hedged exchange rate and all exchange gains or losses are recognised as income or expense in the income statement in the same period as the exchange differences on the underlying hedged items. Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

5.3 Property, plant and equipment

As at 31 December 2004

	Cost/Valuation RM	Accumulated Depreciation RM	Carrying amount RM
The Group			
Long leasehold land and building	2,950,000	61,772	2,888,228
Office equipment, furniture and fittings	364,914	91,933	272,981
Tools	158,411	20,829	137,582
Motor vehicles	865,277	278,067	587,210
Signboard	4,400	1,279	3,121
Renovations	249,366	70,902	178,464
	4,592,368	524,782	4,067,586

5.3 Property, plant and equipment (contd.)

Except for the long leasehold land and building which are carried at valuation, all other assets are carried at cost. Analyses of cost and valuation for long leasehold land and building as at 31 December 2004 are as follows:

	Long leasehold land and building RM	Carrying amount RM
At valuation	650,000	601,404
At cost	2,300,000	2,286,824
	2,950,000	2,888,228

Had the revalued long leasehold land and building been included in the financial statements at cost less accumulated depreciation, the net book value of these assets as at 31 December 2004 would have been RM391,573.

Acquisitions of property, plant and equipment during the financial year ended 31 December 2004 were made by the following means:

	RM
Cash	1,354,649
Term loan financing	1,600,000
Hire purchase arrangements	70,000
	3,024,649

Included in the property, plant and equipment of the Group are motor vehicles held under hire purchase arrangements with a net book value of RM469,559 as at 31 December 2004.

5.4 Development expenditure

	31 December 2004 RM
At 1 January 2004	-
Add: Additions during the year	44,454
	44,454
Less: Accumulated amortisation	(7,184)
At 31 December 2004	37,270

5.5 Inventories

	RM
At cost:	
Engineering equipment components	389,129

5.6 Trade receivables

The ageing analysis of trade receivables as at 31 December 2004 is as follows:

	<------	------	Days outstanding	------	------	------>	
	Current	31 - 60	61 -90	91 - 120	>120	>180	Total
	RM	RM	RM	RM	RM	RM	RM
Trade debtors	599,439	100,269	353,850	1,311,779	23,158	2,780,344	5,168,839

The Company's normal trade credit term is 180 days. Other credit terms are assessed and approved on a case-by-case basis.

As at 31 December 2004, the Group has concentration of risks in the form of outstanding balances due from 3 debtors representing approximately 70% of total trade receivables.

Approximately 33% of the debts outstanding as at 31 December 2004 had been received subsequent to the financial year end up to 10 June 2005. The management is confident that the remaining balances are fully recoverable and hence no provision for doubtful debts on these balances is necessary.

5.7 Other receivables and deposits

	RM
Deposits	19,412
Other receivables	422,658
As at 31 December 2004	442,070

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

5.8 Fixed deposits with licensed banks

Fixed deposits of RM1,941,675 as at 31 December 2004 are pledged to a licensed bank as security for credit facilities granted to the subsidiary.

Fixed deposits amounted to RM448,098 are held in trust by a director of the Group.

The deposits with licensed banks bore interest at rates ranging between 2.60% and 4.00% per annum during the financial year ended 31 December 2004. The average maturity of the deposits was 175 days as at the end of 31 December 2004.

ERNST & YOUNG
AF: 0039

5.9 Cash and bank balances

	Pro forma Group Before Public Issue RM	Pro forma Group After Public Issue RM
Cash and bank balances as at 31 December 2004	454,710	454,710
Pro forma adjustment – proceeds from Public Issue	-	8,500,000
Adjusted balance as at 31 December 2004	454,710	8,954,710

5.10 Trade payables

The ageing analysis of trade payables as at 31 December 2004 is as follows:

	<------Days outstanding------>						
	Current RM	31 - 60 RM	61 -90 RM	91 - 120 RM	>120 RM	>180 RM	Total RM
Trade creditors	165,788	130,940	88,772	97,660	39,533	411,236	933,929

The normal trade credit terms granted to the Group range from 30 to 90 days although it is customary for creditors to extend the terms to 120 days but generally not beyond 180 days.

The management represented that the amounts exceeding the credit limit granted by creditors were mainly in respect of agreed back to back purchase informal arrangements whereby the Group will only be required to settle the debts upon the receipt of proceeds from its debtors.

5.11 Other payables

	RM
Accruals	78,049
Deposits received	8,200
As at 31 December 2004	86,249

ERNST & YOUNG
AF: 0039

5.12 Borrowings

	31 December 2004 RM
Short Term Borrowings	
Secured:	
Term loans	175,272
Hire purchase payables (Section 5.13)	83,210
	258,482
Long Term Borrowings	
Secured:	
Term loans	1,388,223
Hire purchase payables (Section 5.13)	158,245
	1,546,468
Total borrowings	
Term loans	1,563,495
Hire purchase payables	241,455
As at 31 December 2004	1,804,950

Maturity of borrowings (excluding hire purchase)

Within one year	175,272
More than one year and less than two years	175,272
More than two years and less than five years	525,816
Five years and more	687,135
As at 31 December 2004	1,563,495

	31 December 2004 %
The borrowings bore interest at the following range of rates during the financial year:	
Term loans	4.25 – 7.65
Bankers' acceptances	3.00 – 3.05
Trust receipts	8.25 – 8.65

The bank borrowings (including an unutilised bank overdraft facility) are secured by way of the followings:

(a) Existing first legal charge and second secured charge over the Group's leasehold land and building;
(b) Joint and several guarantees by the Directors of the Company;
(c) Certain fixed deposits and sinking fund; and
(d) Existing Corporate Guarantee Corporation under the New Principal Guarantee Scheme.

ERNST & YOUNG
AF: 0039

5.13 Hire purchase payables

	RM
Minimum payments:	
Not later than one year	99,552
Later than one year and not later than two years	85,729
Later than two years and not later than five years	84,383
Five years or more	18,568
	288,232
Less: Future finance charges	(46,777)
Present value of hire purchase	241,455
Present value of hire purchase	
Not later than one year	83,210
Later than one year and not later than two years	72,150
Later than two years and not later than five years	71,077
5 years or more	15,018
As at 31 December 2004	241,455
Analysed as:	
Due within 12 months	83,210
Due after 12 months	158,245
As at 31 December 2004	241,455

The hire purchase bore interests at rates between 2.99% and 4.65% per annum during the financial year 31 December 2004.

5.14 Dividend payable

This represents the earnings of SESB for the financial year ended 31 December 2004, which will be distributed to the existing shareholders of SESB.

5.15 Share capital

As at 31 December 2004	Pro forma Group Before Public Issue RM	Pro forma Group After Public Issue RM
Issued and paid up capital		
92,522,200 ordinary shares of RM0.10 each	9,252,200	9,252,200
Pro forma adjustment – share issued pursuant to Public Issue	-	3,400,000
Adjusted balance as at 31 December 2004	9,252,200	12,652,200

5.16 Share premium

	Pro forma Group Before Public Issue RM	Pro forma Group After Public Issue RM
Share premium as at 31 December 2004	-	-
Pro forma adjustment – share premium arising from Public Issue	-	5,100,000
Adjusted balance as at 31 December 2004	-	5,100,000

5.17 Contingent liability

	31 December 2004 RM
In respect of indemnity provided for bank guarantee issued	453,913

5.18 Financial instruments

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. It is the Group's policy is not to engage in speculative transactions.

(i) Interest rate risk

The Group's primary interest rate risk relates to interest-bearing debt and deposit. The investments in financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in short term commercial papers which yield better returns than cash at bank.

The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings. The group reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity days and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

ERNST & YOUNG
AF: 0039

5.18 Financial instruments (contd)

(ii) Foreign currency risk

The Group operates internationally and is exposed to various currencies, mainly United States Dollar, Sterling Pound and Singapore Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies are kept to an acceptable level.

The net unhedged financial liabilities of the Group that are not denominated in their functional currencies are as follows:

	Pound Sterling RM	United States Dollar RM	Euro Dollar RM	Total RM
As at 31 December 2004				
Trade receivables	9,171	33,460	23,760	66,391
Trade payables	(13,612)	(42,189)	(43,595)	(99,396)

(iii) Liquidity risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises commited funding from financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

(iv) Credit risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.

As at 31 December 2004, the Group has concentration of risks in the form of outstanding balances due from 3 debtors representing approximately 70% of total trade receivables.

(v) Fair value

The carrying amount of cash and cash equivalents, receivables, payables and short term borrowings approximate their fair values due to the relatively short term nature of these financial instruments.

The fair values of all other financial assets and liabilities of the Group as at 31 December 2004 are not materially different from their carrying amounts.

ERNST & YOUNG

AF: 0039

6. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following pro forma consolidated cash flow statement of the Group has been prepared based on the audited financial statements of Solution and SESB for the financial year ended 31 December 2004 and on the assumption that the Public Issue had been effected as at that date:

	Pro forma Group as at 31 December 2004
Cash flow from operating activities	
Profit before taxation	2,438,208
Adjustments for:	
Bad debts written off	-
Depreciation of property, plant and equipment	124,436
Amortisation of development expenditure	7,184
Property, plant and equipment written off	-
Gain on disposal of property, plant and equipment	(5,998)
Interest expense	127,261
Interest income	(89,578)
Operating profit before working capital changes	2,601,513
Working capital changes:	
Inventories	(85,166)
Receivables	1,734,583
Payables	(840,319)
Cash generated from operating activities	3,410,611
Interest paid	(127,261)
Taxes paid	(11,098)
Net cash generated from operating activities	3,272,252
Cash flow from investing activities	
Acquisition of property, plant and equipment	(1,354,649)
Development cost incurred	(44,454)
Proceeds from disposal of property, plant and equipment	6,000
Interest received	89,578
Net cash generated from investing activities	(1,303,525)
Cash flow from financing activities	
Proceed from the issue of share capital	95
Proceeds from the Public Issue	8,500,000
Repayment of term loans	(313,836)
Repayment of hire purchase obligations	(78,612)
Bankers' acceptances and trust receipts	(1,200,377)
Net cash generated from financing activities	6,907,270
Net increase in cash and cash equivalents	8,875,997
Cash and cash equivalents at beginning of year	4,020,388
Cash and cash equivalents at end of year	12,896,385

Cash and cash equivalents at end of year comprise the following:

Deposits with licensed bank	3,941,675
Cash at bank and in hand	8,954,710
	12,896,385

7. PRO FORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Group as at 31 December 2004, the pro forma net tangible asset (NTA) over per share is calculated as follows:

	Based on audited Group as at 31 December 2004 before Public Issue RM	After incorporating Private Placement and Public Issues of shares RM
NTA per statement of assets and liabilities	9,200,872	9,200,872
Adjustments for:		
- Proceeds from the Public Issue	-	8,500,000
- Less: Estimated listing expenses	-	(1,300,000)
Adjusted NTA	9,200,872	16,400,872
Number of issued and paid shares before public issue	92,522,000	92,522,000
Adjustments for Public Issue	-	34,000,000
Adjusted number of shares	92,522,000	126,522,000
Net Tangible Assets Cover per ordinary shares (RM)	0.10	0.13

Estimated share listing expenses of RM1.3million relating to the Public Issue will be debited against share premium.

8. EFFECT OF ACQUISITION METHOD OF ACCOUNTING

The completion of the restructuring scheme detailed in Section 1 of this Report has resulted in a business combination between Solution and SESB through an exchange of shares. As the business combination meets the relevant criteria set out in MASB 21 – Business Combination, the consolidated financial statement of the Group has been accounted for using the merger method of accounting pursuant to a group reorganisation.

There is no difference to the results and the financial position of the Group had the acquisition method of accounting been applied to the business combination of Solution and SESB on the assumption that the business merger took place on 31 December 2004. However, since the actual business combination took place on 26 May 2005, any difference between the cost of investment incurred by Solution and the nominal value of SESB shares will be debited/(credited) to merger deficit or reserve respectively.

ERNST & YOUNG
AF: 0039

9. DIVIDENDS

There was no dividend declared and paid for the financial years ended 31 December 2000 to 2003. The details of the dividend declared in respect of the financial year ended 31 December 2004 is detailed in Section 5.14 of this report.

10. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

(a) On 5 March 2005, Solution increased its authorised share capital from RM100,000 to RM25,000,000 through the creation of 249,000,000 ordinary shares of RM0.10 each.

(b) The acquisition of the entire issued and paid capital of SESB comprising 1,000,000 SESB shares of RM1.00 each by Solution for a total consideration of RM9,252,105 satisfied by the issuance of 92,521,050 new ordinary shares of RM0.10 each in Solution was completed on 11 May 2005.

11. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Group have been made up in respect of any period subsequent to 31 December 2004.

Yours faithfully

ERNST & YOUNG
AF0039

Chartered Accountants

Kua Choo Kai – 2030/03/06 (J)
Partner