
13. ACCOUNTANTS' REPORT



KZEN SOLUTIONS BERHAD
ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

19 October 2005

The Board of Directors
KZen Solutions Berhad
Suite B-07-07, 7th Floor, Block B
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Dear Sirs

1. INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 7 November 2005 in connection with the Initial Public Offering of KZen Solutions Berhad ("KZen" or the "Company") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Initial Public Offering entails the following:

(a) Public Issue

Public issue of 20,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per share by way of public offering and private placement payable in full on application comprising:

- 2,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian Public;
- 2,000,000 new ordinary shares of RM0.10 each available for application by eligible directors, employees and business associates of KZen and its subsidiary, KaiZenHR Sdn Bhd ("KZSB") (collectively referred to as the "Group"); and
- 16,000,000 new ordinary shares of RM0.10 each available for placement to selected investors.

(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 KZen of RM6,500,000 comprising 65,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Securities.

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.

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2. GENERAL INFORMATION

2.1 Incorporation and share capital

KZen is incorporated in Malaysia as a private limited company under the name, KZen Solutions Sdn Bhd on 15 March 2004. The Company was converted to a public company on 1 June 2004 and adopted its present name. Details of the changes in the authorised and issued and paid-up share capital since the date of incorporation and up to the date of this report are as follows:

Authorised share capital	Date	Par value of share (RM)	Number of ordinary shares	RM
At incorporation	15 March 2004	1.00	100,000	100,000
Increase in authorised share capital	10 June 2005	1.00	<u>24,900,000</u>	<u>24,900,000</u>
		1.00	<u>25,000,000</u>	<u>25,000,000</u>
Share split, representing authorised share capital as at 21 September 2005		0.10	<u>250,000,000</u>	<u>25,000,000</u>
Issued and paid-up share capital				
At incorporation	15 March 2004	1.00	2	2
Acquisition of KZSB	10 June 2005	1.00	3,499,998	3,499,998
Rights Issue	21 September 2005	1.00	<u>1,000,000</u>	<u>1,000,000</u>
		1.00	<u>4,500,000</u>	<u>4,500,000</u>
Share Split, representing issued and paid-up capital as at 21 September 2005		0.10	45,000,000	4,500,000
Public Issue		0.10	<u>20,000,000</u>	<u>2,000,000</u>
Pro forma balance after Public Issue		0.10	<u>65,000,000</u>	<u>6,500,000</u>

Upon the completion of the Public Issue as detailed in Section 1 (a), the issued and paid-up share capital of KZen will increase to RM6,500,000 comprising 65,000,000 ordinary shares of RM0.10 each.

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2.2 Principal activities

The principal activities of KZen are investment holding and the development of an Enterprise Human Capital Management System. The principal activities of its subsidiary are set out in Section 2.4 below.

There have been no significant changes in the nature of these principal activities since its incorporation.

2.3 Listing scheme

In conjunction with the Initial Public Offering of KZen on the MESDAQ Market of Bursa Securities, KZen initiated the following restructuring exercise:

(a) Acquisition

Acquisition of the entire issued and paid up share capital of KZSB comprising 60,000 ordinary shares of RM1.00 each for a total consideration of RM3,499,998 to be satisfied by the issuance 3,499,998 new ordinary shares of RM1.00 each in KZen.

The Acquisition was completed on 10 June 2005.

(b) Rights Issue

KZen implemented a rights issue of 1,000,000 new ordinary shares of RM1.00 each at par on the basis of one (1) new ordinary share for every three and half (3.5) existing shares held.

The Right Issue was completed on 21 September 2005.

(c) Share Split

Upon the completion of the Acquisition and the Rights Issue, a share split involving the subdivision of every one (1) existing ordinary share of RM1.00 held in KZen into ten (10) ordinary shares of RM0.10 each will be carried out.

The Share Split was completed on 21 September 2005.

(d) Public Issue

Public issue of 20,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per share by way of public offering and private placement payable in full on application comprising:

- 2,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian Public;
- 2,000,000 new ordinary shares of RM0.10 each available for application by eligible directors, employees and business associates of the Group; and
- 16,000,000 new ordinary shares of RM0.10 each available for placement to selected investors.

13. ACCOUNTANTS' REPORT (Cont'd)**2.4 Subsidiary**

Details of KZSB, a wholly owned subsidiary of KZen, are as follows:

(i) Date of incorporation and principal activities

KZSB was incorporated on 4 December 1997 as a private limited company in Malaysia pursuant to the Companies Act, 1965 under the name HR Systems Concept Sdn. Bhd. It later changed its name to Kaizenhr.Com Sdn. Bhd. on 28 March 2000 and adopted its present name on 26 January 2001.

The principal activities of KZSB are sales and marketing and the provision of post sales implementation and support activities for its Enterprise Human Capital Management System.

(ii) Share Capital

KZSB's authorised share capital amounts to RM100,000 comprising 100,000 ordinary shares of RM1.00 each, which has remained unchanged since the date of its incorporation.

Details of changes in the issued and paid-up share capital of KZSB since the date of incorporation and up to the date of this report are as follows:

Date of allotment	Number of ordinary shares of RM1 each	RM Consideration	Cumulative total paid-up share capital
			RM
Date of incorporation on 4 December 1997	2	Subscribers' shares	2
2 June 1998	29,998	Cash	30,000
27 January 2000	30,000	Cash	60,000

3. FINANCIAL STATEMENTS AND AUDITORS

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

KZen

Ernst & Young are the auditors of KZen since its incorporation. The first set of financial statements of KZen were from the date of its incorporation, 15 March 2004 to 31 December 2004 and followed by the financial statements for the period ended 31 May 2005. Both sets of financial statements were not qualified in any respect.

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3. FINANCIAL STATEMENTS AND AUDITORS (CONTD.)

KZSB

The financial statements of KZSB were audited by Halim Ahmad & Co. who reported on the financial statements for the financial years since its incorporation to financial year ended 31 December 2001. The financial statements of KZSB for the financial years ended 31 December 2002 to 2004 and the financial statements for the period ended 31 May 2005 were audited by Ernst & Young. All financial statements covered above were not qualified in any respect.

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 summarised consolidated income statements and consolidated balance sheets of the Group prepared on a pro forma basis, using similar accounting policies of KZSB, to account for the business combination between KZen and KZSB. The pro forma consolidated income statements and consolidated balance sheets of the Group have been prepared using the merger method as the combination between KZen and KZSB meets the relevant criteria set out in MASB 21 – “Business Combinations” pursuant to a group reorganisation.

The merger method has been applied retrospectively such that the comparative years will also be presented in a manner depicting the combination of KZen and KZSB as if they had been in combination for the years/period covered in this report.

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4.1 Pro Forma Consolidated Income Statements

The following summarised pro forma consolidated income statements of the Group, which have been prepared for illustrative purpose only, have been prepared on the assumption that KZSB is a wholly owned subsidiary of KZen throughout the relevant periods under review.

	Note	Financial year ended 31 December					5 months ended 31
		2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	May 2005 RM
Revenue	4.2.1	490,760	493,952	913,945	1,837,883	3,615,727	1,174,138
Other operating income	4.2.2	-	-	-	-	7,007	2,500
Operating expenses	4.2.3	(504,085)	(451,978)	(644,180)	(945,756)	(1,441,149)	(686,827)
(Loss)/earnings before amortisation, depreciation and taxation		(13,325)	41,974	269,765	892,127	2,181,585	489,811
Depreciation and amortisation		(43,732)	(47,325)	(68,990)	(117,571)	(195,918)	(91,734)
(Loss)/profit before taxation		(57,057)	(5,351)	200,775	774,556	1,985,667	398,077
Taxation	4.2.4	-	-	(74,000)	(215,119)	(542,023)	(88,351)
(Loss)/profit after taxation		(57,057)	(5,351)	126,775	559,437	1,443,644	309,726
Enlarged share capital of KZen							
- After Acquisition and Share Split before Rights Issue		35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000
- After Acquisition, Share Split and Rights Issue before Public Issue		45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
- After Acquisition, Share Split, Rights Issue and Public Issue		65,000,000	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000
Gross (loss)/earnings per share (sen)							
- After Acquisition and Share Split before Rights Issue		(0.16)	(0.02)	0.57	2.21	5.67	1.14
- After Acquisition, Share Split and Rights Issue before Public Issue		(0.13)	(0.01)	0.45	1.72	4.41	0.88
- After Acquisition, Share Split, Rights Issue and Public Issue		(0.09)	(0.01)	0.31	1.19	3.05	0.61
Net (loss)/earnings per share (sen)							
- After Acquisition and Share Split before Rights Issue		(0.16)	(0.02)	0.36	1.60	4.12	0.88
- After Acquisition, Share Split and Rights Issue before Public Issue		(0.13)	(0.01)	0.28	1.24	3.21	0.69
- After Acquisition, Share Split, Rights Issue and Public Issue		(0.09)	(0.01)	0.20	0.86	2.22	0.48

There were no extraordinary and exceptional items for the financial years/period under review.

13. ACCOUNTANTS' REPORT (Cont'd)**4.2 Notes to Pro Forma Consolidated Income Statements****4.2.1 Revenue**

The Group's revenue can be categorised into:

- (i) Revenue generated from sale of its Enterprise Human Capital Management System ("HCMS") packages; and
- (ii) Revenue generated from professional and maintenance services.

Revenue can be analysed as follows:

	<-----Financial year ended 31 December----->					5 months ended
	2000	2001	2002	2003	2004	31 May
	RM	RM	RM	RM	RM	RM
Software	309,506	318,236	704,555	1,611,543	3,164,596	985,268
Professional and maintenance services	181,254	175,716	209,390	226,340	451,131	188,870
Total	490,760	493,952	913,945	1,837,883	3,615,727	1,174,138

Representing:

	<-----Financial year ended 31 December----->					5 months ended
	2000	2001	2002	2003	2004	31 May
	%	%	%	%	%	%
Software	63%	64%	77%	88%	88%	84%
Professional and maintenance services	37%	36%	23%	12%	12%	16%
Total	100%	100%	100%	100%	100%	100%

Revenue from sale of HCMS package relates to sale of the following modules:

- KaiZenHR System Admin and Security Management
- KaiZenHR Payroll Management System
- KaiZenHR Personnel Management System
- KaiZenHR Leave Management System
- KaiZenHR Claim Management System
- KaiZenHR Loan Management System
- KaiZenHR Recruitment Management System
- KaiZenHR Training Management System
- KaiZenHR Performance Management System
- KaiZenHR Time & Attendance Management System
- KaiZenHR Backpay Arrears Management System
- KaiZenHR Employee Share Option Scheme ("ESOS")
- KaiZenHR Bus Route Management System

13. ACCOUNTANTS' REPORT (Cont'd)

**4.2.1 Revenue (contd.)**

- KaiZenHR Fringe Benefit Withholding System
- KaiZenHR Employee Share Purchase Plan (“ESPP”)
- KaiZenHR Leave Passage Management System
- KaiZenHR Loan Interest Subsidy System
- KaiZenHR Personalization Object Module
- KaiZenHR Group Medical Benefit System
- KaiZenHR Group Insurance Benefit System
- KaiZenHR Training Needs Analysis System
- KaiZenHR Manpower Budgeting System
- KaiZenHR Job Competency Management System
- KaiZenHR Industrial Relations Management System
- KaiZenHR Dynamic Scripting Engine
- KaiZenHR Employee and Manager Self Service
- KaiZenHR Workflow Engine
- KaiZenHR Dynamic Web Menu Configuration
- KaiZenHR Dynamic MS-EXCEL PIVOT Interface

Revenues generated from professional services relate to training and implementation services rendered pursuant to customers' requirements. These professional services are chargeable separately in addition to the Software License Fee at a rate of RM1,100 per man day which fluctuates depending on the market competitiveness.

Maintenance services are recurring revenue which varies in accordance with the customer base. Maintenance services are chargeable at a rate ranging from 12 % to 15 % of the total cost of Software License and billable to the client on a yearly basis for the support and upgrade services rendered.

4.2.2 Other operating income

Other operating income consists of primarily interest income from fixed deposits placed with licensed banks.

13. ACCOUNTANTS' REPORT (Cont'd)**4.2.3 Operating expenses**

Major components of operating expenses are as follows:

	←-----Financial year ended 31 December----->					5 months
	2000	2001	2002	2003	2004	ended 31 May
	RM	RM	RM	RM	RM	2005
Amortisation of development costs	24,244	31,172	57,113	95,303	161,150	68,348
Commission	-	-	-	106,501	58,814	21,350
Office rent	21,600	42,000	42,000	50,040	58,040	45,325
Provision for doubtful debts	-	-	-	-	24,500	35,200
Salaries and wages	105,225	123,833	118,006	220,938	402,789	261,851
Directors' allowances	33,000	10,166	60,000	60,000	60,000	25,000
Directors' salaries	136,800	102,600	136,800	136,800	173,600	80,000

Commission paid were in respect of payments to business partners for sales referred to KZSB.

4.2.4 Taxation

	←-----Financial year ended 31 December----->					5 months
	2000	2001	2002	2003	2004	ended 31
	RM	RM	RM	RM	RM	May
Income tax	-	-	26,000	188,000	470,093	58,276
Deferred taxation	-	-	48,000	27,199	71,930	30,075
	-	-	74,000	215,119	542,023	88,351

There was no tax payable for the financial years ended 31 December 2000 and 2001 in view of the losses incurred for those financial years.

The effective income tax rate for the financial year ended 31 December 2002 was higher than the statutory rate mainly due to non deductibility of certain expenses for tax purposes and under provision of deferred taxation in prior years.

The effective income tax rate for the financial period ended 31 May 2005 was lower than the statutory rate mainly due to the effect of the different tax rate for small and medium scale companies, whereby the income tax for the first RM500,000 chargeable income is calculated at a tax rate of 20%.

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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 throughout the periods under review. Adjustment has been made to the share capital to reflect the Acquisition, Rights Issue and Share Split had the Acquisition, Rights Issue and Share Split occurred on 1 January 2000. The resulting differences between the cost of investment incurred by KZen and the nominal value of KZSB shares received are debited to merger deficit:

Note	←-----As at 31 December-----→					As at	
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	31 May 2005 RM	
NON-CURRENT ASSETS							
Plant and equipment	4.4.2	13,869	53,769	52,029	83,633	150,596	151,000
Development costs	4.4.3	90,816	94,284	166,874	262,527	461,407	555,942
		<u>104,685</u>	<u>148,053</u>	<u>218,903</u>	<u>346,160</u>	<u>612,003</u>	<u>706,942</u>
CURRENT ASSETS							
Trade receivables		109,635	23,869	222,846	797,982	2,215,403	1,958,307
Other receivables	4.4.4	26,654	32,034	25,799	22,673	319,732	394,003
Cash and bank balances	4.4.5	1,025,210	1,016,112	1,045,000	1,446,567	1,280,811	1,652,065
		<u>1,161,499</u>	<u>1,072,015</u>	<u>1,293,645</u>	<u>2,267,222</u>	<u>3,815,946</u>	<u>4,004,375</u>
CURRENT LIABILITIES							
Other payables	4.4.1&4.4.6	21,891	18,809	170,615	122,151	137,797	134,804
Due to directors	4.4.1&4.4.6	223,042	185,359	125,258	500,000	525,261	426,046
Provision for taxation		-	-	26,000	214,000	472,084	517,859
		<u>244,933</u>	<u>204,168</u>	<u>321,873</u>	<u>836,151</u>	<u>1,135,142</u>	<u>1,078,709</u>
NET CURRENT ASSETS							
		<u>916,566</u>	<u>867,847</u>	<u>971,772</u>	<u>1,431,071</u>	<u>2,680,804</u>	<u>2,925,666</u>
		<u>1,021,251</u>	<u>1,015,900</u>	<u>1,190,675</u>	<u>1,777,231</u>	<u>3,292,807</u>	<u>3,632,608</u>
FINANCED BY							
Share capital		4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Merger deficit		(3,478,749)	(3,484,100)	(3,357,325)	(2,797,888)	(1,349,492)	(1,037,766)
Accumulated losses		-	-	-	-	(4,750)	(6,750)
		<u>1,021,251</u>	<u>1,015,900</u>	<u>1,142,675</u>	<u>1,702,112</u>	<u>3,145,758</u>	<u>3,455,484</u>
NON-CURRENT LIABILITY							
Deferred taxation		-	-	48,000	75,119	147,049	177,124
		<u>1,021,251</u>	<u>1,015,900</u>	<u>1,190,675</u>	<u>1,777,231</u>	<u>3,292,807</u>	<u>3,632,608</u>

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4.4 Notes to the Pro Forma Consolidated Balance Sheets

4.4.1 Reclassification

The following reclassifications have been made for the relevant financial years to conform with the presentation of the financial statements for the financial period ended 31 May 2005.

	←-----As At 31 December -----→					As at 31
	2000	2001	2002	2003	2004	May
	RM	RM	RM	RM	RM	RM
Other payables						
As previously stated	79,192	102,968	225,873	122,151	137,797	134,804
Reclassifications	(57,301)	(84,159)	(55,258)	-	-	-
As restated	<u>21,891</u>	<u>18,809</u>	<u>170,615</u>	<u>122,151</u>	<u>137,797</u>	<u>134,804</u>
Due to Directors						
As previously stated	165,741	101,200	70,000	500,000	525,261	426,046
Reclassifications	57,301	84,159	55,258	-	-	-
As restated	<u>223,042</u>	<u>185,359</u>	<u>125,258</u>	<u>500,000</u>	<u>525,261</u>	<u>426,046</u>

4.4.2 Plant and equipment

	←-----As at 31 December -----→					As at 31 May
	2000	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM	RM
Cost						
Renovations	-	39,774	39,774	39,774	74,774	74,774
Office equipment	7,918	17,737	22,346	63,673	66,953	67,715
Computer equipment	55,005	58,095	60,433	45,823	107,683	130,711
Furniture and fittings	4,515	7,885	11,075	14,513	16,104	16,104
	<u>67,438</u>	<u>123,491</u>	<u>133,628</u>	<u>163,783</u>	<u>265,514</u>	<u>289,304</u>
Accumulated Depreciation						
Renovations	-	3,977	7,954	11,932	16,493	20,775
Office equipment	4,064	7,611	12,080	23,140	34,640	42,071
Computer equipment	48,249	56,089	58,412	40,474	57,671	68,650
Furniture and fittings	1,256	2,045	3,153	4,604	6,114	6,808
	<u>53,569</u>	<u>69,722</u>	<u>81,599</u>	<u>80,150</u>	<u>114,918</u>	<u>138,304</u>

13. ACCOUNTANTS' REPORT (Cont'd)**4.4.2 Plant and equipment (contd.)**

	←-----As at 31 December-----→					As at 31 May
	2000	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM	RM
Net Book Values						
Renovations	-	35,797	31,820	27,842	58,281	53,999
Office equipment	3,854	10,126	10,266	40,533	32,313	25,644
Computer equipment	6,756	2,006	2,021	5,349	50,012	62,061
Furniture and fittings	3,259	5,840	7,922	9,909	9,990	9,296
	<u>13,869</u>	<u>53,769</u>	<u>52,029</u>	<u>83,633</u>	<u>150,596</u>	<u>151,000</u>
 Depreciation for the year/period	 19,488	 16,153	 11,877	 22,268	 34,768	 23,386

4.4.3 Development costs

	←-----As at 31 December-----→					As at 31 May
	2000	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM	RM
At 1 January	24,640	90,816	94,284	166,874	262,527	461,407
Additions for the year/period	90,420	34,640	129,703	190,956	360,030	162,883
	115,060	125,456	223,987	357,830	622,557	624,290
Amortisation for the year/period	(24,244)	(31,172)	(57,113)	(95,303)	(161,150)	(68,348)
At 31 December	<u>90,816</u>	<u>94,284</u>	<u>166,874</u>	<u>262,527</u>	<u>461,407</u>	<u>555,942</u>

Development cost is derived primarily from capitalisation of staff cost. The portion of staff cost capitalised only include personnel who are involved in software programming and development.

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4.4.4 Other receivables

	←-----As at 31 December-----→					As at 31 May
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	2005 RM
Other debtors	16,154	6,315	-	-	-	-
Deposits	10,500	21,705	21,785	18,797	28,297	38,397
Prepayments	-	4,014	4,014	3,876	291,435	355,606
	<u>26,654</u>	<u>32,034</u>	<u>25,799</u>	<u>22,673</u>	<u>319,732</u>	<u>394,003</u>

4.4.5 Cash and bank balances

	←-----As At 31 December-----→					As at 31 May
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	2005 RM
Pro forma Group	25,210	16,112	45,000	446,567	280,811	652,065
Pro forma adjustment – Proceeds from Rights Issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
	<u>1,025,210</u>	<u>1,016,112</u>	<u>1,045,000</u>	<u>1,446,567</u>	<u>1,280,811</u>	<u>1,652,065</u>

4.4.6 Other payables

	←-----As at 31 December-----→					As at 31 May
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	2005 RM
Payables and accruals	21,891	18,809	161,500	38,110	79,631	130,098
Deferred maintenance charges	-	-	9,115	84,041	58,166	4,706
	<u>21,891</u>	<u>18,809</u>	<u>170,615</u>	<u>122,151</u>	<u>137,797</u>	<u>134,804</u>

The accruals in 2002 were mainly the accruals for salaries of directors and staffs which were paid subsequent to 31 December 2002. The payables and accruals for 2004 were mainly accruals for staff costs and tax penalties estimated at RM33,000 for the year of assessment 2004.

The payables and accruals for 2005 were mainly in respect of accruals for staff costs and professional charges incurred in connection with the listing scheme.

13. ACCOUNTANTS' REPORT (Cont'd)**4.5 Summarised Income Statements and Balance Sheets****4.5.1 Summarised Income Statements of KZen**

The following summarised income statements of KZen are extracted from its audited financial statements.

	15.3.2004 (Date of incorporation) to 31.12.2004 RM	5 months ended 31 May 2005 RM
Revenue	-	-
Operating costs	(4,750)	(2,000)
Loss before interests and taxation	(4,750)	(2,000)
Taxation	-	-
Loss after taxation	(4,750)	(2,000)
Based on share capital of KZen:		
- Number of ordinary shares	2	2
- Gross loss per ordinary share	(2,375)	(1,000)
- Net loss per ordinary share	(2,375)	(1,000)

13. ACCOUNTANTS' REPORT (Cont'd)**4.5.2 Summarised Balance Sheets of KZen**

The following summarised balance sheets of KZen as at 31 December 2004 and 31 May 2005 are extracted from its audited financial statements.

	As at 31 December 2004 RM	As at 31 May 2005 RM
CURRENT ASSETS		
Cash on hand	2	2
CURRENT LIABILITY		
Other payables	4,750	6,750
NET CURRENT LIABILITY	<u>(4,748)</u>	<u>(6,748)</u>
REPRESENTED BY:		
Share capital	2	2
Accumulated losses	(4,750)	(6,750)
	<u>(4,748)</u>	<u>(6,748)</u>

Included in other payables as at 31 May 2005 are RM4,750 (2004: RM3,750) being amount owing to KZSB which is intended to be a wholly owned subsidiary of KZen pursuant to the Listing Scheme as mentioned in Section 2.3 of this report.

13. ACCOUNTANTS' REPORT (Cont'd)



4.5.3 Summarised Income Statements of KZSB

The following summarised income statements of KZSB are extracted from its audited financial statements.

	←-----Financial year ended 31 December----->					5 months ended 31
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	May 2005 RM
Revenue	490,760	493,952	913,945	1,837,883	3,615,727	1,174,138
Other operating income	-	-	-	-	7,007	2,500
Operating expenses	(504,085)	(451,978)	(644,180)	(945,756)	(1,436,399)	(684,827)
Earnings before amortisation, depreciation and taxation	(13,325)	41,974	269,765	892,127	2,186,335	491,811
Depreciation and amortisation	(43,732)	(47,325)	(68,990)	(117,571)	(195,918)	(91,734)
(Loss)/profit before taxation	(57,057)	(5,351)	200,775	774,556	1,990,417	400,077
Taxation	-	-	(74,000)	(215,119)	(542,023)	(88,351)
(Loss)/profit after taxation	(57,057)	(5,351)	126,775	559,437	1,448,394	311,726
Based on share capital of KZSB						
- Number of ordinary shares	60,000	60,000	60,000	60,000	60,000	60,000
- Gross (loss)/profit per ordinary share (sen)	(95.10)	(8.92)	334.63	1,290.93	3,317.36	666.80
- Net (loss)/profit per ordinary share (sen)	(95.10)	(8.92)	211.29	932.40	2,413.99	519.54

13. ACCOUNTANTS' REPORT (Cont'd)



4.5.4 Summarised Balance Sheets of KZSB

The following summarised balance sheets of KZSB are extracted from its audited financial statements.

	<-----As at 31 December----->					As at
	2000	2001	2002	2003	2004	31 May
	RM	RM	RM	RM	RM	2005 RM
NON-CURRENT ASSETS						
Plant and equipment	13,869	53,769	52,029	83,633	150,596	151,000
Development costs	90,816	94,284	166,874	262,527	461,407	555,942
	<u>104,685</u>	<u>148,053</u>	<u>218,903</u>	<u>346,160</u>	<u>612,003</u>	<u>706,942</u>
CURRENT ASSETS						
Trade receivables	109,635	23,869	222,846	797,982	2,220,153	1,958,307
Other receivables	26,654	32,034	25,799	22,673	319,732	398,753
Cash and bank balances	25,210	16,112	45,000	446,567	280,809	652,063
	<u>161,499</u>	<u>72,015</u>	<u>293,645</u>	<u>1,267,222</u>	<u>2,820,694</u>	<u>3,009,123</u>
CURRENT LIABILITIES						
Other payables	21,891	18,809	170,615	122,151	137,797	132,804
Amount due to directors	223,042	185,359	125,258	500,000	525,261	426,046
Provision for taxation	-	-	26,000	214,000	472,084	517,859
	<u>244,933</u>	<u>204,168</u>	<u>321,873</u>	<u>836,151</u>	<u>1,135,142</u>	<u>1,076,709</u>
NET CURRENT (LIABILITIES)/ASSETS	<u>(83,434)</u>	<u>(132,153)</u>	<u>(28,228)</u>	<u>431,071</u>	<u>1,685,552</u>	<u>1,932,414</u>
	<u>21,251</u>	<u>15,900</u>	<u>190,675</u>	<u>777,231</u>	<u>2,297,555</u>	<u>2,639,356</u>
FINANCED BY:						
Share capital	60,000	60,000	60,000	60,000	60,000	60,000
(Accumulated losses)/retained profits	(38,749)	(44,100)	82,675	642,112	2,090,506	2,402,232
	<u>21,251</u>	<u>15,900</u>	<u>142,675</u>	<u>702,112</u>	<u>2,150,506</u>	<u>2,462,232</u>
NON-CURRENT LIABILITY						
Deferred taxation	-	-	48,000	75,119	147,049	177,124
	<u>21,251</u>	<u>15,900</u>	<u>190,675</u>	<u>777,231</u>	<u>2,297,555</u>	<u>2,639,356</u>

13. ACCOUNTANTS' REPORT (Cont'd)



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 audited financial statements of KZen and KZSB for the financial period ended 31 May 2005. The pro forma statements of assets and liabilities have been prepared, for illustrative purposes only, to show the effects of the restructuring exercise in conjunction with the listing of KZen as set out in Section 2.3 of this report. The pro forma statement of assets and liabilities should be read in conjunction with the notes thereto.

		Pro forma I After Acquisition of KZSB, Rights Issue and Share Split as at 31 May 2005	Pro forma II After Proforma I, Public Issue and listing expenses as at 31 May 2005
	Note	Audited as at 31 May 2005	Audited as at 31 May 2005
NON-CURRENT ASSETS			
Plant and equipment	5.3	-	151,000
Development costs		-	555,942
		-	706,942
CURRENT ASSETS			
Trade receivables	5.4	-	1,958,307
Other receivables	5.5	-	394,003
Cash and cash equivalents	5.6	2	1,652,065
		2	4,004,375
CURRENT LIABILITIES			
Other payables	5.7	6,750	134,804
Due to directors	5.8	-	426,046
Provision for taxation		-	517,859
		6,750	1,078,709
NET CURRENT (LIABILITIES)/ASSETS			
		(6,748)	2,925,666
		(6,748)	3,632,608
FINANCED BY:			
Share capital	5.9	2	4,500,000
Share premium	5.10	-	-
Merger deficit		-	(1,037,766)
Accumulated losses		(6,750)	(6,750)
		(6,748)	3,455,484
NON-CURRENT LIABILITY			
Deferred taxation	5.11	-	177,124
		(6,748)	3,632,608

13. ACCOUNTANTS' REPORT (Cont'd)

AF: 0039

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 and 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 subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the merger accounting principles. 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) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Office equipment	20%
Computer equipment	40%
Furniture and fittings	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.

13. ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

(d) 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.

(e) 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.

(f) 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.

(g) 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 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 as incurred.

13. ACCOUNTANTS' REPORT (Cont'd)

**(h) 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) Services

Revenue from services rendered is recognised net of service taxes and discounts as and when the services are performed.

(ii) Sale of goods

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

(i) 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.

(j) 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.

(k) 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.

13. ACCOUNTANTS' REPORT (Cont'd)**(k) Financial Instruments (contd.)****(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.

(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.

5.3 Plant and equipment

As at 31 May 2005

	Pro forma I and II as at 31 May 2005		
	Cost RM	Accumulated Depreciation RM	Net Book Value RM
Renovations	74,774	20,775	53,999
Office equipment	67,715	42,071	25,644
Computer equipment	130,711	68,650	62,061
Furniture and fittings	16,104	6,808	9,296
	289,304	138,304	151,000

13. ACCOUNTANTS' REPORT (Cont'd)



5.4 Trade receivables

	Pro forma I and II as at 31 May 2005 RM
Trade receivables	2,018,007
Less: Provision for doubtful debts	<u>(59,700)</u>
	<u>1,958,307</u>

The ageing analysis of trade receivables as at 31 May 2005 is as follows:

	Current RM	31 - 60 RM	61 - 90 RM	91 - 180 RM	>180 RM	Total RM
Trade debtors	<u>259,108</u>	<u>178,495</u>	<u>339,350</u>	<u>374,204</u>	<u>866,850</u>	<u>2,018,007</u>

The Company's normal credit term ranges from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

Approximately 90% of the debts outstanding as at 31 May 2005 had been received subsequent to the financial period end up to 11 October 2005.

As at 31 May 2005, the Company has concentration of credit risks in the form of outstanding balances due from 2 debtors representing approximately 46% of total trade receivables.

5.5 Other receivables

	Audited as at 31 May 2005 RM	Pro forma I After acquisition of KZSB, Rights Issue and Share Split RM	Pro forma II After Pro forma I, Public Issue and listing expenses RM
Deposits	-	38,397	38,397
Prepayments	-	<u>355,606</u>	<u>47,806</u>
Pro forma balance as at 31 May 2005	-	<u>394,003</u>	<u>86,203</u>

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

13. ACCOUNTANTS' REPORT (Cont'd)



5.6 Cash and cash equivalents

	Audited as at 31 May 2005	Pro forma I After acquisition of KZSB, Rights Issue and Share Split	Pro forma II After Pro forma I, Public Issue and listing expenses
	RM	RM	RM
Cash and cash equivalents as at 31 May 2005	2	2	2
Adjustments for:			
- Acquisition of KZSB	-	1,652,063	1,652,063
- Proceeds from Public Issue, net of listing expenses	-	-	5,407,800
Pro forma balance as at 31 May 2005	2	1,652,065	7,059,865

5.7 Other payables

	Audited as at 31 May 2005	Pro forma I and II as at 31 May 2005
	RM	RM
Payables and accruals	6,750	130,098
Deferred maintenance charges	-	4,706
	6,750	134,804

5.8 Due to directors

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

13. ACCOUNTANTS' REPORT (Cont'd)



5.9 Share capital

	Audited as at 31 May 2005	Pro forma I After acquisition of KZSB, Rights Issue and Share Split	Pro forma II After Pro forma I, Public Issue and listing expenses
	RM	RM	RM
Issued and paid-up capital as at 31 May 2005	2	2	2
Adjustments for:			
- Acquisition of KZSB and Rights Issue	-	4,499,998	4,499,998
- Arising from Public Issue	-	-	2,000,000
Pro forma balance as at 31 May 2005	2	4,500,000	6,500,000

5.10 Share premium

	Audited as at 31 May 2005	Pro forma I After acquisition of KZSB, Rights Issue and Share Split	Pro forma II After Pro forma I, Public Issue and listing expenses
	RM	RM	RM
Share premium as at 31 May 2005	-	-	-
Adjustments for:			
- Arising from Public Issue	-	-	4,600,000
- Listing expenses	-	-	(1,500,000)
Pro forma balance as at 31 May 2005	-	-	3,100,000

5.11 Deferred taxation

	Pro forma I and II as at 31 May 2005 RM
At 1 January	147,049
Recognised in income statement	30,075
At 31 May 2005	177,124

13. ACCOUNTANTS' REPORT (Cont'd)



5.12 Financial instruments

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business whilst managing its interest rate and liquidity risks. The Company's policy is not to engage in speculative transactions.

(i) 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.

(ii) 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.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

(iii) Fair value

The carrying amounts of cash and cash equivalents, trade and other receivables/payables, approximate their fair values due to the relatively short term maturity of these financial instruments.

13. ACCOUNTANTS' REPORT (Cont'd)



6. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following consolidated cash flow statement of the Group has been prepared based on the audited financial statements of KZen and KZSB for the financial period ended 31 May 2005 and on the assumption that the listing scheme as detailed in Section 2.3 of this report had been effected on 31 May 2005.

	Pro forma Group Before Rights Issue and Public Issue RM	Pro forma Group After Rights Issue and Public Issue RM
Cash flow from operating activities		
Profit before taxation	398,077	398,077
Adjustments for:		
Depreciation of plant and equipment	23,386	23,386
Amortisation of development expenditure	68,348	68,348
Provision for doubtful debts	35,200	35,200
Interest income	(2,500)	(2,500)
Operating profit before working capital changes	522,511	522,511
Working capital changes:		
Receivables	147,625	455,425
Payables	(102,208)	(102,208)
Net cash generated from operations	567,928	875,728
Tax paid	(12,501)	(12,501)
Net cash generated from operating activities	555,427	863,227
Cash flow from investing activities		
Acquisition of plant and equipment	(23,790)	(23,790)
Development costs incurred	(162,883)	(162,883)
Interest received	2,500	2,500
Net cash used in investing activities	(184,173)	(184,173)
Cash flow from financing activities		
Proceeds from the rights issue	-	1,000,000
Proceeds from the public issue, net of listing expenses	-	5,100,000
Net cash generated from financing activities	-	6,100,000
Net increase in cash and cash equivalents	371,254	6,779,054
Cash and cash equivalents at beginning of year	280,811	280,811
Cash and cash equivalents at end of year	652,065	7,059,865
Cash and cash equivalents at end of year comprised the following:		
Deposits with licensed bank	205,955	205,955
Cash at bank and in hand	446,110	6,853,910
	652,065	7,059,865

13. ACCOUNTANTS' REPORT (Cont'd)



7. PRO FORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Group as at 31 May 2005, the pro forma net tangible assets (NTA) per share is calculated as follows:

	Pro forma I	Pro forma II
Audited as at 31 May 2005 RM	After acquisition of KZSB, Rights Issue and Share Split RM	After Pro forma I, Public Issue and listing expenses RM
NTA per statements of assets and liabilities as at 31 May 2005	(6,748)	(6,748)
Adjustments for:		
- Acquisition of KZSB and Rights Issue	-	2,906,290
- Arising from Public Issue, net of listing expenses	-	5,100,000
Pro forma balance as at 31 May 2005	<u>(6,748)</u>	<u>7,999,542</u>
Number of issued and paid-up shares as at 31 May 2005	2	2
Adjustments for:		
- Acquisition of KZSB and Rights Issue	-	44,999,998
- Arising from Public Issue	-	20,000,000
Pro forma number of shares	<u>2</u>	<u>65,000,000</u>
Net (Liabilities)/Tangible Assets Cover per ordinary shares	<u>(337,400) sen</u>	<u>12.31 sen</u>

13. ACCOUNTANTS' REPORT (Cont'd)



8. EFFECT OF ACQUISITION METHOD OF ACCOUNTING

The completion of the listing scheme detailed in Section 2.3 of this Report has resulted in a business combination between KZen and KZSB 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. Had the acquisition method of accounting been applied to the business combination on the assumption that the business combination occurred on 31 May 2005, the effects on the financial position of the Pro forma Group would have been as follows:

	Pro forma Group as at 31 May 2005
NON-CURRENT ASSETS	
Property, plant and equipment	151,000
Goodwill	1,037,766
Development costs	555,942
	<u>1,744,708</u>
CURRENT ASSETS	
Trade receivables	1,958,307
Other receivables	394,003
Cash and bank balances	6,752,065
	<u>9,104,375</u>
CURRENT LIABILITIES	
Other payables	134,804
Amount due to directors	426,046
Provision for taxation	517,859
	<u>1,078,709</u>
NET CURRENT ASSETS	<u>8,025,666</u>
	<u>9,770,374</u>
FINANCED BY	
Share capital	6,500,000
Share premium	3,100,000
Accumulated losses	(6,750)
	<u>9,593,250</u>
NON CURRENT LIABILITY	
Deferred taxation	177,124
	<u>9,770,374</u>

However, under the merger method of accounting, since the actual business combination took place on 10 June 2005, any difference between the cost of investment incurred by KZen and the nominal value of KZSB shares as at that date will be debited/credited to merger deficit and reserve respectively.

13. ACCOUNTANTS' REPORT (Cont'd)



9. DIVIDENDS

There was no dividend declared and paid for the financial years ended 31 December 2000 to 2004 and for the financial period ended 31 May 2005.

10. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- (a) On 10 June 2005, KZen increased its authorised share capital from RM100,000 to RM25,000,000 through the creation of 24,900,000 ordinary shares of RM1.00 each.
- (b) The acquisition of the entire issued and paid capital of KZSB comprising 60,000 KZSB shares of RM1.00 each by KZen for a total consideration of RM3,499,998 satisfied by the issuance of 3,499,998 new ordinary shares of RM0.10 each in KZen was completed on 10 June 2005.
- (c) The rights issue of 1,000,000 new ordinary shares of RM1.00 each at par on the basis of one (1) new ordinary share for every three and half (3.5) existing shares held was completed on 21 September 2005.
- (d) The share split involving the subdivision of every one (1) existing ordinary share of RM1.00 held in KZen into ten (10) ordinary shares of RM0.10 each was completed on 21 September 2005.

11. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Group have been made up in respect of any period subsequent to 31 May 2005.

Yours faithfully


ERNST & YOUNG
AF0039

Chartered Accountants


See Huey Beng – 1495/03/07(J)
Partner

14. PROFORMA BALANCE SHEETS AND REPORTING ACCOUNTANTS' LETTER THEREON



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50734 Kuala Lumpur, Malaysia

**Reporting Accountants' Report on Pro Forma Consolidated Balance Sheets
(Prepared for inclusion in the Prospectus to be dated 7 November 2005)**

19 October 2005

The Board of Directors
KZen Solutions Berhad
Suite B-07-07, 7th Floor, Block B
Plaza Mont'Kiara
Jalan Kiara
50480 Kuala Lumpur.

Dear Sirs

**KZEN SOLUTIONS BERHAD
PRO FORMA CONSOLIDATED BALANCE SHEETS
AS AT 31 MAY 2005**

We report on the pro forma consolidated balance sheets set out in section 14 of the Prospectus to be dated 7 November 2005, which have been prepared for illustrative purposes only, to provide information about how the consolidated balance sheet of **KZEN SOLUTIONS BERHAD ("KZen")** and its subsidiary, KaiZenHR Sdn Bhd ("KZSB") (collectively known as the "Pro forma Group") as at 31 May 2005 that has been presented might have been affected by the following scheme (collectively known as the "Listing Scheme"):

(a) Acquisition

Acquisition of the entire issued and paid up share capital of KZSB comprising 60,000 ordinary shares of RM1.00 each for a total consideration of RM3,499,998 to be satisfied by the issuance 3,499,998 new ordinary shares of RM1.00 each in KZen.

The Acquisition was completed on 10 June 2005.

(b) Rights Issue

KZen implemented a rights issue of 1,000,000 new ordinary shares of RM1.00 each at par on the basis of one (1) new ordinary share for every three and half (3.5) existing shares held.

The Right Issue was completed on 21 September 2005.

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



(c) **Share Split**

Upon the completion of the Acquisition and the Rights Issue, a share split involving the subdivision of every one (1) existing ordinary share of RM1.00 held in KZen into ten (10) ordinary shares of RM0.10 each will be carried out.

The Share Split was completed on 21 September 2005.

(d) **Public Issue**

Public issue of 20,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per share by way of public offering and private placement payable in full on application comprising:

- 2,000,000 new ordinary shares of RM0.10 each available for application by the public;
- 2,000,000 new ordinary shares of RM0.10 each available for application by eligible directors, employees and business associates of the Group; and
- 16,000,000 new ordinary shares of RM0.10 each available for placement to selected investors.

(e) **Listing and Quotation**

Admission to the Official List and the listing and quotation of the entire enlarged issued and paid-up share capital of KZen comprising 65,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

It is the responsibility solely of the directors of KZen to prepare the pro forma consolidated balance sheets in accordance with the requirements of the Securities Commission Prospectus Guidelines in respect of Public Offerings ("the Guidelines").

It is our responsibility to form an opinion, as required by the Guidelines, and to report our opinion to you. Our work consisted primarily of comparing the unadjusted financial information presented with their original form, considering the adjustments and discussing the pro forma consolidated balance sheets with the responsible officers of KZen. Our work involved no independent examination of any of the underlying financial information other than our audit of financial statements of KZen and KZSB that included the audited balance sheet as at 31 May 2005, on which we reported to the members of KZen and KZSB as of the date of our report.

In our opinion:

- (a) the pro forma consolidated balance sheets have been properly compiled on the bases stated; and
- (b) within the context of the assumed date of the Listing Scheme:
 - (i) such bases are consistent with the accounting policies of the Pro forma Group; and
 - (ii) the adjustments set out are appropriate for the purposes of the pro forma consolidated balance sheets pursuant to the Guidelines.

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




The accompanying pro forma consolidated balance sheets and this letter have been prepared solely for the purposes stated above. This letter is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.


Yours faithfully


Ernst & Young
AF: 0039

Chartered Accountants
Kuala Lumpur, Malaysia


See Huey Beng
No. 1495/03/07(J)
Partner

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

 **ERNST & YOUNG** (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

KZEN SOLUTIONS BERHAD

NOTES TO THE CONSOLIDATED PRO FORMA BALANCE SHEETS

1. The pro forma consolidated balance sheets have been prepared for illustrative purposes only to show the effects of the Listing Scheme on the consolidated balance sheets as at 31 May 2005 had the Listing Scheme been implemented and completed on that date and by application of the accounting policies and bases consistent with those normally adopted in the preparation of the audited financial statements of KZSB, by way of incorporating the adjustments as stated in Note 2 to 5 below;
2. Adjustment column I reflect the Acquisition of the entire equity issued and paid up share capital of KZSB by KZen, satisfied by the issuance of 3,499,998 new ordinary shares of RM1.00 each in KZen at par. The Acquisition was completed on 10 June 2005 and has been accounted for using the merger accounting principles;

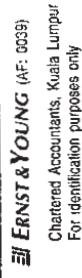
Intragroup balances have been eliminated such that the Pro forma Group reflects external transactions only.

3. Adjustment column II reflects the Rights Issue of 1,000,000 new ordinary shares of RM1.00 each on the basis of one (1) new ordinary share of RM1.00 each for every three and half (3.5) existing shares held. The Rights Issue was completed on 21 September 2005;
4. Adjustment column III reflects the Share Split involving the subdivision of every one (1) existing ordinary share of RM1.00 held in KZen into ten (10) ordinary shares of RM0.10 each. The Share Split was completed on 21 September 2005; and
5. Adjustment column IV reflects the Public Issue of 20,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per share. The estimated listing expenses of RM1,500,000 (of which RM307,800 has been prepaid) will be set off against the share premium arising.

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

KZEN SOLUTIONS BERHAD PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MAY 2005

The pro forma consolidated balance sheets as set out below have been prepared for illustrative purposes only to show the effects of the Listing Scheme on the audited balance sheet as at 31 May 2005, had the Listing Scheme been implemented and completed on that date and by application of the accounting policies and bases consistent with those normally adopted in the preparation of the audited financial statements of KZSB.



	Audited as at 31 May 2005 RM	Adjustment 1		Adjustment 2		Adjustment 3		Adjustment 4		Pro forma IV RM
		Acquisition RM	Merger Accounting RM	Pro forma I RM	Rights Issue RM	Pro forma II RM	Share Split RM	Pro forma III RM	Public Issue RM	
NON-CURRENT ASSETS										
Property, plant and equipment	-	151,000		151,000		151,000		151,000		151,000
Development cost	-	555,942		555,942		555,942		555,942		555,942
				706,942		706,942		706,942		706,942
CURRENT ASSETS										
Trade receivables	-	1,958,307		1,958,307		1,958,307		1,958,307		1,958,307
Other receivables, deposits and prepayments	-	398,753	(4,750)	394,003		394,003		394,003	(307,800)	86,203
Cash and cash equivalents	2	652,063		652,065	1,000,000	1,652,065		1,652,065	5,407,800	7,059,865
	2			3,004,375		4,004,375		4,004,375		9,104,375
CURRENT LIABILITIES										
Other payables	6,750	132,804	(4,750)	134,804		134,804		134,804		134,804
Due to directors	-	426,046		426,046		426,046		426,046		426,046
Provision for taxation	-	517,859		517,859		517,859		517,859		517,859
	6,750			1,078,709		1,078,709		1,078,709		1,078,709
NET CURRENT ASSETS	(6,748)			1,925,666		2,925,666		2,925,666		8,025,666
Financed by:	(6,748)			2,632,608		3,632,608		3,632,608		8,732,608
SHARE CAPITAL AND RESERVE										
Share capital	2	60,000	3,439,998	3,500,000	1,000,000	4,500,000		4,500,000	2,000,000	6,500,000
Share premium	-	-	-	-	-	-	-	-	3,100,000	3,100,000
Merger deficit	-	-	(1,037,766)	(1,037,766)		(1,037,766)		(1,037,766)		(1,037,766)
Accumulated losses	(6,750)	2,402,232	(2,402,232)	(6,750)		(6,750)		(6,750)		(6,750)
	(6,748)			2,455,484		3,455,484		3,455,484		8,555,484
NON-CURRENT LIABILITY										
Deferred taxation	-	177,124		177,124		177,124		177,124		177,124
	(6,748)			2,632,608		3,632,608		3,632,608		8,732,608
Number of shares in issue	2	3,499,998		3,500,000	1,000,000	4,500,000	40,500,000	45,000,000	20,000,000	65,000,000
Net Tangible Assets per share (sen)	(337,400.00)			54.27		64.43		6.44		12.31

15. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



KZen Solutions Berhad (645677-D)

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Level 40, Tower 2, KLCC 50088, Kuala Lumpur, Malaysia.

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Registered Office

No 4-1, Suite 1, Bangunan SIMVEST
Jalan 7/36, Sri Bintang Heights
Taman Sri Bintang
52100 Kuala Lumpur

To : **The Shareholders of KZen Solutions Berhad**

On behalf of the Board of Directors of KZen Solutions Berhad, I report after due enquiry, that during the period from 31 May 2005 (being the date to which the last audited accounts of KZen and its subsidiary company ("Group") have been made up) to ~~25 October 2005~~ (being the date not earlier than fourteen days before the issue of this Prospectus) that:-

- (a) the business of the Group, in the opinion of the Directors, have been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have materially and adversely affected the business and operations 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) there are no contingent liabilities that have arisen by reason of any guarantees or indemnities given by the Group;
- (e) since the last audited accounts of the Group, there have not been 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 in which the Directors are aware of; and
- (f) since the last audited accounts of the Group, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group.

Yours faithfully
For and on behalf of the Board of Directors
KZEN SOLUTIONS BERHAD


Ng Boon Sing
Chief Executive Officer