## 10. PROFORMA CONSOLIDATED BALANCE SHEETS

*(Prepared for the inclusion in this Prospectus)*

MATHEW PARTNERS

**Mathew & Partners** (AF1229)
Chartered Accountants
1010 Block B
Phileo Damansara II
15 Jalan 16/11
Off Jalan Damansara
46350 Petaling Jaya
Selangor Darul Ehsan
Telephone +60(3) 79547707
Facsimile +60(3) 79547745
E-mail kloffice@mathewNpartners.com

5 December 2005

The Board of Directors
MMS Ventures Berhad
Unit 41-5-5
5th Floor, Wisma Prudential
41 Jalan Cantonment
10250 Penang

Dear Sirs,

**PROFORMA CONSOLIDATED BALANCE SHEETS**

We have reviewed the presentation of the proforma consolidated balance sheets of MMS Ventures Berhad and its subsidiaries ("Proforma Group"), as at 30 June 2005, which have been prepared for illustrative purposes only, together with the notes thereon, for which the Directors are solely responsible, as set out in the accompanying appendix and the Prospectus dated 15 December 2005 in connection with the following exercises and should not be relied on for any other purpose:-

(i) Acquisition of the entire issued and paid-up share capital of MMS for a total purchase consideration of RM12,639,212 to be satisfied by the issuance of 126,392,120 new ordinary shares of RM0.10 each in MMSV to be credited as fully paid up at par;

(ii) Acquisition of the entire issued and paid-up share capital of Evolusys for a total consideration of RM22,704;

(iii) Transfer of the existing 20 ordinary shares of RM0.10 each in the Company held by Khew Sin Mei and Lim Phaik Lan to Saw Chong Keat for a cash consideration of RM2.00;

(iv) Public issue of 36,607,860 new ordinary shares of RM0.10 each in the Company at an indicative issue price of RM0.27 per share; and

(v) Listing of and quotation for the entire enlarged issued and paid-up share capital of RM16,300,000 comprising 163,000,000 ordinary shares of RM0.10 each in MMSV on the MESDAQ Market of the Bursa Securities.

## 10. PROFORMA CONSOLIDATED BALANCE SHEETS *(Cont'd)*

In our opinion,

(i) the Proforma Consolidated Balance Sheets, which are prepared for illustrative purposes only, have been properly compiled on the bases set out in the accompanying notes to the Proforma Consolidated Balance Sheets;

(ii) the bases are consistent with the accounting policies normally adopted by the Proforma Group; and

(iii) the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully

Mathew & Partners
No. A.F. 1229
Chartered Accountants

Mathew Thomas a/l Vargis Mathews
No. 1529/6/06 (J)
Partner

## 10. PROFORMA CONSOLIDATED BALANCE SHEETS *(Cont'd)*

*APPENDIX I*

**MMS VENTURE BERHAD**
**AND ITS SUBSIDIARIES ("PROFORMA GROUP")**

**PROFORMA CONSOLIDATED BALANCE SHEETS**
**AS AT 30 JUNE 2005**

The proforma consolidated balance sheets of MMSV as at 30 June 2005 as set out below are provided for illustrative purposes only.

| | As at date of Incorporation RM | Proforma I RM | Proforma II RM | Proforma III RM |
|---|---|---|---|---|
| Property plant and equipment | 0 | 801,894 | 801,894 | 5,801,894 |
| Pre-Listing expenditure | 635,363 | 635,363 | 635,363 | 0 |
| Current assets | | | | |
| Stocks | 0 | 3,926,765 | 3,926,765 | 3,926,765 |
| Trade debtors | 0 | 13,118,943 | 13,118,943 | 13,118,943 |
| Sundry debtors, deposits and pepayments | 0 | 107,917 | 107,917 | 107,917 |
| Cash and bank balances | 2 | 626,101 | 10,510,223 | 626,101 |
| Fixed deposits with licensed banks | 0 | 6,274,060 | 6,274,060 | 10,293,545 |
| | 2 | 24,053,786 | 33,937,908 | 28,073,271 |
| Current liabilities | | | | |
| Trade creditors | 0 | 7,499,641 | 7,499,641 | 7,499,641 |
| Sundry creditors and accruals | 652,993 | 1,205,684 | 1,205,684 | 1,205,684 |
| Provision for taxation | 0 | 570,564 | 570,564 | 570,564 |
| | 652,993 | 9,275,889 | 9,275,889 | 9,275,889 |
| Net current assets / (liabilities) | (652,991) | 14,777,897 | 24,662,019 | 18,797,382 |
| | (17,628) | 16,215,154 | 26,099,276 | 24,599,276 |
| *Financed by :* | | | | |
| Share capital | 2 | 12,639,214 | 16,300,000 | 16,300,000 |
| Retained profit/ (losses) | (17,630) | 3,469,640 | 3,469,640 | 3,469,640 |
| Share premium | 0 | 0 | 6,223,336 | 4,723,336 |
| Shareholders funds | (17,628) | 16,108,854 | 25,992,976 | 24,492,976 |
| Deferred taxation | 0 | 106,300 | 106,300 | 106,300 |
| | (17,628) | 16,215,154 | 26,099,276 | 24,599,276 |
| NTA per share (RM) | (881.40) | 0.13 | 0.16 | 0.15 |

## 10. PROFORMA CONSOLIDATED BALANCE SHEETS *(Cont'd)*

**MMS VENTURES BERHAD**
**AND ITS SUBSIDIARIES ("PROFORMA GROUP")**

**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

1. The proforma consolidated balance sheets of MMSV and the subsidiaries, Micro Modular System Sdn Bhd ("MMS") and Evolusys Technologies (Malaysia) Sdn Bhd ("Evolusys") as at 30 June 2005 have been prepared for illustrative purposes based on accounting principles and bases adopted in the preparation of the audited financial statements of MMSV, MMS and Evolusys. MMSV was incorporated on 29 March 2004 and closed its first financial period on 31 December 2004.

2. The Consolidated Balance Sheets of the Proforma Group have been prepared for illustrative purposes only, to show the effects of the following proposals assuming that the proposals had been implemented and completed on that date.

(i) Proforma I - incorporates the acquisition of 3,500,000 ordinary shares of RM1.00 each representing the entire paid-up share capital of MMS for a purchase consideration of RM12,639,212 to be satisfied by an issue of 126,392,120 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.10 per share.

(ii) Proforma II - incorporates Proforma I and the proposed public issue of 36,607,860 new ordinary shares of RM0.10 each by the Company at an issue price of RM0.27 per share.

(iii) Proforma III - incorporates Proforma II and the proposed utilisation of proceeds from the public issue as follows:

| | RM |
|---|---|
| Expansion of production facilities | 5,000,000 |
| R&D expenses | 2,500,000 |
| Defray estimated listing expenses | 1,500,000 |
| Working capital | 884,122 |
| | 9,884,122 |

(iv) All inter-company balances have been eliminated in arriving at the proforma consolidated balance sheets.

(v) Estimated listing expenses of RM1,500,000 is written off against the share premium account.

(vi) The proforma consolidated balance sheets are arrived at using the acquisition method of accounting.

## 10. PROFORMA CONSOLIDATED BALANCE SHEETS *(Cont'd)*

### 3. SHARE CAPITAL

The movement of the issued and paid-up share capital of MMSV after taking into account the Proposed Acquisitions and Proposed Public Issue are as follows:

| | RM |
|---|---|
| At date of incorporation | 2 |
| Shares issued pursuant to the Proposed Acquisitions | 12,639,212 |
| Per proforma (I) consolidated balance sheet | 12,639,214 |
| Proposed Public Issue | 3,660,786 |
| Per proforma (II) and (III) consolidated balance sheets | 16,300,000 |

### 4. SHARE PREMIUM

The movement of the share premium account of MMSV after taking into consideration the Proposed Acquisitions and Proposed Public Issue are as follows:

| | RM |
|---|---|
| At date of incorporation | 0 |
| Share premium arising from the Proposed Public Issue | 6,223,336 |
| Per proforma (II) consolidated balance sheet | 6,223,336 |
| Estimated listing expenses | (1,500,000) |
| Per proforma (III) consolidated balance sheet | 4,723,336 |

*(Prepared for the inclusion in this Prospectus)*

MATHEW PARTNERS

**Mathew & Partners** (AF1229)
Chartered Accountants
1010 Block B
Phileo Damansara II
15 Jalan 16/11
Off Jalan Damansara
46350 Petaling Jaya
Selangor Darul Ehsan
Telephone +60(3) 79547707
Facsimile +60(3) 79547745
E-mail kloffice@mathewNpartners.com

**Accountants Report for Prospectus**

5 December 2005

The Board of Directors
MMS Ventures Berhad
Unit 41-5-5
5th Floor, Wisma Prudential
41, Jalan Cantonment
10250 Penang

Dear Sirs,

This report has been prepared by Mathew & Partners, an approved company auditor, for inclusion in the Prospectus to be dated 15 December 2005 in connection with the public issue of 36,607,860 new ordinary shares of RM0.10 each in MMS Ventures Berhad (hereinafter referred to as "MMSV" or "the Company") at an issue price of RM0.27 per ordinary share and the listing of and quotation for the entire enlarged issued and fully paid-up share capital of MMSV comprising 163,000,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

This report has been prepared on a basis consistent with the accounting policies normally adopted by MMSV and its subsidiaries, which are in accordance with applicable approved accounting standards issued or adopted by the Malaysian Accounting Standards Board.

## A. GENERAL INFORMATION

### 1. Incorporation

MMSV was incorporated on 29 March 2004 as a private limited liability company under the name of MMS Ventures Sdn Bhd. The Company was converted into a public company and assumed its present name on 19 October 2004.

### 2. Principal activities

MMSV is currently dormant and will commence operations upon completion of the proposed acquisitions of the entire issued and paid up share capital of Micro Modular System Sdn Bhd ("MMS") and Evolusys Technologies (Malaysia) Sdn Bhd ("Evolusys"). The Company will operate as an investment holding company.

**3. Restructuring and flotation scheme**

In conjunction with and as part of the listing and quotation of its entire enlarged issued and paid up share capital on the MESDAQ Market of Bursa Securities, the Company's restructuring exercise, which was approved by the Securities Commission on 6 July 2005 and 26 October 2005, involves the following transactions:

(i) Acquisition of the entire issued and paid-up share capital of MMS for a total purchase consideration of RM12,639,212 to be satisfied by the issuance of 126,392,120 new ordinary shares of RM0.10 each in MMSV to be credited as fully paid up at par;

The purchase consideration for the proposed acquisition was arrived at on a willing-buyer and willing-seller basis, based on the audited net tangible assets ("NTA") of MMS as at 31 May 2004 amounting to RM12,639,212.

The acquisition was completed on 8 September 2005;

(ii) Acquisition of the entire issued and paid-up share capital of Evolusys for a total consideration of RM10,000;

The purchase consideration of RM10,000 was arrived at on a willing-buyer and willing-seller basis, based on MMS' total investment cost as at 31 May 2004 amounting to RM10,000. The total cash consideration is treated as an inter-company debt owing by MMSV to MMS.

The acquisition was completed on 8 September 2005;

(iii) Transfer of the existing 20 ordinary shares of RM0.10 each in the Company held by Khew Sin Mei and Lim Phaik Lan to Saw Chong Keat for a cash consideration of RM2.00.

The transfer was completed on 8 September 2005;

(iv) Public issue of 36,607,860 new ordinary shares of RM0.10 each in the Company at an indicative issue price of RM0.27 per share ("Public Issue").

The gross proceeds of the Public Issue will be RM9,884,122 and are expected to be utilised as follows:

| | RM |
|---|---|
| Expansion of production activities | 5,000,000 |
| R & D expenses | 2,500,000 |
| Estimated listing expenses | 1,500,000 |
| Working capital | 884,122 |
| | 9,884,122 |

The estimated listing expenses of RM1,500,000 are written off against the share premium account; and

(v) Listing of and quotation for the entire enlarged issued and paid-up share capital of RM16,300,000 comprising 163,000,000 ordinary shares of RM0.10 each in MMSV on the MESDAQ Market of the Bursa Securities.

## 4. Share Capital

The authorised share capital of the Company as at the date of this report is RM25,000,000 comprising 250,000,000 ordinary share of RM0.10 each.

The present issued and paid-up share capital of the Company as at the date of this report is RM 12,639,214 comprising 126,392,140 ordinary shares of RM0.10 each.

Details of changes in the issued and paid-up share capital of MMSV since incorporation are as follows:

| Date of allotment | No. of MMSV Shares allotted | Par value (RM) | Consideration | Cumulative issued and paid-up share capital (RM) |
|---|---|---|---|---|
| 29.03.04 | 2 | 0.10 | Subscriber shares | 0.20 |
| 10.09.04 | 18 | 0.10 | Cash | 2.00 |
| 08.09.05 | 126,392,120 | 0.10 | Issued as consideration for the acquisition of MMS | 12,639,214.00 |

Upon completion of the Public Issue, the issued and paid-up share capital of MMSV would be increased to RM16,300,000 comprising 163,000,000 shares of RM0.10 each.

## 5. Subsidiaries

The information on the subsidiaries is as follows:

### MMS

MMS was incorporated in Malaysia as a private limited liability company on 14 February 1997. In 1999, MMS commenced its operations in the design and manufacture of industrial automation systems with a main focus on handler systems for the semiconductor and optoelectronics industries. Presently, MMS is principally involved in the design and manufacture of industrial automation systems and machinery and design of precision die sets, jigs and fixtures.

The authorised share capital of MMS as at the date of this report is RM5,000,000 divided into 5,000,000 ordinary shares of RM1 each, of which 3,500,000 shares of RM1 each have been issued and fully paid.

### Evolusys

Evolusys was incorporated in Malaysia as a private limited liability company on 22 June 2002. In 2002, Evolusys commenced its operations as a software development company principally engaged in the business of providing consultancy services and supply of software on industrial automation control systems. However, in conjunction with the Group's business development plan, in 2004, Evolusys has been reorganised to be the R&D centre of the Group to provide support for the design and manufacture operations of MMS, focusing mainly on the development of software for MMS' industrial automation systems.

The authorised share capital of Evolusys as at the date of this report is RM100,000 divided into 100,000 ordinary shares of RM1 each, of which 10,000 shares of RM1 each have been issued and fully paid.

## B. FINANCIAL STATEMENTS AND AUDITORS

We were appointed as auditors of MMSV since the date of its incorporation. MMSV was incorporated on 29 March 2004 and closed its first financial period ended on 31 December 2004.

We were appointed auditors of MMSV, MMS and Evolusys since their dates of incorporation and the auditors' reports for the period/years relevant to this report were not subject to any qualification.

## C. SUMMARISED PROFORMA INCOME STATEMENTS

We set below the summarised proforma consolidated financial results of MMSV and its subsidiaries ("the Group") for the past six (6) financial period/years ended 31 December 2004, together with the 6 months period from 1 January 2005 to 30 June 2005 based on the audited financial statements of MMSV, MMS and Evolusys. The summarised proforma consolidated financial results are provided for illustrative purposes only, based on the assumption that the Group had been in existence throughout the financial years under review.

| | Year Ended 31 December | | | | | 6 Months Ended 30 Jun |
|---|---|---|---|---|---|---|
| | 2000 RM | 2001 RM | 2002 RM | 2003 RM | 2004 RM | 2005 RM |
| Revenue | 3,708,133 | 5,096,188 | 7,123,593 | 11,995,208 | 21,034,751 | 15,884,459 |
| Profit before depreciation, interest and taxation | 481,396 | 1,197,587 | 1,935,731 | 2,606,487 | 4,684,996 | 3,315,849 |
| Bank charges | (622) | (833) | (1,181) | (2,674) | (5,078) | (3,029) |
| Depreciation | (16,267) | (43,480) | (93,708) | (148,650) | (166,934) | (107,392) |
| Profit before taxation | 464,507 | 1,153,274 | 1,840,842 | 2,455,163 | 4,512,984 | 3,205,428 |
| Taxation | (157,600) | (15,380) | (188,878) | (207,264) | (410,238) | (926,275) |
| Profit after taxation | 306,907 | 1,137,894 | 1,651,964 | 2,247,899 | 4,102,746 | 2,279,153 |
| Assumed number of ordinary shares | 126,392,140 | 126,392,140 | 126,392,140 | 126,392,140 | 126,392,140 | 126,392,140 |
| Gross earnings per share (sen) | 0.37 | 0.91 | 1.46 | 1.94 | 3.57 | 2.54 |
| Net earnings per share (sen) | 0.24 | 0.90 | 1.31 | 1.78 | 3.25 | 1.80 |

*The Annualised Gross and Net earnings per share for the period ended 30 June 2005 amounted to 5.08 sen and 3.60 sen, respectively.*

(1) There were no exceptional or extraordinary items in all the financial years/periods under review.

(2) There were no minority interests in all the financial years/periods under review.

(3) The gross earnings per share has been calculated based on the profit before taxation divided by the issued and paid up share capital of 126,392,140 ordinary shares assumed to be in issue after the acquisition but before the public issue.

(4) The net earnings per share has been calculated based on the profit after taxation divided by the issued and paid up share capital of 126,392,140 ordinary shares assumed to be in issue after the acquisition but before the public issue.

(5) Commentaries on the past performance of the Group are reflected through the past performance of its subsidiaries, MMS and Evolusys.

(6) The Group commenced its operations in the design and manufacture of Industrial Automation Systems and Machinery in 1999, focusing mainly on designing and manufacturing test handling systems for the semiconductor and optoelectronics industries. For the financial year 31 December 2000, total revenue of the Group increased by 55.08% from RM2.39 million achieved in its pilot operating financial year ended 31 December 1999. The increase in revenue was due to the Group's success in securing orders from 3 new local customers, which led to an increase in orders for its trim and form systems from 10 units in 1999 to 21 units in 2000. Revenue generated from the sale of test handling systems and design services also increased during the year.

However, the gross margin before depreciation decreased from 65.77% for the financial year ended 31 December 1999 to 25.08% due to the substantial increase in raw material costs and labour charges. As raw material and hardware costs as well as labour charges vary according to the products manufactured, MMS recorded higher overall cost of sales for the year due to the increased complexity of the products offered to its customers. Due to the lower gross margin coupled with the increase in staff costs, the Group recorded a lower profit before taxation of RM0.46 million, representing a profit before tax margin of 12.53%.

During the year, MMS was granted pioneer status by MIDA for its manufacturing activities under the category of "Automated Equipment for Semiconductor Industry" pursuant to the Promotions of Investments Act 1986. Under the pioneer status incentive, 70% of the statutory income of MMS will be exempted from income tax for a period of 5 years commencing from 1 July 1999.

However, for the financial year, there was an overprovision of tax of RM95,620 due to the provision of tax being based on the statutory rate pending the approval for the pioneer status application. The overprovision was subsequently adjusted in the following year. After adjusting for the overprovision and excluding certain expenses that were non tax deductible, the effective tax rate for the year was approximately 13.34%.

(7) For the financial year ended 31 December 2001, total revenue of the Group increased by 37.43% as compared to the previous financial year. The increase in revenue was due to the successful development and delivery of the Group's new clinching machines, which contributed approximately RM1.15 million to total revenue for the year. The increase was also attributable to the widening of the Group's customer base from 4 to 7 customers.

The gross margin before depreciation increased to 33.87% due to the increase in sale of products with higher margins while maintaining operating expenses at the same level as the previous year. Correspondingly, the Group recorded a higher profit before tax of RM1.15 million, representing a profit before tax margin of 22.63%.

The tax charges for the year was marginal due to the tax incentive enjoyed by the Group pursuant to its pioneer status and the write back of the overprovision in the previous financial year. After adjusting for the write back and excluding certain expenses that were non tax deductible, the effective tax rate for the year was approximately 9.62%.

(8) For the financial year ended 31 December 2002, total revenue of the Group increased by 39.78% as compared to the previous year. The increase in revenue was due to the increase in the Group's local customer base to include other major customers such as Lumileds, Penang Seagate Industries (M) Sdn Bhd and Finisar Malaysia Sdn Bhd, as well as the Group's successful penetration of the direct export sales market in Thailand.

The small-scale operations of Evolusys in the provision of consultancy services and development of software for industrial automation control systems to external parties that commenced during the financial year also generated marginal revenue contribution to the Group.

Correspondingly, the gross margin before depreciation for the Group increased to 37.06% whilst the profit before tax margin increased to 25.84%, thus recording a total profit before tax of RM1.84 million.

Depreciation expenses increased in the financial year due to the increase in investments made by the Group to cater for the growth of its operations.

The tax charges for the year was marginal due to the tax incentive enjoyed by the Group pursuant to its pioneer status, resulting in an effective tax rate for the year of approximately 10.26% after adjusting for expenses which were non tax deductible.

(9) For the financial year ended 31 December 2003, total revenue of the Group increased by 68.39% as compared to the previous year. The increase in revenue was mainly attributed to the following factors:

(a) increase in orders from existing and new local customer base;
(b) increase in direct export sales to Thailand and US, which contributed approximately 7% to overall revenue; and
(c) increase in new high technology product range such as the camera focusing systems and marking systems.

Meanwhile, revenue contribution from Evolusys remained marginal as approximately 70% of its turnover was derived from the provision of in-house support for the manufacturing operations of MMS.

Despite the overall revenue growth, the gross margin before depreciation of the Group reduced to 29.74% as the Group decreased prices for its products in order to increase sales volume and to be more competitive. Correspondingly, the profit before tax margin for the year also decreased to 20.47%, thus recording a total profit before tax of RM2.46 million.

The tax charge for the year was marginal due to the tax incentive enjoyed by the Group pursuant to its pioneer status, resulting in an effective tax rate for the year of approximately 8.44%.

(10) For the financial year ended 31 December 2004, total revenue of the Group increased by 75.36% as compared to the previous year. The increase in revenue was mainly attributed to the following factors:

(a) increase in local orders from existing and new customers;
(b) increase in direct export sales to Thailand and China, contributing approximately 14% of the revenue generated during the period; and
(c) increase in sales of camera focusing systems to cater for the surge in demand for camera modules for mobile phones, recording increase in revenue by RM9.1 million as compared to the previous financial year.

Gross profit margin before depreciation for the year declined marginally from 29.74% in the previous year to approximately 28.28%. Nevertheless, the profit before taxation margin for the year increased from 20.47% in 2003 to 21.45% this year, due to the increase in fixed deposit interest of RM132,062, resulting in a total profit before taxation of RM4.5 million.

There was no revenue contribution from Evolusys during the financial period as the activities of Evolusys have been streamlined to provide support solely for the design and manufacturing operations of MMS.

The pioneer status incentive expired on 30 June 2004. Consequently, 30% of the statutory income for the first half and 100% of the statutory income for the second half of year 2004 was subject to tax at the rate of 28%.

(11) For the 6-month period, the Group recorded total revenue of RM15.9 million which represents approximately 75.52% of the RM21.0 million revenue recorded in the previous financial year, translating into an effective annualised growth of 51.03%. The substantial revenue growth was mainly due to increase in export sales. Direct export sales to overseas markets consist of 61.03% of total revenue generated for the period. The China market was the major revenue contributor of approximately RM9.0 million, accounting for 56.66% of total revenue for the period. Sales to China mainly comprised repeat orders of camera focusing systems for camera modules incorporated in mobile phones. The remaining 38.97% comprised sales to existing local customers.

Despite the significant revenue growth, the Group's gross profit margin before depreciation for the financial period increased marginally by 0.80% to 29.08%, while the profit before taxation margin declined from 21.45% in the prior year to 20.18% due to higher R&D cost being incurred in the period under review.

For the 6-month period ended 30 June 2005, tax has been provided at the tax rate of 28%.

## MMSV

The summarised audited income statements of MMSV for the relevant financial periods under review are as follows:

| | 9 Months Ended 31 December 2004 RM | 6 Months Ended 30 Jun 2005 RM |
|---|---|---|
| Revenue | 0 | 0 |
| Loss before depreciation, interest and taxation | (11,326) | (6,304) |
| Taxation | 0 | 0 |
| Loss after taxation | (11,326) | (6,304) |
| Number of ordinary shares in issue | 20 | 20 |
| Gross loss per share (RM) | (566.30) | (315.20) |
| Net loss per share (RM) | (566.30) | (315.20) |

*The Annualised Gross and Net loss per share for the period ended 30 June 2005 amounted to RM630.40.*

(1) MMSV was incorporated on 29 March 2004 and closed its first financial period on 31 December 2004.

(2) The Company will commence its operations of investment holding upon completion of the acquisition of the subsidiaries.

**MMS**

The summarised audited income statements of the proposed subsidiary, MMS, for the relevant financial years/period under review are as follows:

| | ----------------Financial Year Ended 31 December---------------------- | | | | | 6 Months Ended 30 Jun |
|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| | RM | RM | RM | RM | RM | RM |
| Revenue | 3,708,133 | 5,096,188 | 7,117,993 | 11,930,440 | 21,034,751 | 15,884,459 |
| Profit before depreciation, interest and taxation | 481,396 | 1,197,587 | 1,942,436 | 2,575,975 | 4,692,644 | 3,340,949 |
| Bank charges | (622) | (833) | (1,166) | (2,650) | (4,930) | (2,899) |
| Depreciation | (16,267) | (43,480) | (93,011) | (145,960) | (163,289) | (105,585) |
| Profit before taxation | 464,507 | 1,153,274 | 1,848,259 | 2,427,365 | 4,524,425 | 3,232,465 |
| Taxation | (157,600) | (15,380) | (188,878) | (203,057) | (410,000) | (928,298) |
| Profit after taxation | 306,907 | 1,137,894 | 1,659,381 | 2,224,308 | 4,114,425 | 2,304,167 |
| Number of ordinary shares in isue | 2 | 2 | 2 | 2 | 3,500,000 | 3,500,000 |
| Gross earnings per share (RM) | 232,254 | 576,637 | 924,130 | 1,213,683 | 1.29 | 0.92 |
| Net earnings per share (RM) | 153,454 | 568,947 | 829,691 | 1,112,154 | 1.18 | 0.66 |

*The Annualised Gross and Net earnings per share for the period ended 30 June 2005 amounted to RM1.84 and RM1.32 respectively.*

(1) There were no exceptional or extraordinary items for the financial years/period under review.

(2) There has been no change in the company's accounting policies, which may materially affect its income and financial position for the financial years/period under review.

(3) No adjustment has been made to the deferred tax consequent to the introduction of MASB 25, as the amounts involved are very insignificant.

(4) The gross earnings per share have been calculated based on the profit before taxation divided by the number of ordinary shares in issue during the respective period/year.

(5) The net earnings per share have been calculated based on the profit after taxation divided by the number of ordinary shares in issue during the respective period/years.

(6) For the financial year ended 31 December 2000, the revenue increased by over 55.08% as compared to the previous year. The increase in revenue was due to the success of MMS in securing orders from three new local customers. Consequently, the number of Trim and Form Systems sold increased from 10 units in 1999 to 21 units in 2000. Revenue generated from sale of test handling systems and design services also increased during the year.

Despite the revenue growth, the gross margin before depreciation contribution for the year decreased to 25.08% due to substantial increase in raw material costs and workmanship charges. As raw material and hardware costs as well as workmanship charges vary according to the products manufactured, MMS recorded higher overall costs of sales for the year due to the increased complexity of the products offered to its customers.

In addition, in its effort to increase market share in the industry, MMS offered certain products at competitive prices resulting in lower margins. Due to the reduction in the gross margin and the increase in staff costs, MMS recorded a lower profit before taxation of RM464,507, representing a net profit before tax margin of 12.53%.

During the year, MMS was granted pioneer status by MIDA for its manufacturing activities under the category of "Automated Equipment for Semiconductor Industry" pursuant to the Promotions of Investments Act 1986. Under the pioneer status incentive, 70% of the statutory income of MMS will be exempted from income tax for a period of 5 years commencing from 1 July 1999.

However, for the financial year, there was an overprovision of tax of RM95,620 due to the provision of tax being based on the statutory rate pending the approval for the pioneer status application. The overprovision was subsequently adjusted in the following year. After adjusting for the overprovision and excluding certain expenses that were non tax deductible, the effective tax rate for the year was approximately 13.34%.

(7) For the year ended 31 December 2001, MMS' total revenue of RM5.10 million was mainly the result of the successful development and delivery of its new clinching machines, which contributed approximately RM1.15 million of the revenue for the year. At the same time, through the increase of its sales and marketing effort and expansion of its product range, MMS was able to extend its customer base from 4 customers to a total of 7 customers.

For the financial year, the gross margin before depreciation increased from 25.08% in 2000 to 33.87% as more machines with higher contributions were being manufactured. Despite the increase in revenue of 37.43%, the operating expenses were contained at the same level as the previous year. Correspondingly, the profit before tax margin increased from 12.53% in 2000 to 22.63% for the year.

The tax charges for the year was marginal due to the tax incentive enjoyed by the Group pursuant to its pioneer status and the write back of the overprovision in the previous financial year. After adjusting for the write back and excluding certain expenses that were non tax deductible, the effective tax rate for the year was approximately 9.62%.

(8) For the financial year ended 31 December 2002, MMS recorded total revenue of RM7.12 million, representing a 39.67% increase as compared to the preceding financial year. The continuous revenue growth was mainly attributed to the following:

(i) the increase in its local customer base to include major multinational companies such as Lumileds Lighting (M) Sdn Bhd, Penang Seagate Industries (M) Sdn Bhd and Finisar Malaysia Sdn Bhd; and
(ii) the successful penetration of direct export sales market in Thailand.

Correspondingly, the gross profit margin before depreciation also increased from 33.87% in the previous year to 36.34%. The profit before taxation margin also increased to 25.97% to record a total profit before taxation of RM1.85 million.

During the financial year, MMS invested approximately RM275,000 in office equipment, computers and machinery, which is in tandem with the growth in the operations. Consequently, the depreciation expense increased by 113.92% due to the increase in fixed assets during the year. Nevertheless, the depreciation charge constitutes only 4.79% of the profit before tax and depreciation for the year under review.

The tax charges for the year was marginal due to the tax incentive enjoyed by the Company pursuant to its pioneer status, resulting in an effective tax rate for the year of approximately 10.22% after adjusting for expenses which were non tax deductible.

(9) For the financial year ended 31 December 2003, MMS recorded total revenue of RM11.93 million, representing a growth of 67.60% from the previous year. The continuous revenue growth was mainly attributed to the following:

(i) increase in local orders from existing and new customers;
(ii) increase in direct export sales to customers in Thailand, contributing approximately 7% of the overall revenue; and
(iii) increase in the product range manufactured by MMS during the year including high technology products such as the camera focusing systems and marking systems.

However, the gross profit margin before depreciation for the year declined from 36.34% in 2002 to 28.67% as the company reduced prices for its products in order to increase volume and to be more competitive. Correspondingly, the profit before taxation margin also decreased from 25.97% in the previous year to 20.35% in the current year.

The tax charge for the year was marginal due to the tax incentive enjoyed by the Company pursuant to its pioneer status, resulting in an effective tax rate for the year of approximately 8.37%.

(10) For the year ended 31 December 2004, MMS recorded revenue of RM21.03 million, an effective growth of 76.31% as compared to 2003. The tremendous growth in revenue was mainly due to:

(i) increase in local orders from existing and new customers;
(ii) increase in direct export sales to Thailand and China, contributing approximately 14% of the revenue generated during the period; and
(iii) increase in sales of camera focusing systems to cater for the surge in demand for camera modules for mobile phones, recording increase in revenue by RM9.1 million as compared to the previous financial year.

However, the gross profit margin before depreciation for the year declined marginally from 28.67% in the previous year to approximately 27.89%.

Nevertheless, due to the increase in fixed deposit interest of RM132,062, the profit before taxation margin for the year increased from 20.35% in 2003 to 21.51%, recording a total profit before taxation of RM4.52 million.

The pioneer status incentive expired on 30 June 2004. Consequently, 30 % of the statutory income for the first half and 100% of the statutory income for the second half of year 2004 was subject to tax at the rate of 28%.

(11) For the six months period ended 30 June 2005, MMS recorded revenue of RM15.88 million which represents approximately 66.11% of the forecast revenue of RM24.02 million.

Direct export sales to overseas markets consist of 61.27 % of total revenue generated for the period. The China market was the major contributor accounting for 56.80%, which totaled RM9 million revenue. Sales to China mainly comprised repeat orders of camera focusing systems for camera modules incorporated in mobile phones. The balance of 38.73% comprised sales to existing local customers.

The gross profit margin before depreciation registered at 28.81%, a marginal increase of 0.92%. The profit before taxation margin declined marginally from 21.51% in the prior year to 20.34% due to higher R&D and foreign exhibition costs being incurred in the period under review.

For the 6-month period ended 30 June 2005, tax has been provided at the tax rate of 28%.

**EVOLUSYS**

The summarised audited income statements of the proposed subsidiary, Evolusys, for the relevant financial years/period under review are as follows:

| | 6 Months Ended 31 December 2002 RM | -------Financial Year Ended------ -----------31 December----------- 2003 RM | 2004 RM | 6 Months Ended 30 June 2005 RM |
|---|---|---|---|---|
| Revenue | 66,700 | 217,268 | 119,000 | 80,000 |
| (Loss)/profit before depreciation and taxation | (6,705) | 30,512 | 3,678 | (18,796) |
| Bank charges | (15) | (24) | (148) | (130) |
| Depreciation | (697) | (2,690) | (3,645) | (1,807) |
| (Loss)/profit before taxation | (7,417) | 27,798 | (115) | (20,733) |
| Taxation | 0 | (4,207) | (238) | 2,023 |
| (Loss)/profit after taxation | (7,417) | 23,591 | (353) | (18,710) |
| Number of ordinary shares in issue | 20 | 20 | 10,000 | 10,000 |
| Gross earnings/(loss) per share (RM) | (370.85) | 1,389.90 | (0.01) | (2.07) |
| Net earnings/)loss) per share (RM) | (370.85) | 1,179.55 | (0.04) | (1.87) |

*The Annualised Gross and Net loss per share for the period ended 30 June 2005 amounted to RM4.14 and RM3.74 respectively.*

(1) There are no exceptional or extraordinary items for the financial years/periods under review.

(2) There has been no change in the company's accounting policies, which may materially affect its income and financial position for the financial years/periods under review.

(3) No adjustment has been made to the deferred tax consequent to the introduction of MASB 25, as the amounts involved are very insignificant.

(4) The results for Evolusys for the period from 22 June 2002, being the date of incorporation, to 31 December 2002, were very modest with its revenue and loss after taxation registering RM66,700 and RM7,417 respectively. Revenue was principally generated from consultancy services and development of software for industrial automation control systems on a small scale. The company also acted as a supporting function for the manufacturing operations of MMS.

(5) During the year ended 31 December 2003, Evolusys' operations and results continue to remain quite insignificant as compared with MMS. The turnover for the year was RM217,268 whilst the profit after taxation was RM23,591. Sales to MMS during the year accounted for 70% of turnover. The increase in revenue is due to the increase in activities during the year, especially in providing in house support for the manufacturing operations of MMS. The operations were maintained at a very low level which accounts for the relatively negligible profit achieved for the year.

(6) The revenue generated by Evolusys during the financial year ended 31 December 2004 and for the period ended 30 June 2005 comprised of billings to MMS for R&D research expenses. Evolusys has been reorganised to be the R&D centre of the Group to provide support solely for the design and manufacturing operations of MMS.

## D. SUMMARISED BALANCE SHEETS

The audited balance sheets of the Company and its subsidiaries based on their respective financial period/year end are summarised as follows:

### MMSV

The audited balance sheets of MMSV as at 31 December 2004 and 30 June 2005 are as follows:

| | 31 December 2004 RM | 30 June 2005 RM |
|---|---|---|
| **NON-CURRENT ASSET** | | |
| Pre-listing expenditure | 460,982 | 635,363 |
| **CURRENT ASSET** | | |
| Cash in hand | 2 | 2 |
| **CURRENT LIABILITIES** | | |
| Sundry creditors and accruals | 472,308 | 652,993 |
| **NET CURRENT LIABILITIES** | (472,306) | (652,991) |
| | (11,324) | (17,628) |
| **FINANCED BY:** | | |
| Share capital | 2 | 2 |
| Accumulated losses | (11,326) | (17,630) |
| | (11,324) | (17,628) |
| NTA per ordinary share (RM) | (566.20) | (881.40) |

## MMS

The audited balance sheets of MMS for the past five (5) financial years and as at 30 June 2005 are as follows:

| | As at 31 December | | | | | 30-Jun |
|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| | RM | RM | RM | RM | RM | RM |
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 201,702 | 196,415 | 792,497 | 705,079 | 625,654 | 790,511 |
| Investment in Subsidiary | 0 | 0 | 5 | 5 | 10,000 | 10,000 |
| | 201,702 | 196,415 | 792,502 | 705,084 | 635,654 | 800,511 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 669,723 | 431,772 | 752,354 | 555,049 | 2,562,707 | 3,926,765 |
| Trade receivables | 273,280 | 604,993 | 1,420,167 | 1,301,466 | 1,688,817 | 13,118,943 |
| Other receivables | 20,337 | 30,210 | 56,721 | 147,562 | 645,558 | 744,222 |
| Cash and bank balances | 937,322 | 1,964,599 | 2,369,813 | 4,551,559 | 9,766,824 | 6,895,503 |
| | 1,900,662 | 3,031,574 | 4,599,055 | 6,555,636 | 14,663,906 | 24,685,433 |
| **CURRENT LIABILITIES** | | | | | | |
| Trade payables | 563,477 | 556,832 | 931,729 | 669,004 | 783,654 | 7,499,641 |
| Other payables | 221,689 | 307,685 | 367,477 | 337,935 | 632,702 | 1,180,068 |
| Tax payable | 108,000 | 10,380 | 56,878 | 0 | 0 | 570,564 |
| | 893,166 | 874,897 | 1,356,084 | 1,006,939 | 1,416,356 | 9,250,273 |
| **NET CURRENT ASSETS** | 1,007,496 | 2,156,677 | 3,242,971 | 5,548,697 | 13,247,550 | 15,435,160 |
| | 1,209,198 | 2,353,092 | 4,035,473 | 6,253,781 | 13,883,204 | 16,235,671 |
| **FINANCED BY:** | | | | | | |
| Share capital | 2 | 2 | 2 | 2 | 3,500,000 | 3,500,000 |
| Retained profits | 1,189,196 | 2,327,090 | 3,986,471 | 6,210,779 | 10,325,204 | 12,629,371 |
| Shareholders' equity | 1,189,198 | 2,327,092 | 3,986,473 | 6,210,781 | 13,825,204 | 16,129,371 |
| Deferred taxation | 20,000 | 26,000 | 49,000 | 43,000 | 58,000 | 106,300 |
| | 1,209,198 | 2,353,092 | 4,035,473 | 6,253,781 | 13,883,204 | 16,235,671 |
| NTA per ordinary share (RM) | 594,599 | 1,163,546 | 1,993,237 | 3,105,391 | 4 | 5 |

**EVOLUSYS**

The audited balance sheets of Evolusys for the past three (3) financial period/years and as at 30 June 2005 are as follows:

| | ---As at 31 December--- 2002 RM | 2003 RM | 2004 RM | 30 June 2005 RM |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 8,072 | 16,835 | 13,190 | 11,383 |
| **CURRENT ASSETS** | | | | |
| Inventories | 11,417 | 0 | 0 | 0 |
| Trade receivables | 4,550 | 4,000 | 0 | 0 |
| Other receivables | 450 | 450 | 450 | 1,550 |
| Cash and bank balances | 32,226 | 51,577 | 39,781 | 4,656 |
| | 48,643 | 56,027 | 40,231 | 6,206 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | 20,114 | 0 | 0 | 0 |
| Other payables | 43,998 | 52,461 | 25,370 | 10,478 |
| Tax payable | 0 | 2,212 | 0 | 0 |
| | 64,112 | 54,673 | 25,370 | 10,478 |
| **NET CURRENT ASSETS / (LIABILITIES)** | (15,469) | 1,354 | 14,861 | (4,272) |
| | (7,397) | 18,189 | 28,051 | 7,111 |
| **FINANCED BY:** | | | | |
| Share capital | 20 | 20 | 10,000 | 10,000 |
| (Accumulated losses) / Retained profit | (7,417) | 16,174 | 15,821 | (2,889) |
| | (7,397) | 16,194 | 25,821 | 7,111 |
| Deferred taxation | 0 | 1,995 | 2,230 | 0 |
| | (7,397) | 18,189 | 28,051 | 7,111 |
| NTA per ordinary share (RM) | (370) | 810 | 3 | 1 |

## E. DIVIDENDS

The Company and its subsidiaries have not paid or declared any dividend since their respective dates of incorporation.

## F. STATEMENT OF ASSETS AND LIABILITIES

The following statement of assets and liabilities of MMSV and its proposed subsidiaries has been prepared based on the audited financial statements of MMS and Evolusys as at 30 June 2005 and on the assumption that the proposed acquisition of the entire issued and paid-up share capital of MMS for a total purchase consideration of RM12,639,212 based on the audited net assets of MMS as at 31 May 2004, had been effected as at 30 June 2005.

| | Note | The Company RM | Proforma Group RM |
|---|---|---|---|
| **Property, Plant and Equipment** | G2 | 0 | 801,894 |
| **Pre-listing expenditure** | | 635,363 | 635,363 |
| **Current assets** | | | |
| Inventories | G3 | 0 | 3,926,765 |
| Trade debtors | G4 | 0 | 13,118,943 |
| Sundry debtors, deposits and prepayments | G5 | 0 | 107,917 |
| Cash and bank balances | | 2 | 626,101 |
| Fixed deposits with licensed banks | G6 | 0 | 6,274,060 |
| | | 2 | 24,053,786 |
| **Current liabilities** | | | |
| Trade creditors | G7 | 0 | 7,499,641 |
| Sundry creditors and accruals | G8 | 652,993 | 1,205,684 |
| Provision for taxation | | 0 | 570,564 |
| | | 652,993 | 9,275,889 |
| **Net current (liabilities)/assets** | | (652,991) | 14,777,897 |
| | | (17,628) | 16,215,154 |
| **Financed by :** | | | |
| Share capital | | 2 | 12,639,214 |
| (Accumulated losses)/Retained profit | | (17,630) | 3,469,640 |
| Shareholders funds | | (17,628) | 16,108,854 |
| Deferred taxation | | 0 | 106,300 |
| | | (17,628) | 16,215,154 |
| NTA per share (RM) | | (881.40) | 0.13 |

## G. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial statements of the Proforma Group and the Company have been prepared under the historical cost convention.

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

#### (b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is defined as a company in which the Proforma 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 acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiaries are measured at their fair values at the date of acquisition and these values are reflected in the balance sheet. The difference between the cost of an acquisition and the fair value of the Proforma Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

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 gains or loss on disposal of a subsidiary company is the difference between the net disposal proceeds and the Proforma 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.

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

**(c) Investment in Subsidiary**

The Company's investment in subsidiary is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 1(j).

On disposal of such investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

**(d) Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 1(j).

Freehold land is not depreciated. Leasehold land is depreciated over the period of the lease. Depreciation of other property, plant and equipment is provided on the straight-line basis to write off the cost of each asset to their residual value over the estimated useful life at the following annual rates:

| | |
|---|---|
| Buildings | 20% |
| Motor vehicles | 20% |
| Plant and machinery | 12.5% - 20% |
| Office equipment, furniture fittings and sign board | 10% |

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

**(e) Inventories**

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated cost to completion and costs to be incurred in marketing, selling and distribution.

**(f) Cash and Cash Equivalents**

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank and deposits at call, which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

**(g) Income Tax**

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

Deferred tax is provided for, using the liability method, 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 goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on 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, arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

**(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) Sale of goods**

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

**(ii) Revenue from services**

Revenue from services rendered is recognised, net of service taxes and discounts, as and when the services are performed and when the outcome of the transactions can be estimated reasonably. In the event that the outcome of the transactions could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

**(i) Foreign Currency Transactions**

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. 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 differences are taken to the income statement.

The principal exchange rate used for every unit of foreign currency ruling at balance sheet date is as follows:

| | RM |
|---|---|
| United States Dollar | 3.80 |

**(j) Impairment of Assets**

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

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

**(k) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Proforma 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 Proforma 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 realised values. Bad debts are written off when 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) Equity Instruments**

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

## 2. PROPERTY, PLANT AND EQUIPMENT

**Proforma Group**

| | Cost RM | Accumulated Depreciation RM | Net Book Value RM |
|---|---|---|---|
| Office equipment | 214,081 | 30,682 | 183,399 |
| Computers | 406,973 | 159,583 | 247,390 |
| Machinery | 350,500 | 239,058 | 111,442 |
| Motor vehicles | 546,344 | 286,681 | 259,663 |
| Before utilisation of proceeds | 1,517,898 | 716,004 | 801,894 |
| Acquisition of property | 5,000,000 | 5,000,000 | 5,000,000 |
| After utilisation of proceeds | 6,517,898 | 5,716,004 | 5,801,894 |

## 3. INVENTORIES

| | Proforma Group RM |
|---|---|
| Raw materials | 2,001,740 |
| Work in progress | 1,925,025 |
| | 3,926,765 |

## 4. TRADE DEBTORS

| | Proforma Group RM |
|---|---|
| Trade Debtors | 13,123,943 |
| Less : Provision for doubtful debts | (5,000) |
| | 13,118,943 |

The Group's normal credit terms range from 90 to 120 days. Other credit terms are assessed and approved on a case-by-case basis.

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

## 5. SUNDRY DEBTORS, DEPOSITS AND PREPAYMENTS

| | Proforma Group RM |
|---|---|
| Sundry debtors,deposits and prepayments | 107,917 |

Sundry debtors, deposits and prepayments consist mainly of staff loans, down payments and utility deposits.

## 6. FIXED DEPOSITS WITH LICENSED BANKS

There are no encumbrances on the fixed deposits placed with licensed banks.

## 7. TRADE CREDITORS

The aging analysis of trade payables as at 30 June 2005 is tabulated as follows:

| | 0-30 days | 31-60 days | 61-90 days | 91-120 days | >120 days | Total |
|---|---|---|---|---|---|---|
| Trade payables | 6,525,303 | 941,299 | 739 | 0 | 32,300 | 7,499,641 |
| Percentage of total trade payables (%) | 87.01 | 12.55 | 0.01 | 0.00 | 0.43 | 100.00 |

Trade payables mainly consist of suppliers of raw materials, i.e. electrical components and other parts used in the manufacture of the machines. Generally, the credit period granted by certain suppliers is 30 to 120 days.

## 8. SUNDRY CREDITORS AND ACCRUALS

| | Group RM |
|---|---|
| Accruals for sundry parts and accessories | 928,410 |
| Accruals for administration costs | 277,274 |
| | 1,205,684 |

## 9. NUMBER OF EMPLOYEES

The number of employees including directors at balance sheet totaled 53 as at 30 June 2005 (2004: 43).

## 10. CAPITAL COMMITMENT

| | Proforma Group RM |
|---|---|
| Approved but not contracted for: | 8,000,000 |

## 11. PROFORMA NET TANGIBLE ASSETS

Based on the statement of assets and liabilities of the Group as at 30 June 2005, the proforma net tangible assets per share after the acquisition of MMS and Evolusys, Public Issue and utilisation of proceeds, is calculated as follows:

| | Profoma Group RM |
|---|---|
| Net tangible assets (RM) | 24,492,976 |
| Total number of ordinary shares of RM 0.10 each in issue | 163,000,000 |
| Net tangible assets per ordinary share of RM 0.10 each (sen) | 0.15 |

## 12. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Proforma Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Proforma Group's business whilst managing its interest rate, foreign exchange, liquidity and credit risks.

(b) Interest Rate Risk

The Proforma Group's primary interest rate risk relates to interest-bearing debt, as the Proforma Group had no substantial long-term interest-bearing assets as at 30 June 2005. 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 fixed deposits.

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

(c) Foreign Exchange Risk

The Proforma Group is exposed fluctuations in the foreign exchange rate of the United States Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than their functional currencies are kept to an acceptable level. The Proforma Group does not enter into derivative foreign exchange contract to hedge its foreign exchange risk.

(d) Liquidity Risk

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

(e) Credit Risk

Credit risk is minimised and monitored via strictly limiting the Proforma Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via management reporting procedures.

## H. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following is a detailed proforma consolidated cash flow statement of MMSV provided for illustrative purposes only and prepared based on the audited financial statements of MMS and Evolusys as at 30 June 2005.

| CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2005 | Proforma Group RM |
|---|---|
| Profit before taxation | 3,205,428 |
| **Adjustments for:** | |
| Depreciation of property, plant and equipment | 107,392 |
| Fixed deposits and repo interest | (85,111) |
| Loss on disposal property, plant and equipment | 367 |
| Others | 34,762 |
| Operating profit before working capital changes | 3,262,838 |
| **Changes in working capital:** | |
| Inventories | (1,364,058) |
| Debtors | (11,605,129) |
| Creditors | 7,428,447 |
| **Net cash utilised for operations** | (2,277,902) |
| Taxes paid | (233,703) |
| Interest received | 85,111 |
| **Net cash utilised for operating activities** | (2,426,494) |
| **Cash flows from investing activities** | |
| Purchase of property, plant and equipment | (306,971) |
| Proceeds from disposal property, plant and equipment | 1,400 |
| Pre-listing expenditure paid | (174,381) |
| Net cash used in investing activities | (479,952) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (2,906,446) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY 2005 | 9,806,607 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE 2005 | 6,900,161 |
| **Represented by** | |
| Cash and Bank balances | 626,101 |
| Fixed deposits with licensed banks | 6,274,060 |
| | 6,900,161 |

## I. PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Proforma Group as at 30 June 2005, the NTA per ordinary share after incorporating the adjustments for public issue and estimated cost of flotation will be as follows:

(i) Net Tangible Assets

| | **Proforma Group RM** |
|---|---|
| NTA of the Proforma Group as at 30 June 2005 | 16,108,854 |
| Proceeds from public issue | 9,884,122 |
| | 25,992,976 |
| Less: Estimated cost of flotation | (1,500,000) |
| Proforma NTA | 24,492,976 |

(ii) Share Capital

| | **Number of ordinary shares of RM0.10 each** |
|---|---|
| As at date of this report | 20 |
| Add: Issue of shares as consideration for the acquisition of the entire equity interest in MMS | 126,392,120 |
| Add: Public Issue | 36,607,860 |
| Enlarged issued and paid-up share capital | 163,000,000 |
| Proforma NTA per ordinary share of RM0.10 each before public issue | RM0.13 |
| Proforma NTA per ordinary share of RM0.10 each after public issue | RM0.15 |

## J. EVENTS SUBSEQUENT TO BALANCE SHEET DATE 30 JUNE 2005

Subsequent to the balance sheet date, the following events had taken place:

(a) The authorised share capital of the Company was increased from RM100,000 to RM25,000,000 by creation of additional 249,000,000 new shares of RM0.10 each; and

(b) The issued and paid up ordinary share capital of RM0.10 each was also increased from RM2 to RM12,639,214 by the issuance of 126,392,120 new ordinary shares of RM0.10 each at an issue price of RM0.10 per share pursuant to the acquisition of MMS;

The newly issued shares rank pari passu in all respects with the existing issued shares.

Other than the above, we are not aware of any subsequent event that would require any amounts stated to be adjusted or any further disclosure that is required to be made in this report.

## K. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 June 2005.

Yours faithfully

MATHEW & PARTNERS
AF: 1229
Chartered Accountants

MATHEW THOMAS a/l VARGIS MATHEWS
1529 / 6 / 06 (J)
Partner