

13. ACCOUNTANTS' REPORT

**MONTEIRO & HENG**

(Firm No. AF0117)

Chartered Accountants



Date: **10 FEB 2006**

The Board of Directors  
**SMR Technologies Berhad**  
149 - A, Jalan Aminuddin Baki  
Taman Tun Dr Ismail  
60000 Kuala Lumpur

Dear Sirs,

**ACCOUNTANTS' REPORT ON SMR TECHNOLOGIES BERHAD**

**1. INTRODUCTION**

This report has been prepared by Monteiro & Heng, an approved company auditor, for inclusion in the Prospectus of SMR Technologies Berhad (hereinafter referred to as "SMRT" or "the Company") to be dated **22 FEB 2006** in connection with the public issue of 30,000,000 new ordinary shares of RM0.10 each in SMRT at an issue price of RM0.33 per ordinary share comprising:-

- 2,500,000 new ordinary shares of RM0.10 each for application by the eligible directors, employees and business associates of SMRT and its subsidiary;
- 25,000,000 new ordinary shares of RM0.10 by way of private placement to the identified investors; and
- 2,500,000 new ordinary shares of RM0.10 for application by public,

in conjunction with the listing on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

**2. GENERAL INFORMATION**

**2.1 Background Information**

SMRT was incorporated in Malaysia as a private limited company under the Companies Act, 1965 on 14 July 2004 under the name of SMR Technologies Sdn. Bhd.. On 11 September 2004, the Company was converted into a public limited company and assumed its present name.

The principal activity of the Company is investment holding. The principal activities of the subsidiary are disclosed in Section 2.5.

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**FERRIER HODGSON  MONTEIRO & HENG**

### 13. ACCOUNTANTS' REPORT (Cont'd)

#### SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 2. GENERAL INFORMATION (Continued)

### 2.2 Corporate Exercises

SMRT had undertaken the following exercises as set out below:-

#### (i) Acquisition

##### *Acquisition of HRDPower™ Software System*

On 30 December 2003, SMR HR Technologies Sdn. Bhd. ("SMRHRT") entered into a Deed of Absolute Assignment of Intellectual Property Rights with Specialist Management Resources Sdn. Bhd. ("SMR"), a substantially owned company by Dr. Palaniappan a/I Ramanathan Chettiar ("Dr. Palan"), a director of SMRHRT, for the transfer of the HRDPower™ software system from SMR to SMRHRT for a purchase consideration of RM900,000 satisfied by cash.

##### *Acquisition of SMRHRT*

SMRT had on 27 August 2004 acquired the entire issued and fully paid-up share capital of SMRHRT comprising 10,005 ordinary shares of RM1.00 each for a total purchase consideration of RM10,000,000 satisfied by way of the issuance of 6,944,444 new ordinary shares of RM1.00 each at an issue price of approximately RM1.44 per SMRT share. The acquisition was completed on 3 September 2004.

#### (ii) Bonus Issue

After the Acquisition of SMRHRT, SMRT declared a bonus issue of 55,554 ordinary shares of RM1.00 each to the existing shareholders of SMRT on the basis of approximately 8 Bonus Shares for every 1,000 existing ordinary shares of RM1.00 each in SMRT. The Bonus Issue was wholly capitalised from the share premium account on 4 September 2004.

#### (iii) Share Split

On 16 December 2004, the Company had split its ordinary shares of RM1.00 each into ten (10) ordinary shares of RM0.10 each.

Upon completion of the Share Split, the issued and paid-up share capital of SMRT changed from RM7,000,000 comprising 7,000,000 ordinary shares of RM1.00 each to RM7,000,000 comprising 70,000,000 ordinary shares of RM0.10 each.

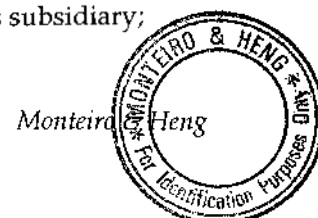
### 2.3 Listing Scheme

In conjunction with the listing of the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Securities, the Company undertook the following schemes:

#### (i) Public Issue

Public issue of 30,000,000 new ordinary shares of RM0.10 each in SMRT at an issue price of RM0.33 per ordinary share payable in full on application comprising:-

- 2,500,000 new ordinary shares of RM0.10 each for application by the eligible directors, employees and business associates of SMRT and its subsidiary;



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****2. GENERAL INFORMATION (Continued)****2.3 Listing Scheme (Continued)****(i) Public Issue (Continued)**

- 25,000,000 new ordinary shares of RM0.10 by way of private placement to the identified investors; and
- 2,500,000 new ordinary shares of RM0.10 for application by public

The gross proceeds from the Public Issue will be utilised as follows:-

	RM
Capital investment	4,700,000
Working capital	2,400,000
Research and development expenditure	1,300,000
Estimated listing expenses	1,500,000
	<u>9,900,000</u>

**(ii) Listing**

The listing of and quotation for the entire enlarged issued and paid-up share capital comprising 100,000,000 SMRT shares of RM0.10 each on the Official List of MESDAQ Market of Bursa Securities.

**2.4 Share Capital**

At the date of this report, the authorised share capital of SMRT is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each and its issued and paid-up share capital is RM7,000,000 comprising of 70,000,000 ordinary shares of RM0.10 each.

The movements in SMRT's issued and paid-up share capital since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares Allotted	Par Value RM	Consideration	Cumulative Issued and Paid-up Capital RM
14.07.2004	2	1.00	Subscribers' shares	2
03.09.2004	6,944,444	1.00	Acquisition of SMRHRT	6,944,446
04.09.2004	55,554	1.00	Bonus Issue	7,000,000
16.12.2004	70,000,000	0.10	Share Split	7,000,000

Upon completion of the Public Issue, the issued and fully paid-up share capital of SMRT will be enlarged to RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****2. GENERAL INFORMATION (Continued)****2.5 Subsidiary Company**

Details of the subsidiary of SMRT at the date of this report, which is incorporated in Malaysia, are as follows:-

Company Name	Date of Incorporation	Issued and Paid-up Share Capital RM	Effective Interest %	Principal Activities
<b>Direct Subsidiary</b>				
SMRHRT	26 January 2001	100,000	100	Software development and its related activities

Subsequent to the acquisition as mentioned in Section 2.2 (i) of this report, SMRHRT increased the issued and paid-up share capital from RM10,005 to RM100,000 by an allotment of 89,995 new ordinary shares of RM1.00 each. The new allotment of shares was fully subscribed by SMRT.

**3. DIVIDENDS**

No dividends have been paid or declared by SMRT and its subsidiary ("SMRT Group") for the financial periods/years under review.

**4. FINANCIAL STATEMENTS AND AUDITORS**

The financial year of SMRT and its subsidiary company is 31 December.

Messrs Monteiro & Heng have acted as the auditors of SMRT since the date of incorporation. Messrs Leou & Associates have acted as the auditors of SMRHRT since the date of incorporation.

The auditors' reports for SMRT and SMRHRT for the financial periods/years under review were reported upon without any qualification except for SMRHRT which had modified auditors' reports for the financial period ended 31 December 2001 and financial year ended 31 December 2002.

In both the period/year, the auditors have, in their reports, drawn an attention that in common with many businesses of similar size and organisation, SMRHRT's system of internal controls is dependent upon the close involvement of the Directors (who are also major shareholders) and in the circumstance, they had to rely upon representations from the Directors that all SMRHRT's transactions have been reflected and properly recorded in the financial statements for the period ended 31 December 2001 and the financial year ended 31 December 2002, in particular revenue amounting to RM112,191 and RM207,437 respectively.



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

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**SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY**

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**5. ACCOUNTING POLICIES AND STANDARDS****5.1 Accounting Policies**

The accounting policies adopted in the preparation of this report are set out in Section 10.2 and are consistent with the accounting policies normally adopted by SMRT and its subsidiary company.

**5.2 Accounting Standards**

The financial information presented in this report is based on the financial statements of SMRT and its subsidiary company, which have been prepared by the Directors in accordance with applicable accounting standards.

**5.3 Accounting Estimate**

As set out in Section 10.4, the Group changed its accounting estimate in financial period ended 2005 to amortise the goodwill by reference to the proportion that revenue for the period bears to the forecasted revenue over a period of fifteen years. In the previous financial year, goodwill was amortised using the straight line method over a period of fifteen years.

## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 6. SUMMARISED INCOME STATEMENTS

## 6.1 Summarised Proforma Consolidated Income Statements of SMRT Group

The summarised proforma consolidated results of SMRT Group for the financial period from 26 January 2001 (date of incorporation of SMRHRT) to 31 December 2001, the financial years ended 31 December 2002 to 2004 and the nine months financial period ended 30 September 2005 as set out below, are for illustrative purposes only and have been prepared on the assumption that SMRT Group has been in existence throughout the periods/years under review.

	26 Jan	Years Ended			1 Jan
	To	31 Dec			To
	←31 Dec→	←31 Dec→	←31 Dec→	←31 Dec→	←30 Sept→
	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM
Revenue	112,191	207,437	2,026,285	4,205,703	5,827,158
Gross Profit	112,191	206,232	1,377,831	3,198,736	3,472,236
Profit before depreciation, amortisation, interest and taxation	105,251	50,353	1,494,964	2,913,356	3,042,212
Depreciation	-	(1,372)	(1,372)	(30,594)	(81,755)
Amortisation of development costs and intellectual property rights	-	-	(220,000)	(222,894)	(227,676)
Amortisation of goodwill	-	-	-	(478,710)	(50,110)
Interest expense	-	-	-	(90)	(2,771)
Interest income	-	-	-	-	-
Profit before exceptional items	105,251	48,981	1,273,592	2,181,068	2,679,900
Exceptional items	-	-	-	-	-
Profit before taxation	105,251	48,981	1,273,592	2,181,068	2,679,900
Taxation	-	-	-	-	-
Net profit for the period/year	105,251	48,981	1,273,592	2,181,068	2,679,900
Number of ordinary shares assumed to be in issue RM0.10 each ^	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Gross EPS (Sen)	0.15	0.07	1.82	3.12	*5.10
Net EPS (Sen)	0.15	0.07	1.82	3.12	**5.10

^ Number of shares in issue after the Acquisition of SMRHRT, Bonus Issue and Share Split but prior to the Public Issue

\* Based on annualised profit before taxation of approximately RM3,573,200

\*\* Based on annualised profit after taxation of approximately RM3,573,200



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****6. SUMMARISED INCOME STATEMENTS (Continued)****6.1 Summarised Proforma Consolidated Income Statements of SMRT Group (Continued)****6.1.1 Basis of Consolidation**

The summarised proforma consolidated income statements of SMRT Group are prepared for illustrative purposes only and have been presented on the basis that SMRT Group has been in existence throughout the periods/years under review. The proforma consolidated income statements are based on the results of SMRT Group as follows:-

- SMRT : For the financial period from 14 July 2004 (date of incorporation) to 31 December 2004 and for the nine months financial period ended 30 September 2005.
- SMRHRT : For the financial period from 26 January 2001 (date of incorporation) to 31 December 2001, for the financial years ended 31 December 2002 to 2004 and for the nine months financial period ended 30 September 2005.

The proforma consolidated income statements for the financial periods/years under review have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements of SMRT and its subsidiary company.

All significant intragroup transactions are eliminated on consolidation and the consolidation results reflect external transactions only.

The SMRT Group adopts the acquisition method of consolidation. On acquisition, the assets and liabilities of the relevant subsidiary company are measured at their fair values at the date of acquisition.

The results of the subsidiary company acquired or disposed of during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal. The gain or loss on the disposal of a subsidiary company represents the difference between the proceeds from the disposal and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the Group's income statements.

**6.1.2 Notes:-****(a) Revenue**

The revenue is contributed by the SMRHRT's software development activity coupled with technical consultation and implementation services. Revenue is recognised upon services rendered to customers and represents invoiced value less trade discount.

Revenue was lifted by 84.90% in year 2002 as opposed to period 2001. The increase was mainly attributable to the improvement in the industry awareness towards the usage of information technology to improve efficiency of works, monitoring and assessing staff performance.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****6. SUMMARISED INCOME STATEMENTS (Continued)****6.1 Summarised Proforma Consolidated Income Statements of SMRT Group (Continued)****6.1.2 Notes:- (Continued)****(a) Revenue (Continued)**

Group revenue recorded a further improvement of 876.82% in year 2003 as compared to the corresponding year. The significant improvement arose mainly from the newly launched product, SMRTraining Power and the continuing popularity of the existing product, HRDPower™ software system. In addition, revenue from technical consultation and implementation services and maintenance charges have contributed positively in line with the increase in revenue from software development activity.

The increases in revenue in year 2004 and period ended 2005 were largely attributed to higher sales contribution from HRDPower™ software system. In addition, the long standing credibility of a director, Dr. Palan, in the field and the technical expertise of the design and development team have supported SMRT's efforts in the market place to attract and retain customers. Furthermore, the increase was also attributed by aggressive promotions, advertisements and other marketing efforts such as HRD Congress conference and exhibition.

**(b) Extraordinary And Exceptional Items**

There were no extraordinary and exceptional items during the financial periods/years under review.

**(c) Taxation**

No provision for income tax was made in view of the losses incurred by SMRT and the pioneer status granted to SMRHRT by the "Malaysian International Trade and Industry Ministry", which exempts SMRHRT from paying tax for a period of five (5) years commencing 31 December 2001 and ending 30 December 2006, with an option to extend for another five (5) years should an official application be filed to the "Multimedia Development Corporation" on or before 30 December 2006 and upon satisfying all the criteria.

**(d) Earnings Per Ordinary Share ("EPS")**

The gross EPS has been calculated by dividing the profit before taxation by the number of ordinary shares of SMRT in issue, based on the existing paid-up ordinary share capital of the Company before the Public Issue.

The net EPS has been calculated by dividing the profit after taxation by the number of ordinary shares of SMRT in issue, based on the existing paid-up ordinary share capital of the Company before the Public Issue.





**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****6. SUMMARISED INCOME STATEMENT (Continued)****6.2 Income Statements of SMRT and Its Subsidiary Company**

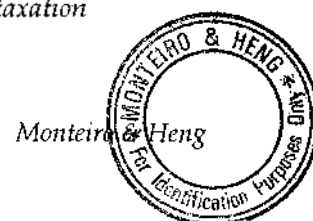
The summarised income statements of each of the companies within the SMRT Group based on the audited financial statements for the past periods under review, are as follows:-

**6.2.1 Income Statements of SMRT**

6.2.1.1 The summarised income statement of SMRT based on the audited financial statements for the financial period from the date of incorporation on 14 July 2004 to 31 December 2004 and the nine months period from 1 January 2005 to 30 September 2005 are set out below:-

	Period From 14 Jul to 31 Dec 2004 RM	Period From 1 Jan to 30 Sept 2005 RM
Revenue	-	-
Cost of Sales	-	-
Gross Profit	-	-
Loss before depreciation, amortisation, interest and taxation	(1,194)	(4,327)
Depreciation	-	-
Amortisation	-	-
Interest expense	-	-
Interest income	-	-
Loss before exceptional items	(1,194)	(4,327)
Exceptional items	-	-
Loss before taxation	(1,194)	(4,327)
Taxation	-	-
Net loss for the period	(1,194)	(4,327)
Number of ordinary shares in issue	70,000,000	70,000,000
Gross LPS (Sen)	*0.003	*0.008
Net LPS (Sen)	*0.003	*0.008

\* Computed based on annualised loss before taxation and annualised loss after taxation



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

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**SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY**

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**6. SUMMARISED INCOME STATEMENT (Continued)**

**6.2.1 Income Statements of SMRT (Continued)**

**Notes:-**

**(a) Revenue**

SMRT has not generated any income from its investment activity since its incorporation on 14 July 2004.

**(b) Extraordinary And Exceptional Items**

There were no extraordinary and exceptional items during the financial periods under review.

**(c) Taxation**

No provision for income tax was made for the financial period from 14 July 2004 (date of incorporation) to 31 December 2004 and financial period from 1 January 2005 to 30 September 2005 as SMRT has not commenced operations and incurred losses.

**(d) Loss per Ordinary Share ("LPS")**

The gross LPS has been calculated by dividing the loss before taxation by the number of ordinary shares of SMRT in issue during the financial periods under review.

The net LPS has been calculated by dividing the loss after taxation by the number of ordinary shares of SMRT in issue during the financial periods under review.



## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 6. SUMMARISED INCOME STATEMENT (Continued)

## 6.2.2 Income Statements of SMRHRT

6.2.2.1 The summarised income statements for SMRHRT based on the audited financial statements for the financial periods/years under review are set out below:-

	26 Jan To ←31 Dec→	Years Ended 31 Dec			1 Jan To ←30 Sept→
	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM
Revenue	112,191	207,437	2,026,285	4,205,703	5,827,158
Cost of Sales	-	(1,205)	(648,454)	(1,006,967)	(2,354,922)
Gross Profit	112,191	206,232	1,377,831	3,198,736	3,472,236
Profit before depreciation, amortisation, interest and taxation	105,251	50,353	1,494,964	2,914,550	3,046,539
Depreciation	-	(1,372)	(1,372)	(30,594)	(81,755)
Amortisation of development costs and intellectual property rights	-	-	(220,000)	(222,894)	(227,676)
Interest expense	-	-	-	(90)	(2,771)
Interest income	-	-	-	-	-
Profit before exceptional items	105,251	48,981	1,273,592	2,660,972	2,734,337
Exceptional items	-	-	-	-	-
Profit before taxation	105,251	48,981	1,273,592	2,660,972	2,734,337
Taxation	-	-	-	-	-
Net profit for the period/year	105,251	48,981	1,273,592	2,660,972	2,734,337
Number of ordinary shares in issue	5	5	10,005	100,000	100,000
Gross EPS (RM)	21,050	9,796	127	27	*36
Net EPS (RM)	21,050	9,796	127	27	**36

\* Based on annualised profit before taxation of approximately RM3,645,783

\*\* Based on annualised profit after taxation of approximately RM3,645,783

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


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**SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY**


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**6. SUMMARISED INCOME STATEMENT (Continued)**
**6.2.2 Income Statements of SMRHRT (Continued)**
**Notes:-**
**(a) Revenue**

The revenue is contributed by the SMRHRT's software development activity and coupled with complimentary consultation services. Revenue is recognised upon services rendered to customers and represents invoiced value less trade discount.

Revenue was lifted by 84.90% in year 2002 as opposed to period 2001. The increase was mainly attributable to the improvement in the industry awareness towards the usage of information technology to improve efficiency of works, monitoring and assessing staff performance.

Revenue recorded a further improvement of 876.82% in year 2003 as compared to the corresponding year. The significant improvement arose mainly from the newly launched product, SMRTraining Power and the continuing popularity of the existing product, HRDPower™ software system. In addition, revenue from technical consultation and implementation services and maintenance charges have contributed positively in line with the increase in revenue from software development activity.

The increase in revenue in year 2004 and period ended 2005 was largely attributed to higher sales contribution from HRDPower™ software system. In addition, the long standing credibility of a director, Dr. Palan, in the field and the technical expertise of the design and development team have supported SMRT's efforts in the market place to attract and retain customers. Furthermore, the increase was also attributed by aggressive promotions, advertisements and other marketing efforts such as HRD Congress conference and exhibition.

**(b) Extraordinary And Exceptional Items**

There were no extraordinary and exceptional items during the financial periods/years under review.

**(c) Taxation**

No provision for taxation was recorded for the periods/years under review due to the pioneer status granted by the "Malaysian International Trade and Industry Ministry", which exempts SMRHRT from paying tax for a period of five (5) years commencing 31 December 2001 and ending 30 December 2006, with an option to extend for another five (5) years should an official application be filed with the "Multimedia Development Corporation" on or before 30 December 2006 and upon satisfying all the criteria.

**(d) Earnings Per Ordinary Share ("EPS")**

Gross EPS is calculated based on the profit before taxation and on the number of shares in issue during the financial periods/years under review.

Net EPS is calculated based on the profit after taxation and on the number of shares in issue during the financial periods/years under review.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****7. SUMMARISED BALANCE SHEETS****7.1 Summarised Balance Sheets**

The summarised balance sheets of each of the companies within the SMRT Group on the audited financial statements for the past periods under review are as follows:-

**7.1.1 Balance Sheets of SMRT**

7.1.1.1 The summarised balance sheets for SMRT based on the audited financial statements of SMRT as at 31 December 2004 and 30 September 2005 are set out below:-

	As At 31 Dec 2004 RM	As At 30 Sept 2005 RM
<b>NON-CURRENT ASSETS</b>		
Investment in a subsidiary company	10,089,995	10,089,995
<b>CURRENT ASSETS</b>		
Trade and other receivables	53,963	54,163
Cash and bank balances	2	2
	53,965	54,165
<b>CURRENT LIABILITIES</b>		
Other payables	2,894	6,921
Amount owing to a subsidiary company	49,463	49,963
Amount owing to a director	92,795	92,795
	145,152	149,679
<b>NET CURRENT LIABILITIES</b>	<b>(91,187)</b>	<b>(95,514)</b>
	9,998,808	9,994,481
<b>FINANCED BY:</b>		
Share capital	7,000,000	7,000,000
Share premium	3,000,002	3,000,002
Accumulated loss	(1,194)	(5,521)
<b>Shareholders' funds</b>	<b>9,998,808</b>	<b>9,994,481</b>

## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 7. SUMMARISED BALANCE SHEETS (Continued)

## 7.1.2 Balance Sheets of SMRHRT

7.1.2.1 The summarised balance sheets for SMRHRT based on the audited financial statements of SMRHRT as at 31 December 2001 to 2004 and as at 30 September 2005 are set out below:-

	As At				As At
	← 31 Dec →		← 30 Sept →		
	2001	2002	2003	2004	2005
	RM	RM	RM	RM	RM
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	-	6,177	499,078	752,003	923,005
Development cost	-	-	533,030	1,406,045	3,380,246
Intangible assets	-	-	720,000	551,576	428,901
<b>CURRENT ASSETS</b>					
Trade receivables	-	-	2,220	1,510,535	2,827,248
Other receivables and deposits	-	4,832	4,632	165,617	431,627
Amount due from holding company	-	-	-	49,463	49,963
Amount due from related parties	107,051	145,275	-	-	-
Cash and bank balances	5	5	81	162,000	187,298
	107,056	150,112	6,933	1,887,615	3,496,136
<b>CURRENT LIABILITIES</b>					
Trade payables	-	-	27,000	-	-
Other payables and accruals	1,800	2,052	162,698	170,405	1,092,919
Amount due to directors	-	-	-	107,300	106,757
Amount due to related parties	-	-	131,514	26,158	10,000
Hire purchase payables	-	-	-	14,988	14,988
	1,800	2,052	321,212	318,851	1,224,664
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<b>105,256</b>	<b>148,060</b>	<b>(314,279)</b>	<b>1,568,764</b>	<b>2,271,472</b>
	105,256	154,237	1,437,829	4,278,388	7,003,624
<b>FINANCED BY:</b>					
Share capital	5	5	10,005	100,000	100,000
Retained profit	105,251	154,232	1,427,824	4,088,796	6,823,133
Shareholders' funds	105,256	154,237	1,437,829	4,188,796	6,923,133
<b>NON-CURRENT LIABILITIES</b>					
Hire purchase payables	-	-	-	89,592	80,491
	105,256	154,237	1,437,829	4,278,388	7,003,624

## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 8. STATEMENT OF ASSETS AND LIABILITIES

8.1 The following detailed statement of assets and liabilities is based on the audited financial statements of SMRT Group as at 30 September 2005.

The Proforma Statement of Assets and Liabilities of the SMRT Group has been prepared on the assumption that the Public Issue as mentioned in Section 2.2 of this report had been effected on 30 September 2005 (together with the proceeds being utilised for capital expenditure and listing expenses) and should be read in conjunction with the notes thereon.

	Note	← Proforma SMRT Group →		
		SMRT Group Audited Balance Sheets as at 30.9.2005 RM	Proforma I After Public Issue RM	Proforma II After I and Utilisation of Funds RM
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	10.3	923,005	923,005	5,623,005
Goodwill on consolidation	10.4	6,651,834	6,651,834	6,651,834
Development costs	10.5	3,380,246	3,380,246	4,680,246
Intangible assets	10.6	428,901	428,901	428,901
<b>CURRENT ASSETS</b>				
Trade and other receivables	10.7	3,313,038	3,313,038	3,313,038
Cash and bank balances		187,300	8,587,300	2,587,300
		3,500,338	11,900,338	5,900,338
<b>CURRENT LIABILITIES</b>				
Other payables	10.8	1,099,840	1,099,840	1,099,840
Amount owing to a related party	10.9	10,000	10,000	10,000
Amount owing to directors	10.10	199,552	199,552	199,552
Hire purchase payables	10.11	14,988	14,988	14,988
		1,324,380	1,324,380	1,324,380
<b>NET CURRENT ASSETS</b>		<b>2,175,958</b>	<b>10,575,958</b>	<b>4,575,958</b>
<b>LONG TERM LIABILITIES</b>				
Hire purchase payables	10.11	80,491	80,491	80,491
		13,479,453	21,879,453	21,879,453



## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 8. STATEMENT OF ASSETS AND LIABILITIES (Continued)

	Note	SMRT Group Audited Balance Sheets as at 30.9.2005 RM	← Proforma SMRT Group →	
			Proforma I After Public Issue RM	Proforma II After I and Utilisation of Funds RM
FINANCED BY:				
Share capital	10.12	7,000,000	10,000,000	10,000,000
Share premium	10.13	3,000,002	8,400,002	8,400,002
Accumulated profit	10.14	3,479,451	3,479,451	3,479,451
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>13,479,453</b>	<b>21,879,453</b>	<b>21,879,453</b>
<b>NET TANGIBLE ASSETS ("NTA")</b>		<b>6,398,718</b>	<b>14,798,718</b>	<b>14,798,718</b>
NUMBER OF SHARES IN ISSUE		70,000,000	100,000,000	100,000,000
NTA PER SHARE (Sen)		9.14	14.80	14.80

Note: NTA is arrived at after deduction of goodwill and intangible assets.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The proforma cash flow statement of the SMRT Group set out below is based on the audited consolidated financial statements of SMRT and its subsidiary for the period ended 30 September 2005.

The proforma cash flow statement of the SMRT Group has been prepared for illustrative purposes only on the assumption that the Public Issue as Mentioned in Section 2.2 (together with the proceeds being utilised for capital expenditure and listing expenses) had been effected on 30 September 2005.

	Proforma SMRT Group 30 Sept 2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES:	
Profit before taxation	2,679,900
Adjustments for:	
Amortisation	277,785
Depreciation	221,347
Interest expense	2,771
Operating Profit Before Working Capital Changes	3,181,803
Receivables	(1,582,923)
Payables	926,541
Amount owing to related parties	(16,158)
Amount owing to directors	(543)
Cash Generated From Operations	2,508,720
Intellectual property rights	(25,000)
Interest paid	(2,771)
Net Cash From Operating Activities	2,480,949
CASH FLOWS FROM INVESTING ACTIVITIES:	
Research and development expenditure	(3,354,201)
Purchase of property, plant and equipment	(5,092,349)
Net Cash Used In Investing Activities	(8,446,550)



## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (Continued)

	Proforma SMRT Group 30 Sept 2005 RM
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceed from Public Issue	9,900,000
Payment of listing expenses	(1,500,000)
Payment to hire purchase payables	(9,101)
Net Cash From Financing Activities	8,390,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,425,298
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	162,002
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	2,587,300
ANALYSIS OF CASH AND CASH EQUIVALENTS:	
Cash and bank balances	2,587,300

**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. NOTES TO STATEMENT OF ASSETS AND LIABILITIES****10.1 Basis of Accounting**

The proforma financial statements of SMRT Group have been prepared on bases and accounting principles consistent with those adopted in the preparation of audited financial statements of SMRT Group for the nine months financial period ended 30 September 2005, which have been adopted by SMRT as the group accounting policies.

The proforma financial statements of SMRT Group are prepared for illustrative purposes only and based on the combined audited balance sheets of SMRT and SMRHRT as at 30 September 2005 after making the necessary adjustments. The Proforma I and II of the consolidated financial statements of SMRT Group have been prepared on the assumptions that the Public Issue and the subsequent utilisation of its gross proceeds were effected on 30 September 2005 respectively.

The consolidated proforma financial statements of SMRT Group have been prepared under the historical cost convention, unless otherwise stated in the accounting policies set out below, and comply with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

**10.2 Significant Accounting Policies****(a) Basis of Consolidation**

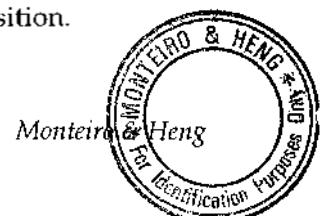
The consolidated proforma financial statements include the financial statements of SMRT and its subsidiary made up to 30 September 2005.

The financial statements of SMRT Group are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary company acquired or disposed of during the period are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary company's net assets are determined and these values are reflected in the Proforma Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiary company's net assets is reflected as goodwill or negative goodwill as appropriate.

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.

**(b) Goodwill on Consolidation**

Goodwill on consolidation represents the excess of the fair value of the purchase consideration of the subsidiary company acquired over the Group's share of fair values of their identified assets and liabilities at the date of acquisition.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.2 Significant Accounting Policies (Continued)****(b) Goodwill on Consolidation (Continued)**

Goodwill has an estimated economic life of fifteen years and is amortised and recognised as an expense by reference to the proportion that revenue generated by the subsidiary company for the period bears to the forecasted revenue over a period of fifteen years so as to reflect the pattern in which the asset's economic benefits are consumed by the company. The carrying amount of goodwill is reviewed annually and is written down for impairment where it is considered necessary.

In the financial year ended 2004, goodwill was amortised using the straight line method over a period of fifteen years.

**(c) Subsidiary Company**

Subsidiary is an enterprise in which the SMRT Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiary company is stated at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(m).

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

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The policy for recognition and measurement of impairment losses is in accordance with Note 10.2(m).

Depreciation is calculated on the straight line method so as to write off the cost of the property, plant and equipment over their estimated useful lives. The annual rates used are as follows:

Furniture and fittings	10%
Library	10%
Computers	20%
Office equipment	20%
Motor vehicles	20%

**(e) Intellectual Property Rights**

Intellectual property rights are stated at cost less accumulated amortisation and impairment losses, if any. This expenditure is capitalised as it is able to generate future economic benefits to the Company. Intellectual property rights are amortised from the commencement of the income recognition to which they relate on the straight line basis over the period of their expected benefit but not exceeding twenty years.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.2 Significant Accounting Policies (Continued)****(f) Development Costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

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

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement based on a straight-line basis over five years. The policy for the recognition and measurement of impairment losses is in accordance with Note 10.2(m).

**(g) Receivables**

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

**(h) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future, whether or not billed to the Group.

**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.2 Significant Accounting Policies (Continued)****(i) Hire Purchase**

Assets financed by hire purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment, and the corresponding obligations are treated as liabilities. The assets so capitalised are depreciated in accordance with the accounting policy on property, plant and equipment. Finance charges are charged to the income statement over the periods of the respective agreements.

**(j) 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 taxes 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 tax is provided for, using the liability method, on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**(k) Foreign Currency Translation**

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are converted into Ringgit Malaysia at the rate of exchange ruling on that date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

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

	30 September 2005
	RM
1 US Dollar	3.80



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.2 Significant Accounting Policies (Continued)****(l) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provision of the instruments. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(m) Impairment of Assets**

At each balance sheet date, the carrying values of assets, other than inventories, deferred tax assets and financial assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for cash-generating unit.

An impairment loss is charged to the income statement immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) has no impairment loss been recognised. The reversal is recognised in the income statement immediately.

**(n) Revenue Recognition**

Revenue is recognised upon services rendered to customers and customers' acceptance, net of discounts.

**(o) Interest-bearing Borrowings**

Borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.



## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 10. STATEMENT OF ASSETS AND LIABILITIES (Continued)

## 10.2 Significant Accounting Policies (Continued)

## (p) Employee Benefits

## (i) Short term benefits

Wages, salaries, allowances, social security contribution, bonuses and non-monetary benefits are recognised as an expense in the period in which the associated services are rendered by the employees. 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 plan

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.

## (q) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances.

## 10.3 Property, Plant and Equipment

## Proforma SMRT Group

Proforma I	Cost RM	Accumulated Depreciation RM	Net Book Value RM
As at 30 September 2005			
Land and building	-	-	-
Furniture and fittings	23,097	4,268	18,829
Library	387	55	332
Computers - office	394,519	62,880	331,639
Computers - development	930,635	449,290	481,345
Office equipment	14,952	4,558	10,394
Motor vehicles	123,795	43,329	80,466
	<u>1,487,385</u>	<u>564,380</u>	<u>923,005</u>





**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.3 Property, Plant and Equipment (Continued)****Proforma SMRT Group**

Proforma II	Cost	Accumulated Depreciation	Net Book Value
	RM	RM	RM
<b>As at 30 September 2005</b>			
Land and building	2,800,000	-	2,800,000
Furniture and fittings	223,097	4,268	218,829
Library	387	55	332
Computers - office	394,519	62,880	331,639
Computers - development	2,430,635	449,290	1,981,345
Office equipment	214,952	4,558	210,394
Motor vehicles	123,795	43,329	80,466
	<u>6,187,385</u>	<u>564,380</u>	<u>5,623,005</u>

Included in property, plant and equipment of the Group are motor vehicles of the subsidiary under hire purchase arrangements with a net book value of RM80,466.

**10.4 Goodwill on Consolidation**

	<b>Proforma SMRT Group 30 Sept 2005 RM</b>
At cost	7,180,654
Less : Accumulated amortisation	(528,820)
	<u>6,651,834</u>

In the previous financial year, goodwill was amortised using the straight line method over a period of fifteen years.

The Group has now changed its accounting estimate to amortise the goodwill by reference to the proportion that revenue for the period bears to the forecasted revenue over a period of fifteen years. The change in estimate is necessary as it is to reflect the pattern in which the asset's economic benefits are consumed by the Group.

The change of estimate on the expected pattern of consumption of economic benefits of the asset has the effect of increasing the Group's net profit for the financial period by RM308,923.



## 13. ACCOUNTANTS' REPORT (Cont'd)

## SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY

## 10. STATEMENT OF ASSETS AND LIABILITIES (Continued)

## 10.5 Development Costs

	SMRT Group	
	Proforma I 30 Sept 2005 RM	Proforma II 30 Sept 2005 RM
At cost	3,476,913	4,776,913
Less : Accumulated amortisation	(96,667)	(96,667)
	<u>3,380,246</u>	<u>4,680,246</u>

Development expenditure represents the costs incurred in respect of the continued and on-going enhancement of the proprietary technology and software for HRDPower™ software system and related products.

Included in development expenditure are salaries, consultation expenses, depreciation for computers, office rental, software components and other costs for development activities.

Included in development expenditure are depreciation and office rental capitalised during the period of RM139,595 and RM44,155 respectively.

## 10.6 Intangible Assets

	Proforma SMRT Group 30 Sept 2005 RM
<b>Intellectual Property Rights</b>	
At cost	654,470
Less : Accumulated amortisation	(225,569)
	<u>428,901</u>

The intellectual property rights of RM900,000 have been assigned to SMRT Group by Specialist Management Resources Sdn. Bhd., a substantially owned company by Dr. Palan, a director of SMRT Group, for the purposes of streamlining the entire group's operating structure.

**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.7 Trade and Other Receivables**

	Proforma SMRT Group 30 Sept 2005 RM
Trade receivables	2,827,248
Other receivables	2,469
Prepayments	469,119
Deposits	14,202
	<u>3,313,038</u>

The normal trade credit terms of the Group are 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

Prepayments represent expenditure incurred in relation to the listing exercise of the SMRT Group. These expenses are to be set-off against the share premium account upon successful listing of the SMRT Group's shares on the MESDAQ Market of Bursa Malaysia Securities Berhad.

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

**10.8 Other Payables**

	Proforma SMRT Group 30 Sept 2005 RM
Other payables	1,077,257
Accruals	22,583
	<u>1,099,840</u>

The normal trade credit terms granted to the Group ranges from 30 to 90 days.

**10.9 Amount Owing To A Related Party**

Amount owing to a related party refers to a company, Specialist Management Resources Sdn. Bhd., in which the directors, Dr. Palan, Kamatchi @ Valliammai a/p Malayandi and Nadarajah a/l Manickam, of the SMRT Group have interests.

The amount owing is unsecured, interest free and has no fixed term or repayment.



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.10 Amount Owing To Directors**

The amount owing to directors, Dr. Palan and Kamatchi @ Valliammai a/p Malayandi, is unsecured, interest free and has no fixed term of repayment.

**10.11 Hire Purchase Payables**

	Proforma SMRT Group 30 Sept 2005 RM
Total outstanding	124,720
Less: Interest-in-suspense outstanding	(29,241)
Principal outstanding	95,479
Less: Portion due within one year	(14,988)
Non-current portion	80,491

The non-current portion is repayable in 2011.

The terms for hire-purchase are for 7 years. The effective borrowing rates ranged from 7.30% to 8.14% per annum. Interest rates are fixed at the inception of the hire-purchase arrangements.

The Group's hire purchase payables are secured by the financial institutions' charge over the assets under hire-purchase.

**10.12 Share Capital**

	SMRT Group Number of Ordinary Shares 30 Sept 2005 RM	Proforma SMRT Group 30 Sept 2005 RM
Authorised	25,000,000	25,000,000
Issued and fully paid: At 30 September 2005	7,000,000	7,000,000
Public issue of 30,000,000 new ordinary shares of RM0.33 per share	-	3,000,000
	7,000,000	10,000,000



**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.13 Share Premium**

	SMRT Group 30 Sept 2005 RM
Arising from issue of 6,944,444 ordinary shares pursuant to acquisition of 100% equity interest of SMRHRT	3,055,556
Less: Bonus issue	(55,554)
	<u>3,000,002</u>
Premium arising from the Public Issue	6,900,000
Less: Estimated listing expenses	(1,500,000)
	<u>8,400,002</u>
<b>Proforma I and II</b>	<b>8,400,002</b>

Share premium arises from allotment of ordinary shares at a premium less estimated listing expenses.

**10.14 Accumulated Profit**

The financial statements of SMRT Group are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary company, SMRHRT, are included from the date of acquisition.

**10.15 Financial Instruments****(a) Financial Risk Management Objectives and Policies**

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

**(i) Credit Risk**

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.

**(ii) Interest Rate Risk**

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing borrowings from financial institutions.



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

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**SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY**

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**10. STATEMENT OF ASSETS AND LIABILITIES (Continued)****10.15 Financial Instruments (Continued)****(a) Financial Risk Management Objectives and Policies (Continued)****(iii) Foreign Currency Risk**

Foreign currency risk is the risk to the Group's results from operations that arises from fluctuations in foreign currency exchange rates. The Group operates internationally and is exposed to United States Dollars. The Group does not engage in foreign currency hedging in respect of its foreign currency exposures but the management monitors these exposures on an ongoing basis.

**(iii) Liquidity Risk**

The Group 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. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

**(b) Fair Values**

The carrying amounts in respect of the Group's financial assets and financial liabilities in the financial statements approximate their fair values due to the relatively short term nature of these financial instruments.

The responsibility for managing the above risks is vested by the directors.

**13. ACCOUNTANTS' REPORT (Cont'd)****SMR TECHNOLOGIES BERHAD AND ITS SUBSIDIARY COMPANY****11. PROFORMA NET TANGIBLE ASSETS**

Based on the proforma statement of assets and liabilities of the Proforma SMRT Group as at 30 September 2005, the proforma net tangible assets per ordinary share of RM0.10 is as follows:-

	Proforma Group RM
Net tangible assets of SMRT after the acquisition of the subsidiary but before public issue	6,398,718
Proceeds from public issue	9,900,000
Less: Estimated expenses for corporate exercise	(1,500,000)
Proforma net tangible assets	<u>14,798,718</u>
Number of ordinary shares	
Ordinary shares in issue	70,000,000
Add: Public issue	30,000,000
Enlarged issued and paid-up share capital	<u>100,000,000</u>
Proforma net tangible assets per ordinary share after public issue and utilisation of funds (Sen)	<u>14.80</u>

**12. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been made up in respect of any period subsequent to 30 September 2005.

**13. SUBSEQUENT EVENTS**

Based on the audited financial statements for the nine months financial period ended 30 September 2005, no other events have arisen subsequent to the balance sheet date, which require disclosure in this report.

Yours faithfully,



Monteiro & Heng  
No. AF 0117  
Chartered Accountants



M.J. Monteiro  
No. 828/05/06 (J/PH)  
Partner

