5. SUMMARISED BALANCE SHEETS

The balance sheet of the Company and its subsidiary companies are based on the audited financial statements for the relevant period / years under review and are summarised as set out below.

As Airoport and Airocom MComm were acquired by the Company on 6th September, 2002 and 15th September, 2003 respectively, therefore the consolidated balance sheets were prepared as at 31st December, 2002, 31st December, 2003, 31st December, 2004 and 10 months period ended 31st October, 2005.

5.1 Summarised Consolidated Balance Sheets

We set out below the summarised consolidated balance sheets of Airocom after making such adjustments, if any, as we considered necessary.

	Proforma Group		Group			
	As at 31st December					As at 31st October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Property, Plant and Equipment	91	265	446	591	910	3,538
Intangible Asset	-	-	-	-	3,469	3,156
Development Costs	-	258	552	1,180	1,559	1,744
Current Assets	195	653	1,039	4,787	7,880	22,258
Less : Current Liabilities	(721)	(595)	(444)	(2,211)	(2,381)	(13,634)
Financed By :						
Share Capital	100	100	1,000	1,000	7,500	7,500
Shareholders' (Deficit) / Funds	(435)	6	1,412	4,148	11,166	14,627
Minority Interest	-	-	-	-	-	-
Number of Ordinary Shares of RM1.00 / ^RM0.10 Each in Issue at Period / Year End ('000)	100	100	1,000	1,000	^75,000	^75,000
Net Tangible Assets ("NTA") (RM'000)	(435)	(252)	860	2,968	6,138	9,727
NTA Per Ordinary Share (RM)	(4.35)	(2.52)	0.86	2.97	0.08	0.13
Current Ratio (Times)	0.27	1.10	2.34	2.17	3.31	1.63

^ Represent ordinary shares of RM0.10 each.

5.1 Summarised Consolidated Balance Sheets (Cont.)

a) The Company has been granted the MSC status on 29th December, 2000 , which entitles the Company to have tax incentives for Pioneer Status under Section 4A of the Promotion of Investments (Amendment) Act, 1997 for five years, with effective from 4th January, 2001. As such, the Company enjoys tax incentive of 100% exemption on its taxable statutory income since the financial year ended 31st December, 2000. The company is applying for extension of the MSC status for another five years.

b) There were no extraordinary and exceptional items for all periods and years under review.

5.2 Airocom – Summarised Balance Sheets

The summarised audited balance sheets of Airocom at the end of each financial periods / years from 2000 to 2005 are set out below.

	As at 31st December					As at 31st October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Property, Plant and Equipment	91	265	446	553	884	3,522
Investment In Subsidiaries	-	-	200	200	200	200
Intangible Asset	-	-	-	-	3,469	3,156
Development Costs	-	259	552	1,180	1,559	1,744
Current Assets						
Work In Progress	103	85	326	172	294	6,065
Receivables	50	561	709	4,127	7,353	17,071
Security Deposit with Licensed Financial Institution	-	-	-	250	250	449
Cash and Bank Balances	42	7	11	294	618	20
	195	653	1,046	4,843	8,515	23,605
Current Liabilities						
Payment Advanced Received	88	-	-	-	-	-
Payables	633	575	625	1,893	2,052	12,515
Borrowings	-	-	-	479	-	1,002
Hire Purchase Creditors	-	13	13	38	60	96
	721	588	638	2,410	2,112	13,613
Net Current (Liabilities) / Assets	(526)	65	408	2,433	6,403	9,992
	(435)	589	1,606	4,366	12,515	18,614
FINANCED BY :						
Capital and Reserves						
Share Capital	100	100	1,000	1,000	7,500	7,500
(Accumulated Losses) / Retained Profits	(535)	(87)	425	3,167	4,744	8,679
Shareholders' (Deficits) / Funds	(435)	13	1,425	4,167	12,244	16,179
Long Term Liabilities						
Borrowing	-	-	-	-	-	1,938
Payables	-	500	118	-	-	-
Hire Purchase Creditors	-	76	63	199	271	497
	(435)	589	1,606	4,366	12,515	18,614
NTA Per Share (RM)	(4.35)	(2.46)	0.87	2.99	0.10	0.15

Note :

a) Net tangible assets (NTA) per share is calculated based on Shareholders' (Deficits) / Funds less intangible asset and development costs over the number of shares in issue at the periods / years end.

5.3 Airoport – Summarised Balance Sheets

The summarised audited balance sheets of Airoport at the end of each financial periods / years from 2001 to 2005 are set out below.

	As at 31st December				As at 31st October
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Property, Plant and Equipment	-	-	39	27	17
Current Assets					
Receivables	-	-	-	8	11
Work in Progress	-	-	17	29	683
Amount Due from Directors	*	-	-	-	-
Amount Due from Holding Company	-	200	200	-	-
Cash and Bank Balances	-	-	-	1	1
	*	200	217	38	695
Current Liabilities					
Payables	4	1	1	269	21
Amount Due to Holding Company	-	7	67	664	2,032
	4	8	68	933	2,053
Net Current (Liabilities) / Assets	(4)	192	149	(895)	(1,358)
	(4)	192	188	(868)	(1,341)
FINANCED BY :					
Capital and Reserves					
Share Capital	*	200	200	200	200
Accumulated Losses	(4)	(8)	(12)	(1,068)	(1,541)
	(4)	192	188	(868)	(1,341)

* Represent paid-up capital of RM2.

5.4 Airocom MComm – Summarised Balance Sheets

The summarised audited balance sheets of Airocom MComm at the end of each financial periods / years from 2001 to 2005 are set out below.

	As at 31st December				As at 31st October
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Current Asset					
Cash in Hand	*	*	*	*	*
	*	*	*	*	*
Current Liabilities					
Other Payables	3	5	***	**	***
Amount Due to Holding Company	-	-	6	9	11
	3	5	6	9	11
Net Current Liabilities	(3)	(5)	(6)	(9)	(11)
	(3)	(5)	(6)	(9)	(11)
FINANCED BY :					
Capital and Reserves					
Share Capital	*	*	*	*	*
Accumulated Losses	(3)	(5)	(6)	(9)	(11)
	(3)	(5)	(6)	(9)	(11)

* Represent paid-up capital of RM3.
** Represent amount payable of RM249.
*** Represent amount payable of RM500.

6. STATEMENT OF ASSETS AND LIABILITIES

The following statement of assets and liabilities of Airocom, which has been prepared for illustrative purpose only based on the audited financial statements of Airocom and its subsidiary companies as at 31st October, 2005. The statement of assets and liabilities has been prepared before the public issue and private placement of shares. The statement of assets and liabilities should be read in conjuction with the notes thereon :

	Note	RM'000
PROPERTY, PLANT AND EQUIPMENT	6.1.4	3,538
INTANGIBLE ASSET	6.1.5	3,156
DEVELOPMENT COSTS	6.1.6	1,744
CURRENT ASSETS		
Work In Progress	6.1.7	6,748
Trade and Other Receivables	6.1.8	14,577
Amount Due From Holding Company	6.1.9	463
Security Deposit with Licensed Financial Institution	6.1.10	449
Cash and Bank Balances	6.1.11	21
		22,258
CURRENT LIABILITIES		
Trade and Other Payables	6.1.12	12,508
Amount Due to Director	6.1.13	28
Borrowing	6.1.14	1,002
Hire Purchase Creditors	6.1.15	96
		13,634
NET CURRENT ASSETS		8,624
		17,062
FINANCED BY :		
SHARE CAPITAL	6.1.16	7,500
RETAINED PROFITS		7,127
SHAREHOLDERS' FUNDS		14,627
LONG TERM LIABILITIES		
Borrowing	6.1.14	1,938
Hire Purchase Creditors	6.1.15	497
		17,062
Net tangible asset per share (RM)		0.13

6.1 Note to the Proforma Statement of Assets and Liabilities

6.1.1 Summary of Significant Accounting Policies

a) Basis of Preparation

The financial statements of the Group and Company have been prepared under the historical cost convention, unless otherwise indicated.

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

b) Basis of Consolidation

A subsidiary is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. A subsidiary is consolidated using the acquisition method of accounting from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Under the acquisition method of accounting, the results of subsidiary acquired or disposed of during the year are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and the fair values of the subsidiary's net assets is reflected as goodwill on consolidation. Goodwill is written-off immediately against the reserves.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recorded. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

c) Property, Plant and Equipment

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

Building-in-progress are not depreciated.Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

	(%)
Computer Equipments	30
Furniture and Fittings	20
Motor Vehicles	20
Office Equipments	20
Renovation	20

c) Property, Plant and Equipment (Cont.)

Property, plant and equipment are written down to recoverable amount if, the recoverable amount is less than their carrying value. Recoverable amount is the higher of an asset's net selling price and its value in use.

Gain and losses on disposals are determined by comparing proceeds with carrying amount and are included in income statement.

d) Research and Development Costs

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

Capitalised development costs are amortised on a systematic basis over their expected useful lives of five (5) years.

e) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, bank overdraft and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

f) Dividends

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained profits in the period in which they are declared.

g) Trade and Other Receivables

Trade and other receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the period end.

h) Income Tax

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit.

h) Income Tax (Cont.)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

i) Income Recognition

i. Services Rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

ii. Interest Income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

j) Impairment of Assets

The carrying values of 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 the cash-generating unit.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless that asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

k) Hire Purchase Commitments

Assets acquired under hire purchase contract are capitalised in the balance sheet and are depreciated over their estimated useful lives.

l) Investment

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

m) Intangible Asset

This represents trademark expenditures incurred in respect of application software for Short Messaging Services (SMS) platform and are amortised over a period of 10 years on a straight line basis.

The Intangible Asset which is the Airogate Intellectual Properties ("IP") is amortised over 10 years period which equivalent to 10% per annum. This useful life is different with the economic life of 5 to 7 years as estimated by the valuer. The difference is due to different basis used by the valuer and the Company in estimating the amortisation period or the economic life of the IP.

The bases use by the Company to estimate the amortization period of IP for 10 years are explained in detail in section 6.1.5.1.

n) Revenue Recognition

Revenue represent the invoice value of the provision of information and communication tecchnology products and services rendered to customer, net of discounts.

6.1.2 Financial Risk Management Policies

The Group's financial risk management seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its risks. The following policies are implemented to provide effective ways to reduce financial risks of the Group. The risks faced are mainly liquidity risk, credit risk and interest rate risk.

a) Liquidity Risk

The Group ensures that there are adequate funds to meet all their obligations in a timely and cost effective manner.

b) Credit Risk

Credit risk, or the risk of counterparties defaulting is controlled by the application of credit approvals, limits and monitoring procedures. Trade receivables are monitored on an on-going basis via Group management reporting procedures.

As at 31st October, 2005, the Group has a significant concentration of credit risk in the form of outstanding balances arising from amount due from the Mekong Communication Corporation Sdn. Bhd. representing approximately 69% of the total trade receivables.

c) Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposures arise from the Group's borrowings and deposits, and is managed through the use of fixed and floating rate debt.

6.1.3 Change in Accounting Policy

In the financial year ended 31st December, 2003, Airocom changed its accounting policy with respect to the treatment of development cost. With effect from 1st January, 2003, development cost are capitalised and amortised over a 5 year period on a straight line basis in accordance with MASB 4, Research and Development Costs, as it is expected that the asset will generate future economic benefits. Previously, all development costs have been charged to the income statement as and when incurred. This change in accounting policy has been accounted for retrospectively with the retained profit brought forward and comparative information adjusted for the amount relating to prior periods.

6.1.4 Property, Plant and Equipment

COST	Balance at 1st January 2005 RM'000	Additions RM'000	Disposal RM'000	Balance at 31st October 2005 RM'000
Building-in-progress	-	2,457	-	2,457
Computer Equipments	664	145	-	809
Furniture and Fittings	47	-	-	47
Motor Vehicles	453	373	-	826
Office Equipments	69	3	(1)	71
Renovation	390	-	-	390
	1,623	2,978	(1)	4,600
ACCUMULATED DEPRECIATION				
Building-in-progress	-	-	-	-
Computer Equipments	397	144	-	541
Furniture and Fittings	25	5	-	30
Motor Vehicles	145	125	-	270
Office Equipments	34	9	-	43
Renovation	113	65	-	178
	714	348	-	1,062

6.1.4 Property, Plant and Equipment (Cont.)

NET BOOK VALUE

	Cost at 31st October 2005 RM'000	Accumulated Depreciation 31st October 2005 RM'000	Net Book Value 31st October 2005 RM'000	Net Book Value 31st December 2004 RM'000
Building-in-progress	2,457	-	2,457	-
Computer Equipments	809	541	268	268
Furniture and Fittings	47	30	17	22
Motor Vehicles	826	270	556	308
Office Equipments	71	43	28	35
Renovation	390	178	212	277
	4,600	1,062	3,538	910

6.1.5 Intangible Asset

	RM'000
COST	
Opening Balance as at 1st January, 2005	3,750
Additions	-
Closing Balance as at 31st October, 2005	3,750
ACCUMULATED AMORTISATION	
Opening Balance as at 1st January, 2005	(281)
Amortisation Charge for the Year	(313)
Closing Balance as at 31st October, 2005	(594)
Net Book Value as at 31st October, 2005	3,156

6.1.5.1 Amortisation Period

The Intangible Asset which is the Airogate Intellectual Properties ("IP") is amortised over 10 years period which equivalent to 10% per annum. This useful life is different with the economic life of 5 to 7 years as estimated by the valuer. The difference is due to different basis used by the valuer and the Company in estimating the amortisation period or the economic life of the IP.

The bases used by the Company to estimate the amortization period of IP for 10 years are as follow:

1) Technology capability, flexibility and scalability of Airogate (IP)

   Airogate software architecture is based on the interdependent system components concept with each component manages its own resources and can easily duplicated to increase processing capability based on different customers' requirement. Airogate will be the base platform for future revised version applications or new applications

6.1.5.1 Amortisation Period (Cont.)

2) Deployment of Airogate in less developed countries

Directors' intention is that Airocom will deploy Airogate in other less developed countries such as Myanmar, Bangladesh and Laos where SMS application is still not extensively deployed. Due to this factor, should these countries' deployment of SMS picked up, the application is expected to be applicable for the next 10 years. It is due to the Airogate platform could enables other corporate SMS applications such as job dispatch application, electronic commerce and mobile banking to run on it.

3) Economic life

In the opinion of the Directors, SMS content business will be valid for the next 10 years due to promising demand, rich and innovative contents in Malaysia particularly and other less developed countires. As for Malaysian context, this scenario is also similar whereby SMS which is one component of Global System for Mobile telecommunication (GSM) networks is still usable eventhough it was first introduced in 1995. The level of deployment in such countries explained in the preceeding paragraph is also low which in the opinion of the Directors, the product will be relevant to the market in these developed industries for the next 10 years.

However, the valuer's bases used to estimate the economic life of the SMS application from 5 to 7 years is based on the expectation that the SMS applications will be able to sustain its usefulness for the next 5 to 7 years particularly within Malaysian context given the optimistic cellular phones penetration rate which is expected about 57% by 2007 (Valuation Advisory Memorandum, Compass, March 2004).

Based on the foregoing, the IP is amortised over a period of 10 years that is consistent with para 21 of MASB 4 (Research and Development Cost), which states that the amount of development cost recognized and asset should be amortized as an expense on a systematic basis to reflect the pattern in which the related economic benefit are recognized.

6.1.5.2 Impact on Future Profit

If the same IP is being amortised over a period of 5 years, the Group's Profit after Taxation will be less by an amount of RM375,000 every year for the next 5 years. This is due to the difference between the amortisation based on 10 years compared to 5 years which are as follows:

	RM'000
Amortisation amount per annum:	
- Over a period of 5 years	750
- Over a period of 10 years	375
Difference	375

6.1.6 Development Costs

	RM'000
COST	
Opening Balance as at 1st January, 2005	1,805
Additions	321
Closing Balance as at 31st October, 2005	2,126
ACCUMULATED AMORTISATION	
Opening Balance as at 1st January, 2005	(246)
Amortisation Charge for the Year	(136)
Closing Balance as at 31st October, 2005	(382)
Net Book Value as at 31st October, 2005	1,744

6.1.7 Work In Progress

The Work In Progress mostly represent expenses incurred for initial cost for telecommunication project in Indonesia, Bangladesh and Myanmar. As at 31st October, 2005 all the projects are on halt. The Group expect to resume the above projects in 2006.

6.1.8 Trade and Other Receivables

	RM'000
Trade Receivables	13,405
Other Receivables and Prepayments	1,172
	14,577

The Group normal trade credit term is ranges from 30 to 90 days.

As at 31st October, 2005, the Group has a significant concentration of credit risk in the form of outstanding balances arising from amount due from Mekong Communication Corporation Sdn. Bhd. representing approximately 69% of the total trade receivables.

6.1.9 Amount Due From Holding Company

The amount due from holding company is unsecured, free of interest and has no fixed term of repayment.

6.1.10 Security Deposit with Licensed Financial Institution

Security deposit with licensed financial institution was pledged for guarantee facilities granted to the Group (Note 6.1.14).

6.1.11 Cash and Cash Equivalents

Cash and cash equivalent comprise of:-

	RM'000
Cash and Bank Balances	21
Bank Overdraft (Note 6.1.14)	(1,002)
	(981)

6.1.12 Trade and Other Payables

	RM'000
Trade Payables	11,782
Other Payables	726
	12,508

6.1.13 Amount Due to Director

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

6.1.14 Borrowings

	RM'000
Current :	
Bank Overdraft (Note 6.1.11)	1,002
Non- Current :	
Term Loan	1,938
	2,940
Total :	
Bank Overdraft	1,002
Term Loan	1,938
	2,940

Borrowings are secured by way of :

i) Fixed deposit (Note 6.1.10)
ii) A corporate guarantee
iii) Irrevocable letter to awarder to remit the payment to the Company's bank account
iv) Joint and several guarantee by the Directors.

Borrowings bear interest rates ranging from 0.5% to 4.5% per annum above the bank's base lending rate.

6.1.15 Hire Purchase Creditors

	RM'000
Amount Due within 1 year	96
Amount Due within 1 to 2 years	96
Amount Due within 3 to 5 years	288
Amount Due after 5 years	113
	497
	593

6.1.16 Share Capital

	RM'000
Ordinary Shares of RM0.10 each	
<u>Authorised</u>:	
As at 1st January, 2005	25,000
Created during the Period	-
As at 31st October, 2005	25,000
<u>Issued and Fully Paid</u>	
As at 1st January, 2005	7,500
Issued during the Period	-
As at 31st October, 2005	7,500

7. PROFORMA NET TANGIBLE ASSETS COVER PER SHARE

Based on the Proforma Statement of Assets and Liabilities of Airocom Group as at 31st October, 2005, the proforma net tangible assets cover per share is calculated as follows :

(a) Net Tangible Assets

	RM'000
Net Tangible Assets as at 31st October, 2005	9,727
Add : Proceeds from the Public Issue	15,600
Less : Estimated Cost of Listing	(1,800)
Adjusted Balance as at 31st October, 2005	23,527

(b) Share Capital

	Unit '000
Number of Ordinary Shares of RM0.10 each in issue as per Statement of Assets and Liabilities as at 31st October, 2005	75,000
Add : Public Issue	26,000
Add : Bonus Issue II	50,500
	151,500

(c) Net Tangible Assets Cover

Proforma Net Tangible Assets per Ordinary Share (RM)	0.16

8. CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement set out below is based on the audited financial statements of the Group for the financial year ended 31st October, 2005 :

	10 Months Period Ended 31st October 2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit Before Taxation	3,461
Adjustments For:	
Loss on disposal of Property, Plant & Equipment	^
Depreciation and Amortisation Expenses	796
Hire Purchase Interest	20
Operating Profit Before Working Capital Changes	4,277
Increase in Receivables	(8,324)
Increase in Amount due From Holding Company	(29)
Increase in Amount Due to Director	21
Increase in Work In Progress	(6,424)
Increase in Development Cost	(320)
Increase in Payables	10,194
Cash Generated From In Operations	(605)
Interest Expenses Paid	(20)
Net Cash Generated From Operating Activities	(625)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceed from Disposal of Property, Plant and Equipment	^^
Purchase of Property, Plant and Equipment	(147)
Net Cash Used In Investing Activities	(147)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase In Security Deposit with Licensed Financial Institution	(199)
Repayment of Borrowings	(519)
Repayment of Hire Purchase Creditors	(110)
Net Cash Used In Financing Activities	(828)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,600)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	619
CASH AND CASH EQUIVALENTS CARRIED FORWARD	(981)

^ Represent RM601.

^^ Represent RM600.

9. POST BALANCE SHEET EVENTS

There were no material subsequent event which would require any amount stated to be adjusted nor any further disclosure that is required to be made in this report.

10. AUDITED FINANCIAL STATEMENTS

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

Yours faithfully,

JAMAL, AMIN & PARTNERS
(No : AF 1067)
Chartered Accountants

AMINUDDIN BIN YAHAYA
(No : 1669/11/06(J))
Partner

(Prepared for inclusion in the Prospectus)

Compass

Measure Manage Monetize

Kuala Lumpur
Singapore
North Asia

EXPERT REPORT ON THE VALUATION OF AIROGATE PLATFORM TECHNOLOGY

27 March 2006

The Directors
Airocom Technology Berhad
Level 4, Wisma Maritim,
No 4 Persiaran Sukan,
Seksyen 13,
40100 Shah Alam

Dear Sirs,

AIROGATE PLATFORM TECHNOLOGY IPR REVIEW

I. Introduction

1. Pursuant to our letter of engagement dated 18 February 2004 and 10 January 2005, Compass Strategic Advisory Sdn Bhd (Compass) was engaged by Airocom Technology Berhad (Airocom or the Company and formerly known as Airocom Technology Sdn Bhd) to provide an indicative valuation of Airogate platform technology (Airogate) as well as carrying out an impairment review of Airogate as at 31 December 2003 and 31 December 2004 respectively.

2. The purpose of this expert report is for inclusion in the prospectus of Airocom Technology Berhad (Airocom or the Company) in relation to the proposed listing of and quotation for the entire issued and paid up capital of the Company on the Mesdaq market of the Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad).

3. This short form expert report should be read in conjunction with both long form valuation and impairment review advisory memorandum dated 15 March 2004 and 15 June 2005.

Compass Strategic Advisory Sdn Bhd
Suite 19A-LGF-7, Wisma UOA, Jalan Pinang, 50450 Kuala Lumpur (Tel) 603 2166 1884 (Fax) 603 2166 6884

The Directors
Airocom Technology Berhad

4. We understand that the ownership of the said intellectual capital was vested with Encik Zainal Aman (author), the former President of Airocom. The author assigned the intellectual capital rights underlying Airogate to Airocom in return for equity in the Company during FY 2004. The assignment of the intellectual capital asset was effected based on Airogate operative version 2.3. Thus, the valuation of Airogate as at 31 December 2003 was limited to its operative version 2.3 that encompassed any enhancement(s) on its legacy version 1.0.

Valuation date	Objective	Airogate Version
31 December 2003	To review the indicative valuation underlying Airogate for purposes of the IPR assignment from Zainal Aman to Airocom.	2.3
31 December 2004	An impairment review was carried out in view of the recent shareholder and management restructure as well as the audited performance of the Company @31 December 2004. The purpose of this exercise was to review if the carrying value of Airogate as at 31 December 2004 was impaired i.e. if the recoverable amount is lower than its carrying value. This exercise was carried out in accordance with International Accounting Standard IFRS 36 (Impairment of Assets).	2.3 including enhancements i.e. enhanced version 2.4

5. The impairment review @31 December 2004 was limited to the operative Airogate version 2.3 including features and functionality upgrades was defined as enhanced version 2.4. We understand that technology development work on Airogate post version 2.4 was captured in its new unreleased version 3.0. We understand version 3.0 was built on a different and separate system architecture. In this case, version 3.0 is not relevant to this exercise.

II. Sources of Information

6. Both the valuation and impairment review exercise was carried out based on solely on the following information provided by management as follow:

   - Audited consolidated financial statements (balance sheet, profit and loss account) of Airocom for financial year ended 31 December 2001 to 2004;

   - Description of Airogate platform technology including information on size of programs, functionality and so on;

   - Various business plans and marketing materials in the form of brochures and information memorandum provided by Airocom;

   - Forecast profit and loss and cash flow for the financial years ending 31 December 2004 to 2006; and

   - All other information and representations provided by management.

7. Both the valuation and impairment review exercises were based on information provided to us by Airocom who is solely responsible for their contents/accuracy. We have not performed any work in the nature of an audit nor conduct a feasibility review and accordingly have not expressed any audit or associated opinion of that nature. For purposes of this report, where appropriate Airocom also refers to the aggregate earnings that are generated by the Company as well as its wholly owned subsidiary; Airoport.com Sdn Bhd.

8. For purposes of this exercise, "market value" is defined as cash or cash equivalent price at which an asset would change hands in the open market at the valuation date between a willing buyer and a willing seller, both being adequately informed of the relevant facts and neither being compelled to buy or sell.

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9. Thus, the valuation of an asset is only an indicative quantum at which interests in it might be reasonably be expected to be sold at valuation date, and may be different from actual transacted price.

10. With the exception of paragraph 2, this expert report was prepared solely for Airocom and is not intended for any legal or court proceedings, general circulation, publication or reproduction in any form without our prior written consent. We assume no responsibility or liability for any losses incurred by you or any third party as a result of unauthorised circulation, publication or reproduction of this report in any form and/or if used contrary to the purpose stated therein.

11. For this exercise, we have considered available published market data and other public information on comparable listed companies on the international exchanges for which we are not responsible for their content and accuracy in deriving parameters such as enterprise value multiples for purposes of exercise.

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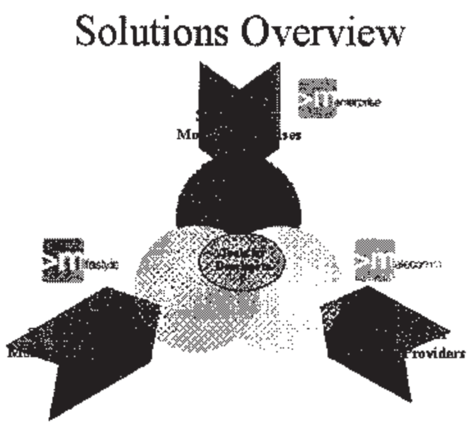
III. Airogate Development

12. Airocom's products and service offering can be represented as follows:

Product and Service Overview



Product and Service Mix

	PRODUCT CATEGORY WIDTH →		
← PRODUCT LINE LENGTH	**M-Enterprise** *(Solutions for Mobile Enterprise)*	**M-Telecomm** *(Solutions for Mobile Service Providers)*	**M-Lifestyle** *(Solutions for Mobile Consumers)*
	Mobile Field Service Mobile Enforcement	Wireless Messaging Prepaid Platforms	Information On Demand Content Download
	Mobile Messaging	Operations Support Systems	Interactive Media
	Mobile Reservation	Billing and Customer Care	Games, Contest and Quizzes
	Mobile Alerts		Mobile Chat
			Polling and Voting

13. We understand from management that the underlying Airogate platform technology where application solutions are built upon, engines the above business model.

14. Airogate is a flexible, open architecture SMS application deployment platform for digital cellular mobile network such as GSM, GPRS and CDMA. It complements the functions of a SMS Centre (SMSC) in providing reliable and efficient message exchange between mobile subscribers and service providers.

15. Some of the key messaging applications offered include Airoquest (information on demand applications) and Airomail (mobile email application server that enables mobile network subscribers to send and receive internet emails). We understand that Airocom was incorporated 15 November 1999 and according to management, it recorded the first sale of Airogate in 2001. In summary, Airogate is:

- A communication gateway between SMS value-added service applications and SMS Centre(s);
- A wireless service enabler that provides powerful features of SMS to application providers/developers who have limited knowledge on mobile network technicalities;
- An application-centric server platform that focuses on rapid service creation and deployment; and
- An efficient service agent that optimizes SMSC messaging throughput.

16. The assignment of Airogate operative version 2.3 from the author to Airocom encompassed enhancement(s) to its legacy version 1.0 where the key differences between version 1.0 and 2.3 was that the latter version has the ability to manage:

- multiple network connections simultaneously;
- different SMS communication protocols e.g. SOAP/XML (Maxis), EMI/UCP (Celcom), SMPP (TMTouch), etc. as opposed to just SMPP for version 1.0; and
- internal messaging traffic more effectively due to potential increase in messaging load as a result of from multiple mobile networks.

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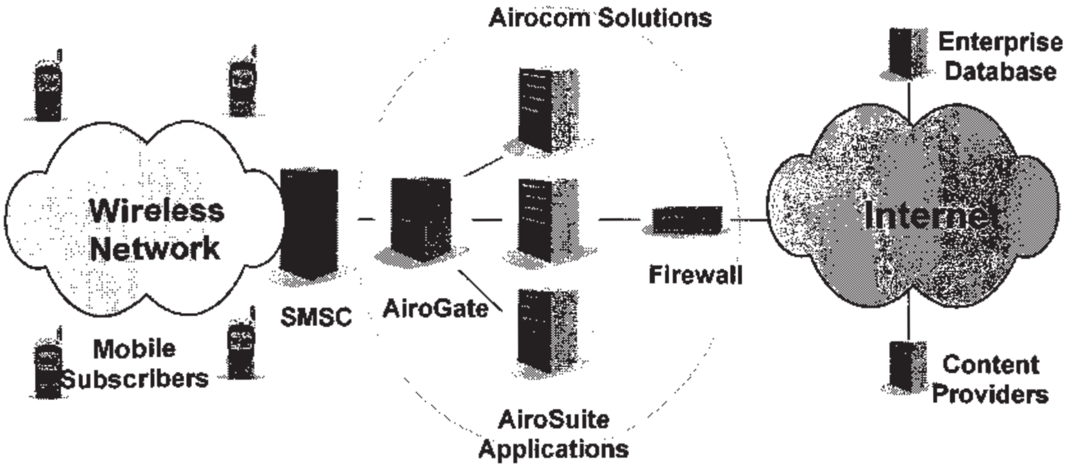
17. A diagrammatic representation of Airogate is provided as follows:



The main benefits of Airogate include:

- **Scalability** - expandable capacity catering for growth in messaging traffic and services;
- **Flexibility** - immediate ability to generate new services/products or modification of existing ones to meet market demand;
- **Fast Service Deployment** - simple messaging protocol and freely available Application Programming Interface (API) that enable application developers to deploy new services within hours; and
- **Ongoing Enhancement** - new mobile messaging service standards employed by Airocom thus enabling users to deploy the latest content-rich services

18. We understand that post assignment of the Airogate IPR from the author to the Company; Airocom's business model remains broadly segregated into mobile content download and sale of SMS telecommunication application and solution. Both business segments of the Company continued to be propelled by its underlying in-house developed Airogate platform technology. According to management:

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Airocom Technology Berhad

- Instead of relying on M-lifestyle (content downloads) business in generating bulk of the Company's earnings, Airocom continues to market Airogate as an integrated solution to the Telcos (M-Telecomm) and enterprises (M- Enterprise). The decline in revenue and profit contribution from M-lifestyle in FY 2004 prompted management to realign their expansion/business strategy to consider the importance of both M-Telecomm and M-Enterprise contribution to earnings. M-Lifestyle only contributed 22% of Airocom's FY 2004 after tax profits contrary to the earlier projection of 77%. M-Telecomm and M-Enterprise on the other hand enjoyed a good year with RM 2.5 million net profits for the recent audited financial year ended 2004;

- M-Telecomm and M-Enterprise will continue to champion the growth and quality of earnings of the Company for the next 3 to 5 years. Hence, Airogate will continue to be the core "engine" of business for the Company where continuous development work are expected to be carried out;

- M-Lifestyle's stiff competitive business will undergo strategy realignment to include re-branding and repositioning to cushion any further decline in earnings contribution (introducing information on demand, 3G content downloads and so on);

- The departure of Encik Zainal Aman, founder and chief technology officer from the Company has no bearing to the future business as well as technology development work on Airocom and Airogate respectively. The Company is currently led by a new management team (comprising chief executive officer and chief technology officer);

- Continuous development work was carried out on Airogate beyond its current operative version 2.4 (where application solutions are built upon Airogate) with the objective of enhancing features and functionality relevant to the current and anticipated market demand;

- Development work for Airogate geared towards market demand can be represented diagrammatically as follows:

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	Features	AiroGate Version 2.3	AiroGate Version 2.4	Note
A	Architecture			
	Client-server architecture	x	x	
	TCP/IP interface	x	x	
	Text-based SMS	x	x	
	Binary-based SMS		x	1
	Web-based Administrator		x	1
	Simple text-based API	x	x	
	Built-in security functions	x	x	
	Message exchange between applications	x	x	
	Transaction Detail Record	x	x	
	Multi Client-service	x	x	
	Multi Short Code	x	x	
	Multi Network/SMSCs	x	x	
	Automatic Routing Service (by keyword/short code)		x	1
	Service Provisioning	x	x	
B	Database			
	Self-optimimizing database	x	x	
C	SMSC/Gateway Interface			
	SMPP SMSC Protocol (Logica)	x	x	
	EMI/UCP SMSC Protocols (CMG)		x	2
	CIMD SMSC Protocols (Nokia)		x	2
	SMCI SMSC Protocols (ADC Newnet)	x	x	
	OIS SMSC Protocols (SchlumbergerSema)	x	x	
	EWG MMS Gateway (Maxis)		x	3
	IGW SMS Gateway (Maxis)		x	3
	CPA SMS Gateway (DiGi)		x	3
D	Platform			
	Sun Solaris 2.x (SPARC)	x	x	
	Hewlett-Packard HP-UX 10.x	x	x	
	Various Linux 2.x flavours (Intel)	x	x	

Note

1 - Features Upgrade

2 - Compatibility and scalability enhancement

3 - User Requirement -specific features

We understand from Airocom that Version 2.4 was only operative in FY 2004.

- A development budget (excluding hardware purchase) for Airogate including application solutions exceeding RM 5.0 million has been committed by management for the next 3 years. We understand that part of the IPO proceeds are planned to be utilized for R&D activities underlying Airogate and its riding application solutions; and

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- Airogate 3.0 is still in development phase where its enhanced features support higher traffic and volume of content providers, multiple client access ports for different communication protocols, extensive transaction and activities logging for on-line monitoring and debugging and so on. According to management, roll out of version 3.0 is not expected in FY 2005.

IV. Valuation methodology

Valuation and Impairment Review

19. To assess the value of Airogate[1], we have considered the cost and income approaches such as constructive cost model and relief from royalty and excess capitalisation method respectively. As part of the process in determining the indicative valuation of Airogate, we reviewed the enterprise value of Airocom through the future maintainable earnings methodology. Income methods were also considered in assessing the recoverable amount of Airogate platform technology as at 31 December 2004.

20. The bases considered in the impairment review exercise were consistent with the valuation of Airogate platform version 2.3 as at 31 December 2004 (Compass valuation report @ 15 March 2004). The impairment assessment was carried out based on actual audited financial performance of the Company for FY 2004.

21. In addition, for an intangible/intellectual capital asset to be valued, it must be (i) transferable (ii) capable of producing continuous economic benefits (iii) capable of being protected, and (iv) separately identifiable (i.e. segregated).

22. The underlying net tangible assets of Airocom was taken into consideration. It should be noted that in conducting a valuation, where appropriate, it is our normal practice to consider at least two methods of valuation to provide a means of cross checking the value arrived at under each method.

[1] Readers may wish to refer to our long form valuation report dated 15 March 2004 and 15 June 2005 for details.

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Key Limitations and Assumptions

23. The following key assumptions in both the valuation and impairment review exercises and these apply throughout unless otherwise stated:

- Information provided accurately reflects Airocom's financial and operating position;
- Airocom continues to operate as a going concern and it has sufficient liquidity to achieve the financial forecast and projections without the need to pursue an initial public offering (IPO);
- Airocom is expected to invest continuously in the development of Airogate platform technology in order to sustain the value of its intellectual capital. The Company will also continue to make significant investment in the development of application solutions underlying Airogate as well as the technology platform itself that meets market requirements;
- Airogate version 2.4 is considered the enhanced version of operative 2.3 where collectively, it is regarded as the backbone for content download business as well as the core product sold to the Telcos and enterprises;
- All revenue recorded for FY 2004 was attributed entirely to Airogate operative version 2.3 including its enhancement version 2.4;
- Airocom is able to achieve the financial forecast provided for financial years ending FY 2005 and 2006;
- There will be no major changes in corporate taxation base or rate applicable to Airocom in the foreseeable future;
- Airocom has full ownership rights of its core intellectual capital in the form of its Airogate platform technology;

- Airocom has taken the necessary steps in ensuring adequate legal protection of all intellectual capital that are critical to the company in carrying out its operations and businesses;

- Future economic benefits that are attributable to the Intellectual capital asset flow to the enterprise i.e. Airocom;

- There were no assets that are regarded as surplus as at valuation date (surplus assets are those that would not affect the quality of earnings of the valuation subject when removed);

- There will not be any material change in political and/or economic conditions under which Airocom operates that may adversely affect the range of valuation;

- There are no other liabilities including any contingent liabilities or unusual contractual obligations or substantial commitments which would have a material effect on the value of Airocom;

- All assets and liabilities are realisable at their book values as at 31 December 2004 unless otherwise stated;

- Airocom has sufficient operational resources to support the forecasted revenue and profitability;

- There will be no major fluctuation on foreign exchange rates i.e. Ringgit Malaysia (RM) vis-à-vis the other major currency that Airocom is dependent upon that would significantly affect its financial position and forecast;

- It can secure continuing support for working capital (including funds for expansion) from its present and future shareholders as and when required; and

- Other assumptions specific to a particular valuation approach or certain observations and conclusions outlined in the ensuing sections of the memorandum.

A deviation from the above key drivers may significantly vary the range of valuation of Airocom and its underlying Airogate.

24. Driven by its actual financial performance in FY 2004 (vis-à-vis its initial management forecast), management has shifted their focus to include M-Telecomm and M-enterprise business segment to contribute significant earnings to the Company for the next 3 years. This shift in expectation may remodel how the intangible asset could be reviewed. That is; (i) instead of just assessing the each business segment as a composite (where earnings from sale of application solutions is added to the base value derived by Airogate in generating the mobile content download), (ii) earnings from both business segments are considered collectively in computing the value of Airogate in its entirety.

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Income Approach

Methodology	Definition	Key assumptions	Indicative value RM	Indicative value RM
			Valuation @ 31 December 2003	Impairment Review @ 31 December 2004
Relief from royalty	This approach is based on the premise that the intangible asset owner would be willing to pay a reasonable royalty rate to inbound license the subject technology.	Royalty rates of 5% to 6% and useful life of 5 to 7 years	RM 3.5 million to RM 5.0 million	RM 3.4 million to RM 3.7 million
Residual from business enterprise	Involves estimating the value of the subject intangible as a result of the subtraction of the net financial assets and other identifiable tangible assets from the overall enterprise that operates the subject intangible.	All assets and liabilities are realizable at its book value unless otherwise stated	The implied goodwill and other intangibles to enterprise value of Airocom is around 40% to 50%[2]	

[2] Based on published MESDAQ IPOs for 2004 and 2005 recorded an average ratio of goodwill/intangibles to market capitalization of around 50%. On the same note, based on more recent standard and Poor's Fortune 500 stock index analysis, around 70% of an enterprise value is generated by intangible assets compared to 20 years ago (1978) when tangible assets contribute 80% to value. In this regard, Airocom's ratio of goodwill and other intangible appear reasonable. In addition, the range of enterprise multiples of 3 to 4 times was assumed for Airocom.

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Cost Approach

25. The income approach[3] was regarded to be more relevant as compared to the reconstructive cost[4] as the Airogate platform technology was deployed as its main intellectual capital asset in generating revenue and quality earnings of the Company on a going concern basis. Thus, the cost approach is not considered for impairment review.

[3] A typical seller seeks a return on its investment, not simply recoupment of costs. Cost does not necessarily represent value. Similarly, a purchaser of an asset will only pay an amount that will enable him to make a reasonable return based on expected revenue and expenses from utilizing the asset. The purchaser rarely makes that decision based on the seller's costs.

[4] Refers to cost of re-constructing an exact duplicate of the subject intangible asset using the same designs, materials, standards, layout and so on. The re-constructed model should encompass the same deficiency and obsolescence that exist. These conditions may be deemed inherent and are therefore incurable. To determine the constructive cost of Airogate, the constructive cost model (Cocomo) could be considered. Cocomo was reviewed and discussed in detail – refer to Compass' Airogate valuation memorandum @15 March 2004.

The Directors

Airocom Technology Berhad

V. Summary

26. For purposes of this exercise and subject to the limitations and assumptions set out in both valuation and impairment review memorandum, the valuation and recoverable amount of Airogate as at the respective valuation dates can be provided as follow:

Objective	Valuation date/ (subject IPR)	Summary	Observation
To determine the valuation of Airogate technology platform for purposes of assignment from the author to Airocom.	31 December 2003 (Version 2.3)	RM 3.5 million to RM 5.0 million	The subject IPR was capitalized at RM 3.75 million in the financial statements of Airocom during FY 2004. The subject IPR was amortized across a period of 10 years as determined by management.
To determine if the carrying value of Airogate was impaired	31 December 2004 (Version 2.3 including enhancements 2.4)	RM 3.4 million to RM 3.7 million	The carrying value as at 31 December 2004 was RM 3.7 million comprising the capitalized and amortized IPR of RM 3.5 million (initial version 2.3) plus development cost of around RM 242,000 that referred to enhancements underlying version 2.4 The carrying amount of RM 3.7 million as at valuation date of 31 December 2004 fell within the higher range of the recoverable amount of RM 3.4 million to RM 3.7 million. In this case, any adjustment to be made to the carrying value was to be reviewed from the context of materiality from the financial reporting perspective. According to management, the Company would not incorporate any adjustment Airogate's carrying value as at valuation date with agreement of its external auditors.

VI. Exclusion and Limitation of Liability

27. We have used skill and care in the provision of the services set out in this engagement proposal.

28. We shall not under any circumstances be liable for damages or for losses that are not direct result of breach of contract or negligence on our part in respect of services provided in connection with or arising out of the engagement set out in this letter (or any variation or addition thereto) or for any consequential losses or loss of profits of whatsoever nature, and in any event, the liability of Compass Strategic Advisory Sdn Bhd (Compass), its associated companies, partners, directors and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed the fees paid specifically for the work in question which allegedly entailed a breach of contract or negligence on our part.

29. Both the valuation and impairment review exercises were based upon information provided by and on behalf of Airocom. Therefore we assume no responsibility and make no representation with respect to the accuracy or completeness of any information provided by you or other management members on behalf of Airocom.

30. In no event shall Compass Strategic Advisory Sdn Bhd (Compass), its associated companies, partners and staff be liable for any loss, damage, cost or expense arising in any form or in connection with the fraudulent acts or omissions, or any mis-representations or any default on the part of the directors, employees or agents of Airocom.

31. Without derogating from the aforesaid provisions, we shall not under any circumstances whatsoever be liable to any third party whether or not they are shown a copy of any work that we do pursuant to the terms of our engagement and whether or not we have consented to such work being shown to them, save and except where we specifically agreed in writing to accept such liability.

The Directors
Airocom Technology Berhad

32. Except as a result of own negligence or wilful default, in the event that we find ourselves subject to a claim or incur legal costs from another party as a result of false or misrepresented information provided by you in connection with this engagement, any claim established against us and the cost we necessarily incur in defending it would form part of the expenses we would look to recover from you.

33. The underlying content of this memorandum is the intellectual property of Compass. Any unauthorized use and/or replication of the content shall be liable for a compensation claim from Compass, which could exceed the aggregated amount of income earned from the unauthorized use of the underlying content contained herein.

34. Please do not hesitate to contact the undersigned if you need any clarification or assistance

Yours truly,
COMPASS Strategic Advisory Sdn Bhd

Kelvin W.L. Chin
Director
B.Bus (Accounting), Distinction
CPA, Institute of CPAs Singapore (ICPAS) (Reg: 09181)
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(Prepared for inclusion in the Prospectus)

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27 March 2006

The Board of Directors

Airocom Technology Berhad,

Level 4, Wisma Rozali, 4 Persiaran Sukan,

Section 13, 40100 Shah Alam,

Selangor, Malaysia.

Dear Sirs:

Executive Summary of the Independent Market Research Report on the Strategic Analysis of the Cellular, OSS/BSS, Mobile Content and IN Prepaid Markets in Malaysia

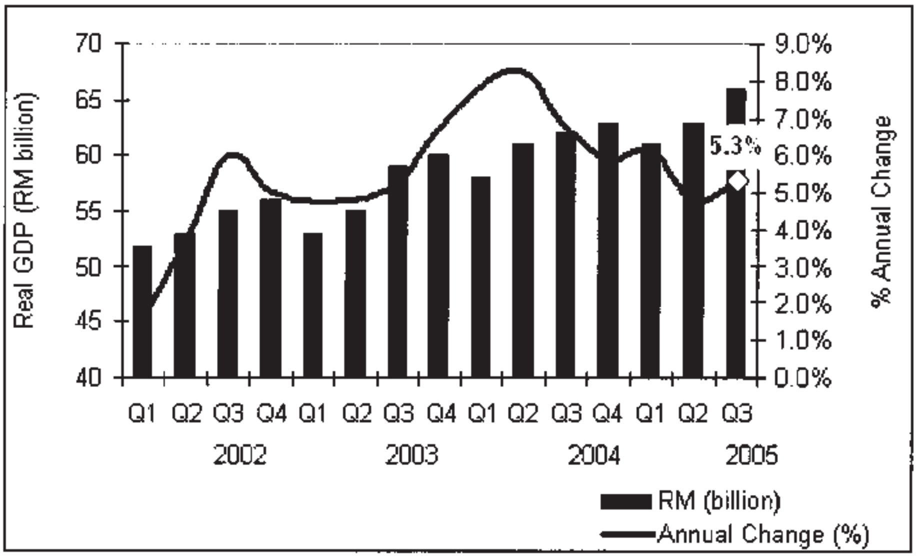
The purposes of the Summary IMR of Airocom Technology Berhad ("Airocom" or the "Company") is prepared by Frost & Sullivan (M) Sdn Bhd for inclusion in the Prospectus of Airocom in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of Airocom on the MESDAQ Market of the Bursa Malaysia Securities Berhad.

Overview of the Malaysian Economy

The growth of Malaysian economy moderated in 2005 amidst a slowing global economy. The overall GDP for 2005 is estimated to be around 5.5 percent. In 2004, the Malaysian economy grew by 7.1 percent. This was the highest recorded growth from the year 2000. The increase in oil prices and inflationary pressures caused the global economy to slow down in 2005. The Malaysian economy being highly dependent on external trade also experienced a slow down in its growth in 2005. Figure 1 gives Malaysia's GDP growth from 2002 to 2005 Q3.

Figure 1

Malaysia's GDP growth from 2002 to Q3 2005



Source: Bank Negara Malaysia

In the third quarter of 2005, the economy expanded 5.3 percent. Growth was led by the services sector with an increase of 7.3 percent, spurred by strong consumer spending, including spending by tourists and improved business activities. Value addition in the manufacturing sector expanded at a slower rate of 3.4 percent. Output of the electronics and electrical products (E&E) industry registered growth of 3.2 percent (2Q 2005: 0.9 percent), due mainly to the strong external demand for computers and computer-related items, as well as the improvement in the demand for semiconductors globally.

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Overview of the Asia ex-Japan Economy

The overall weighted GDP growth in Asia is estimated to be 6.9 percent in 2005. It is expected that the GDP growth will decelerate slightly in 2006 mainly due to the slow down in region's export growth arises from weaker global demand. The outlook in 2006 is anticipated to be similar as the previous year. Low inflation will remain as the stimuli to the region's economy growth.

Table 1 shows the GDP growth in 2004 for some countries in Asia.

Table 1

GDP growth in 2004 for some countries in Asia

Country	GDP Growth in 2004 (%)
Vietnam	7.5%
Bangladesh	5.5%
Indonesia	5.1%
India	6.9%
China	9.5%

Source: The World Bank – World Development Indicators database, August 2005

In Vietnam, industry sector is the highest contribution element to the GDP, with a 40.1 percent market share, followed closely by services sector, with a 38.1 percent market share. These two sectors absorb approximately 37 percent of the labor force, with the remaining in the agriculture sector. Unemployment rate remains low, at 1.9 percent in 2004. Vietnam is working toward accession to the WTO in 2005. Job creation remains one of the objectives to cater to the country's high population growth. Low unemployment rate, high GDP growth and the government's effort to produce job opportunities will increase its residents' purchasing power, and to further stimulate the country's economy and living standards.

In Bangladesh, services sector is the highest contribution element to the GDP, with a 51.7 percent market share, followed by industry sector, with a 27.1 percent market share. These two sectors absorb approximately 37 percent of the labor force, with the remaining in the agriculture sector. Unemployment rate remains a critical issue, at a danger level of 40 percent that include underemployment. Nonetheless, the stable GDP growth at 5 percent for the past several years is a good indicator that the country is progressing steadily.

In Indonesia, industry sector is the highest contribution element to the GDP, with a 45.0 percent market share, followed closely by services sector, with a 40.4 percent market share. These two sectors absorb approximately 55 percent of the labor force, with the remaining in the agriculture sector. Unemployment rate stands at 9.2 percent in 2004. Indonesia economy growth will highly depends on internal reform, building up the confidence of international and domestic investors, and strong global economic growth. The export of labors to its regional countries mainly has also served to lower the unemployment rate.

In India, services sector is the highest contribution element to the GDP, with a 48.0 percent market share, followed by industry sector, with a 28.4 percent market share. These two sectors absorb approximately 40 percent of the labor force, with the remaining in the agriculture sector. Unemployment rate stands at 9.2 percent in 2004. Government controls on foreign trade and investment have been reduced in some areas, especially in civil aviation, telecom and insurance sectors. India's economy has seen a steady growth since 1994, with a significant reduction in poverty. India has a large pool of residents who are well-versed in English language and this has driven India to be a major exporter of software services and software workers. All these factors will help to cushion the slightly higher unemployment rate and could be a catalyst to the economic growth.

In China, industry and construction sectors are the highest contribution elements to the GDP, with a 52.9 percent market share, followed by services sector, with a 33.3 percent market share. These sectors absorb approximately 51 percent of the labor force, with the remaining in the agriculture sector. Unemployment rate stands at 9.8 percent in urban areas in 2004. Substantial unemployment is seen in rural areas, with an official Chinese journal reported that the overall unemployment rate in urban and rural areas is estimated to be approximately 20 percent. China is the second largest economy in the world, based on the purchasing power parity basis. Coastal areas have developed in a rapid pace, mainly driven by foreign investment. Like Vietnam, accession to WTO helps China strengthens its ability to maintain strong growth rates. China has benefited from a huge expansion in computer Internet use, with 94 million users at the end of 2004. Compare to some of the developing countries in the region, China has a lead in the absorption of technology, the rising prominence in world trade, and the alleviation of poverty; and the number of competent Chinese English-speakers is growing rapidly. With more foreign investment flowing into China in the coming years and migration of rural folks to urban areas, the residents' purchasing power parity and living standards shall rise in tandem with the economic growth in the near future.

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Market Overview of the Cellular Industry in Malaysia

The cellular services market in Malaysia experienced significant growth for the past three years. In terms of value, the Malaysian cellular services market is expected to rake RM13.1 billion revenues against about 17.4 million subscribers in 2005. Frost & Sullivan expects the market revenue to witness CAGR of 10 percent for the period 2005-2008. Table 2 presents the market forecast by revenues of the cellular industry in Malaysia from 2003 to 2008.

Table 2

Cellular industry: market forecast by revenues (Malaysia), 2003-2008

Year	Revenues (RM million)	Growth Rate (%)
2003	9,625.4	-
2004	11,901.3	23.6
2005	13,108.7	10.1
2006	14,637.0	11.7
2007	16,013.2	9.4
2008	17,531.1	9.5

Compounded Annual Growth Rate (CAGR) 2005-2008: 10%

Source: Frost & Sullivan, 2005 (Base year: 2005)

Cellular services uptake as well as subscriber growth has been relatively resilient to economic factors although sophistication in uptake of wireless data services lags behind developed neighbors like Singapore. Revenue of cellular market has significant room to grow against the underdevelopment of the mobile data service segment. Higher value data traffic is still being developed by the operators. Helping the demand for higher value data service is the penetration of color handsets and feature rich handsets which are becoming more affordable for the masses. Higher data usage will result in migration of premium prepaid subscribers to post-paid packages. User migration from prepaid to postpaid has taken place in 2005, but in gradual pace. Prepaid subscription would continue to be the lowest entry point for first-time users.

We expect a combination of factors to continue to help sustain the strong growth in subscribers' base during the forecast period. The increasing importance of mobility will continue to reduce the average age of cellular ownership. Competitive and innovative cellular services package is expected to further stimulate higher number of mobile subscribers in an average household. Consistent and speed of fall in prices of mobile phones, particularly older models is expected to further reduce the cost of becoming a cellular subscriber. Celcom (M) Berhad (Celcom) and Maxis Communications Berhad (Maxis) have rolled out 3G services in 1H 2005, offering similar price plans for video calls as normal call to encourage the migration of users from 2G to 3G. Two more 3G licenses are up for grabs, and are expected to intensify competition and accelerate subscriber migration to the next generation network. The proposed issuance of additional 3G licenses is expected to open up the market for foreign participants through joint ventures with local network service providers, such as Time dotCom Berhad (Time dotCom) and Nasioncom Holdings Berhad (Nasioncom). While greater competition from the issuance of additional 3G licenses would help accelerate the migration of users to 3G services in the long run, Frost & Sullivan believes the subscriber base would remain relatively small in 2005 and 2006.

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Market Overview of the Cellular Industry in Asia Pacific

The cellular services market in Asia Pacific (APAC) experienced significant growth for the past few years. In terms of value, the APAC cellular services market is expected to rake RM578.2 billion revenue against about 804.2 million subscribers in 2005. Frost & Sullivan expects the market revenue to witness CAGR of 10 percent for the period 2005-2008. Asia Pacific's cellular subscriber base expanded at a phenomenal CAGR of 30 percent between 2002 and 2004; driven by 6 nations i.e. India, Indonesia, the Philippines, China, Malaysia and Thailand which grew at 25-111 percent per annum. Table 3 presents the market forecast by revenues of the cellular industry in Asia Pacific from 2003 to 2008.

Table 3

Cellular industry: market forecast by revenues (Asia Pacific), 2003-2008

Year	Revenues (RM million)	Growth Rate (%)
2003	501,970.9	-
2004	535,914.5	6.8
2005	578,210.4	7.9
2006	631,406.9	9.2
2007	692,953.4	9.7
2008	763,454.9	10.2

Compounded Annual Growth Rate (CAGR) 2005-2008: 10%

Source: Frost & Sullivan, 2005 (Base year: 2005)

Prepaid subscription has surpassed postpaid for the first time in 2004, contributing 52.5 percent of total subscriber base. The thriving prepaid business is particularly evident in developing markets, which manifest high level of price sensitivity. In some markets, mobile operators have been introducing price cuts to prepaid plans in a bid to reduce the average age of cellular ownership and to capture a larger subscriber base. The dominance of the prepaid segment is expected to continue in the near term, owing to the large subscriber additions in Indonesia, China and India. Frost & Sullivan also expects mobile operators to gradually extend 3G services to prepaid customers in a bid to achieve economies of scale, particularly in highly prepaid-concentrated markets. In the long run, as increased market sophistication and heightened competition set in, low price differentials between postpaid and prepaid plans should naturally result in the migration of subscribers from the prepaid to the postpaid segment. Amongst other things, higher propensity to mobile spending (i.e.

higher purchasing power) also leads to greater mobile usage, which would essentially contribute to larger postpaid subscriber base vis-à-vis prepaid in developed markets.

2005 marks the entry of new 3G market entrants in the region e.g. Singapore, Malaysia and Taiwan. Frost & Sullivan expects 3G subscribers to swell by 23.5 percent to 75.2 million by end-2005. By 2008, 3G subscribers would likely proliferate to 139.0 million, or 11.3 percent of total cellular subscriber base. Outside Japan and South Korea, the preference for Internet connection over landlines, low adoption of GPRS services and the availability of compatible handsets could however hamper rapid market diffusion and growth of mobile data. Meanwhile, telecommunications regulators in India, Thailand, China and Indonesia have yet to conclude on the issuance of 3G licenses. Given the fluidity of the development of 3G in these markets, Frost & Sullivan has not factored its growth potential into the projections.

The Indonesian cellular subscriber base is expected to triple by 2008, to 94 million, translating to cellular penetration of 37.2 percent, compared to 31.9 million and 13.4 percent penetration in 2004. User migration from prepaid to postpaid is expected to be minimal between 2005 and 2008 given the lower propensity to mobile spending. Prepaid subscription would continue to be the lowest entry point for first-time users and would continue to dominate the cellular market with more than 94 percent prepaid users. Mobile data revenues are envisaged to swell 3 times its current size of US$689 million in 2004 to US$2.1 billion by 2008, driven by subscriber growth and higher adoption of multimedia services. Frost & Sullivan expects pricing pressure on ARPU to ease with the introduction of ring-back tones and other non-SMS based content.

The Indian cellular market is projected to reach penetration levels of 20.3 percent in 2008, from 4.5 percent in 2004. Total cellular subscribers are expected to reach 224 million in 2008. With 70 percent of Indian population living in rural areas, the next phase of growth would come from rural market in India. The Indian mobile industry is expected to undergo a phase of consolidation. Prepaid subscription would continue to be the lowest entry point for first-time users. Postpaid would gradually dwindle from 23.5 percent to 20.6 percent by 2008. Price-play is likely to persist, due to intense competition. Thin margins and low ARPU would continue to loom the Indian cellular industry. Data revenues currently account for 6.3 percent of total mobile revenues in 2004, and is expected to strengthen to 13.6 percent by 2008.

The Chinese cellular market is projected to reach penetration levels of 43.8 percent or 579 million by 2008, from 24.3 percent in 2004. Take-up rates in smaller provinces and rural areas would remain slow. China's mobile revenue would likely jump to US$50 billion by 2008, up from US$31.4 billion in 2004. Price competition would be compounded by the possibility of issuance of additional mobile operator licenses in future, the encroachment of PHS systems into major cities and aggressive pricing strategies to acquire low-end and first time customers. Data revenues currently account for 9.1 percent of total mobile revenues in 2004, and is expected to strengthen to 20.7 percent by 2008. While higher take-up of mobile data services would help to ease pricing pressure on ARPU, we believe short messaging services (SMS) would continue to contribute the bulk of data revenue, thus only providing limited upside to ARPU.

Market Overview of the Operations Systems Support ("OSS") Industry in Malaysia

The OSS market in Malaysia has registered the greatest increase of all in the ASEAN market. Market consolidation has brought about the need to merge networks and this directly relates to integration of essential parts of the network, namely network management and billing solutions. Streamlining and managing information is critical to the service providers who are in dire need to move away from aggressive price competition. Against larger subscriber base and stronger financial position brought about by the consolidation, service providers are well positioned to invest additional capital expenditure to smooth their operations as well as enhance their competitive position.

The recent development in the cellular industry in Malaysia will augur well for the OSS/BSS vendors and system integrators, as it will basically mean additional revenue for them owing to the fact that consolidation of networks will automatically involve them as well. Usually, the network operator seeks a single billing and customer care system to support its subscribers following a merger. The single platform will support its business consolidation goals and provide it with greater flexibility to quickly add new tools to address emerging business models, allowing it to win and retain subscribers in a competitive market. Due to this fact, the total revenue generated from the OSS/BSS industry in Malaysia is expected to rise steadily for the periods 2004-2005 in line with the time frame of the merger exercises.

Almost all service providers are concentrating most of their investments in the areas of network management and billing, as these two areas seem most crucial to the day-to-day running of the service providers' operations. The importance given to other aspects of OSS/BSS solutions, which includes CRM and Service Fulfillment, is expected to rise over the forecast period as service providers start realizing the importance of good customer management, as it will ensure the very survivability of the service providers in the long run to be able to know where their networks go, what assets are on those networks, what kinds of services can be delivered over the networks and who are their customers.

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Market Overview of the Mobile Content Industry in Malaysia

The Malaysian market is emerging at a rapid pace from a highly voice centric market. Total data revenue as a percentage of operator's revenue had increased from 13.3 percent in 2004 to an estimated 16.4 percent in 2005. Short Message Service (SMS) usage registered significant growth since the last 4 years since interoperable access in 2001.

Apart from the evolving usage of SMS based content, a notable trend is the popularity of content in the entertainment segment of the market like that of the ring tones, icons, pictures, screensavers and wallpapers downloading and sending. With the commercial launch of General Packet Radio Service (GPRS) and Enhanced Data for Global Evolution (EDGE) services and content – in the likes of Java games and Multimedia Messaging Services (MMS) and the increasing penetration of GPRS/EDGE handsets, usage patterns in the local market seems to be evolving steadily.

GPRS/EDGE, is still in its nascent stage in Malaysia although according to the service providers, is developing at a very rapid pace. Although penetration is low, it is increasing steadily given the increasing introduction of higher value data content, which uses GPRS/EDGE like wider applications based on MMS apart from merely messaging. Service providers and vendors are working together to market features and applications. Varying levels of initiatives from the operator side seems to be stimulating the market to some extent in terms of data usage behavior. All this augurs well for content providers who have already forged partnerships with the service providers to distribute their content via revenue sharing.

The usage for higher value data applications correlates closely with the penetration of data centric handsets, although there is a time lag between actual purchase and actual usage of the application. The current focus of service providers is to reduce the time to market for such mobile content. However, based on the consumer behavior of locals, Frost & Sullivan does not expect the uptake of such phones to automatically increase the uptake for higher value mobile data applications, although the propensity is there. Much will depend on the marketing strategy of the service providers. Growth in demand for GPRS/EDGE services is likely to be inversely correlated to the price of GPRS handsets and services. Current prices for GPRS handsets and services are considered reasonably low priced by the majority of the market. Feature rich and colored handsets and varying pricing points are flooding the market at present. Most handsets come equipped with GPRS features nowadays. However, EDGE phones are still relatively expensive and limited in choice.

Frost & Sullivan opines that in order for the data applications to be a success in Malaysia, service providers play a very important role in terms of educating and marketing, as well as to ensure consumers service and handset affordability. Only with the widespread uptake of GPRS/EDGE handsets and the willingness to use GPRS/EDGE services will higher value data applications uptake trend upwards. Almost all higher value data applications in the future will be based on networks beyond 2G, for instance MMS, mobile banking, mobile commerce, and mobile information and entertainment.

On the other hand, 3G subscriber base is projected to hit 2.9 million by 2008, to account for close to 13.7 percent of total subscription. Consumer behavior largely shapes the development of the mobile content market. The launch of 3G services are expected to help shape the learning curve of subscribers. Mobile operators have been aggressively promoting higher value data applications through consumer education and various push marketing efforts, which would help elevate consumers' learning curve to the next level. Network operators are well placed to play a pivotal role in the entire eco-system in stimulating and facilitating the development of mobile content, as well as harvesting potential 'killer applications'. Most of the handsets owned by local subscribers are 2G-enabled as GPRS and 3G handsets are still considered expensive by local standards. However, Frost & Sullivan views this to be a short term challenge given the increasing supply of high-end handsets, which is expected to exert some pricing pressure on the cost of existing handsets. Furthermore, the existence of secondary market for handsets could help bolster the demand for enhanced mobile phones.

3G is expected to open the bandwidth to all kinds of services and spur the growth in the mobile content industry. With 3G, the role of content providers is expected to grow with more services and capability in the market.

There are more than 100 content providers in the local market who are working either exclusively or non-exclusively with the various service providers. A large proportion of the content providers are also content aggregators while a smaller proportion only develops mobile content and platforms and mobile solutions.

The market is dominated by content providers in the ring tones, screensaver, icon, picture and wallpaper download segment of the market. This is in line also with the service provider's major revenue generator from mobile data. The mobile network service providers are also supporting the content provision industry to some extent with key initiatives whereby they make it easier for content providers to form partnership, support content providers in terms of advertising and promotion of the content and a favorable revenue sharing model where a majority of the revenue goes to the content providers.

Virtually 95 percent of the mobile data revenues are from peer-to-peer SMS based services. Currently, the trend amongst the content providers is that most content is developed around the SMS platform; with the advent of MMS, the uptake for such services is seen to be on the upward trend. The adoption of MMS based services is still in the nascent stage and usage patterns is developing at a slow but incremental pace. The growing array of affordable MMS handsets in the market and the increasing interest in colored content augurs well for users to move up the mobile data learning curve.

Content will be the dominant element when MMS is adopted by the mass market. Again, partnership between service providers and content developers will need to come into play. Strong branding for mobile content (like those in the publishing and media) is viewed as one of the factors driving the uptake of MMS. After all, service providers may face the threat of losing content-centric consumers – users who will switch to another network which are able to gain exclusive rights to certain mobile content, such as football news. Moreover, the concern for the migration of subscribers from a network to another can be aggravated by the introduction of mobile number portability.

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