

## 11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

# Deloitte.

3 May 2006

The Board of Directors  
Microlink Solutions Berhad  
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Jalan Ampang  
50450 Kuala Lumpur

**Deloitte & Touche** (AF 0834)  
Chartered Accountants  
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Dear Sirs,

### ACCOUNTANTS' REPORT MICROLINK SOLUTIONS BERHAD

#### A. INTRODUCTION

This Report has been prepared by Deloitte & Touche, an approved company auditor, for inclusion in the Prospectus of Microlink Solutions Berhad (hereinafter referred to as "MSB") to be dated 2 June 2006 in conjunction with the listing of and quotation for the entire issued and paid-up share capital of MSB, comprising 127,406,000 ordinary shares of RM0.10 each ("MSB Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") which include the public issue of 12,000,000 new MSB Shares at an issue price of RM0.49 per MSB Share payable in full on application comprising:

- (a) 7,000,000 new MSB Shares by way of private placement to the identified investors;
- (b) 3,000,000 new MSB Shares to the Malaysian citizens, companies, co-operatives, societies and institutions; and
- (c) 2,000,000 new MSB Shares to eligible directors, employees and/or persons who have contributed to the success of MSB and its subsidiary companies (hereinafter referred to as "MSB Group").

#### B. GENERAL INFORMATION

##### B.1 Incorporation and Principal Activity

MSB was incorporated in Malaysia on 7 July 2003 under the Companies Act, 1965 as a private limited company under the name of M-Cape Holdings Sdn Bhd. On 22 September 2004, the company changed its name to Microlink Solutions Sdn Bhd. On 4 March 2005, the company was converted to a public limited company and, accordingly, assumed its present name.

Audit. Tax. Consulting. Financial Advisory.

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The principal activities of the company are that of investment holding, provision of and research and development on information technology solutions to the financial services industry.

### B.2 Listing Exercise

In conjunction with and as an integral part of the listing of and quotation for its entire enlarged issued and paid-up share capital on the MESDAQ Market of Bursa Securities, MSB undertook/will undertake the following:

- (i) Conversion of 440,000 Redeemable Convertible Preference Shares of RM1.00 each ("RCPS") to 440,000 ordinary shares of RM1.00 each ("Conversion");
- (ii) Restricted issue of 114,800 new ordinary shares of RM1.00 each to certain directors, key employees and promoters of the MSB Group and an investor for a total gross proceeds of RM1,360,160 ("Restricted Issue");
- (iii) Splitting of the issued and paid-up share capital of MSB of 1,214,800 ordinary shares of RM1.00 each after the Conversion and Restricted Issue to 12,148,000 ordinary shares of RM0.10 each ("MSB Shares");
- (iv) Bonus issue of 103,258,000 new MSB Shares on the basis of eight point five (8.5) new MSB Shares for every existing MSB Share held by way of capitalisation of share premium and unappropriated profit totalling RM10,325,800;
- (v) Public issue of 12,000,000 new MSB Shares at an issue price of RM0.49 per MSB Share payable in full on application comprising:
  - (a) 7,000,000 new MSB Shares by way of private placement to the identified investors;
  - (b) 3,000,000 new MSB Shares to the Malaysian citizens, companies, co-operatives, societies and institutions; and
  - (c) 2,000,000 new MSB Shares to eligible directors, employees and/or persons who have contributed to the success of the MSB Group;
- (vi) Establishment by MiBS Systems Sdn Bhd ("MIBSSB"), a promoter and corporate shareholder of MSB, of an Employee Equity Scheme by allocating 11,844,600 MSB Shares from MIBSSB's shareholding in MSB to the eligible employees and directors of the MSB Group;
- (vii) Listing of and quotation for the entire enlarged issued and paid-up share capital of MSB, comprising 127,406,000 MSB Shares on the MESDAQ Market of Bursa Securities; and
- (viii) Establishment of an Employee Share Option Scheme to motivate, retain and reward eligible Directors and employees who have contributed to the growth and success of the MSB Group.

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The approval-in-principle for, inter-alia, the admission of MSB to the official list of the MESDAQ Market of Bursa Securities and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up share capital of MSB has been obtained from Bursa Securities on 25 May 2005.

The approval for the abovesaid flotation scheme was obtained from the Securities Commission on 27 February 2006.

### B.3 Share Capital

The present authorised share capital of MSB is RM25,000,000, comprising 250,000,000 ordinary shares of RM0.10 each.

The present issued and paid-up share capital of MSB is RM11,540,600, comprising 115,406,000 ordinary shares of RM0.10 each.

Details of the movements in the issued and paid-up share capital of MSB since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares		No. Of RCPS	Consideration For Shares Issued	Resultant Share Capital RM
	Of RM1.00 Each Allotted	Of RM0.10 Each Allotted	Of RM1.00 Each Allotted		
07.07.2003	2	-	-	Cash; subscribers' shares	2
28.10.2003	19,998	-	-	Cash	20,000
26.04.2004	180,000	-	-	Cash	200,000
10.08.2004	121,215	-	-	Cash	321,215
27.08.2004	338,785	-	-	Cash	660,000
27.08.2004	-	-	440,000	Cash	1,100,000
13.04.2006	440,000	-	(440,000)	Conversion of RCPS*	1,100,000
27.04.2006	114,800	-	-	Restricted issue	1,214,800
27.04.2006	(1,214,800)	12,148,000	-	Share split**	1,214,800
27.04.2006	-	103,258,000	-	Bonus issue	11,540,600

\* On 13.04.2006, the 440,000 RCPS was converted to 440,000 ordinary shares of RM1.00 each.

\*\* On 27.04.2006, the nominal value of each ordinary share of RM1.00 of MSB was split into ten ordinary shares of RM0.10 each.

Upon completion of the public issue of 12,000,000 new MSB Shares, the issued and paid-up share capital of MSB will be RM12,740,600, comprising 127,406,000 MSB Shares.

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### B.4 Information on Subsidiary Companies of MSB

#### B.4.1 Microlink Systems Sdn Bhd ("MSSB")

MSSB was incorporated in Malaysia on 25 July 1994 under the Companies Act, 1965 as a private limited company under the name of Danau Jati Sdn Bhd. On 19 September 1995, the company assumed its present name.

MSSB is principally involved in the provision of information technology solutions to the financial services industry and dealing in related products.

The present authorised share capital of MSSB is RM5,000,000, comprising 5,000,000 ordinary shares of RM1.00 each.

The present issued and paid-up share capital of MSSB is RM2,000,000, comprising 2,000,000 ordinary shares of RM1.00 each.

Details of the movements in the issued and paid-up share capital of MSSB since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of RM1.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital RM
25.07.1994	2	Cash; subscribers' shares	2
01.08.1995	99,998	Cash	100,000
12.08.1995	150,000	Cash	250,000
18.08.1998	1,750,000	Bonus issue	2,000,000

#### B.4.2 Microlink Worldwide Sdn Bhd ("MWSB")

MWSB was incorporated in Malaysia on 1 December 2000 under the Companies Act, 1965 as a private limited company.

MWSB is principally involved in the provision of information technology solutions to the financial services industry and dealing in related products.

The present authorised share capital of MWSB is RM100,000, comprising 100,000 ordinary shares of RM1.00 each.

The present issued and paid-up share capital of MWSB is RM2, comprising 2 ordinary shares of RM1.00 each.

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Details of the movements in the issued and paid-up share capital of MWSB since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of RM1.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital RM
01.12.2000	2	Cash; subscribers' shares	2

### C. AUDITED FINANCIAL STATEMENTS

The financial statements of MSB, MSSB and MWSB for the financial years/period under review were audited by us and were reported on by us without any audit qualifications. There are no restatements to the audited financial statements of MSB, MSSB and MWSB for the financial years/period under review.

### D. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of MSB, MSSB and MWSB included in this Report have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia.

There were no changes in accounting policies or accounting estimates by MSB, MSSB and MWSB for the financial years/period under review that have significant effect on the financial statements.

### E. DIVIDENDS

Details of dividend paid by MSSB for the three financial years ended 31 December 2005 are as follows:

Financial Years Ended	Issued And Paid-Up Share Capital RM	Gross Dividend Rate %	Net Dividend RM
2003	2,000,000	590.28*	8,500,000
2004	2,000,000	572.68**	9,646,603
2005	2,000,000	-	-

\* Final dividend in respect of year 2002 was paid in 2003.

\*\* Included in dividend paid in year 2004 is tax-exempt dividend amounted to RM5,000,000.

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Other than as disclosed above, no further dividend has been paid or declared by MSB, MSSB and MWSB for the financial years/period under review.

### **F. MSB GROUP CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements of MSB Group for the two financial years ended 31 December 2004 and 2005 set out in pages 11 to 34 have been prepared based on the audited consolidated statutory financial statements of the MSB Group for such periods. The audited consolidated statutory financial statements for the two financial years ended 31 December 2004 and 2005 were prepared in accordance with the provisions of the Companies Act, 1965 and the applicable MASB approved accounting standards in Malaysia applicable in the respective years for statutory filing purposes in Malaysia.

The audited consolidated statutory financial statements have not been revised or updated for subsequent events that occurred after their respective issue dates.

The auditors' reports for the two financial years ended 31 December 2004 and 2005 which were issued on the financial statements of the MSB Group and MSB have been reproduced in its entirety, save for page numbers which have been altered to conform with the pagination of this Accountants' Report, as set out in pages 7 to 10.

## 11. ACCOUNTANTS' REPORT

Company No. 620782 - P

# Deloitte.

**Deloitte & Touche** (AF 0834)  
Chartered Accountants  
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1 Jalan SS 21/58, Damansara Uptown  
47400 Petaling Jaya, Malaysia

P. O. Box 10093, 50704 Kuala Lumpur, Malaysia

### REPORT OF THE AUDITORS TO THE MEMBERS OF

### MICROLINK SOLUTIONS BERHAD

(Incorporated in Malaysia)

Tel : +603 77236500, 77261833  
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We have audited the accompanying balance sheets as at 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the state of affairs of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
  - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and

Member of  
**Deloitte Touche Tohmatsu**

## 11. ACCOUNTANTS' REPORT

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Company No. 620782 - P

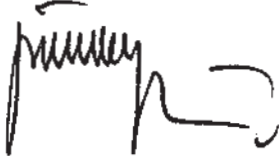
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and the subsidiary companies have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for these purposes.

Our auditors' reports on the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Companies Act, 1965.



**DELOITTE & TOUCHE**  
AF 0834  
Chartered Accountants



**LAI CAN YIEW**  
2179/09/07 (J)  
Partner

22 March 2006



## 11. ACCOUNTANTS' REPORT

Company No. 620782 - P

# Deloitte.

**Deloitte & Touche** (AF 0834)  
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### REPORT OF THE AUDITORS TO THE MEMBERS OF

#### MICROLINK SOLUTIONS BERHAD

(Formerly known as M-Cape Holdings Sdn. Bhd.)

(Incorporated in Malaysia)

We have audited the accompanying balance sheets as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the state of affairs of the Group and of the Company as of 31 December 2004 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
  - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and

(Forward)

Member of  
**Deloitte Touche Tohmatsu**

## 11. ACCOUNTANTS' REPORT

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Deloitte & Touche

Company No. 620782 - P

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and the subsidiary companies have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for these purposes.

Our auditors' reports on the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Companies Act, 1965.



**DELOITTE & TOUCHE**  
AF 0834  
Chartered Accountants



**LAI CAN YIEW**  
2179/09/05 (J)  
Partner

25 March 2005

## 11. ACCOUNTANTS' REPORT

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**MSB GROUP  
CONSOLIDATED INCOME STATEMENTS  
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005**

	Note(s)	2004 RM	2005 RM
Revenue	3 & 4	15,755,319	19,820,456
Cost of sales		<u>(9,140,855)</u>	<u>(10,396,654)</u>
Gross profit		6,614,464	9,423,802
Distribution costs		(135,145)	(559,546)
Administrative expenses		(1,800,499)	(2,680,091)
Other operating expenses		(1,030,681)	(841,499)
Other operating income		<u>39,576</u>	<u>100,280</u>
Profit from operations	5	3,687,715	5,442,946
Finance costs	6	<u>(6,353)</u>	<u>-</u>
Profit before tax		3,681,362	5,442,946
Income tax expense	7	<u>(396,315)</u>	<u>(430,912)</u>
Net profit for the year		<u>3,285,047</u>	<u>5,012,034</u>

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### MSB GROUP CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004 AND 2005

	Note	2004 RM	2005 RM
<b>Property, plant and equipment</b>	8	509,760	688,992
<b>Software development expenditure</b>	9	2,185,294	3,334,080
<b>Goodwill on consolidation</b>	10	2,972,255	2,817,852
<b>Current Assets</b>			
Trade receivables	11	5,451,646	3,603,040
Other receivables and prepaid expenses	11	885,206	1,053,739
Amount due from contract customers	12	923,638	1,541,116
Cash and bank balances	13	4,609,305	7,521,149
		<u>11,869,795</u>	<u>13,719,044</u>
<b>Current Liabilities</b>			
Trade payables	14	2,498,991	477,958
Other payables and accrued expenses	14	990,640	615,036
Deferred maintenance income		1,244,751	1,658,443
Tax liabilities		7,000	775
		<u>4,741,382</u>	<u>2,752,212</u>
<b>Net Current Assets</b>		7,128,413	10,966,832
<b>Deferred Liability</b>			
Deferred tax liabilities	15	<u>(519,000)</u>	<u>(519,000)</u>
<b>Net Assets</b>		<u>12,276,722</u>	<u>17,288,756</u>
<b>Represented by:</b>			
Issued capital	16	1,100,000	1,100,000
Reserves	17	<u>11,176,722</u>	<u>16,188,756</u>
<b>Shareholders' Equity</b>		<u>12,276,722</u>	<u>17,288,756</u>

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### MSB GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

	Issued capital Ordinary shares RM	Redeemable convertible preference shares RM	Distributable reserve - Unappropriated profit/ (Accumulated loss) RM	Non- distributable reserve - Share premium RM	Total RM
<b>Balance as at 1 January 2004</b>	20,000	-	(8,325)	-	11,675
Issue of shares (Note 16)	640,000	440,000	-	7,900,000	8,980,000
Net profit for the year	-	-	3,285,047	-	3,285,047
<b>Balance as at 31 December 2004</b>	660,000	440,000	3,276,722	7,900,000	12,276,722
Net profit for the year	-	-	5,012,034	-	5,012,034
<b>Balance as at 31 December 2005</b>	660,000	440,000	8,288,756	7,900,000	17,288,756

## 11. ACCOUNTANTS' REPORT

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### MSB GROUP CONSOLIDATED CASH FLOWS STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

	Note	2004 RM	2005 RM
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>			
Receipts from customers		12,920,625	21,465,276
Payments to suppliers and employees		(10,061,782)	(16,280,049)
Payments of income tax expense		(436,911)	(352,761)
Net Cash From Operating Activities		<u>2,421,932</u>	<u>4,832,466</u>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(293,545)	(426,529)
Proceeds from disposal of property, plant and equipment		118,044	7,748
Software development expenditure incurred		(1,172,097)	(1,596,335)
Payments for acquisition of subsidiary companies, net of cash acquired*		(5,474,033)	-
Interest received		31,524	94,494
Net Cash Used In Investing Activities		<u>(6,790,107)</u>	<u>(1,920,622)</u>
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>			
Proceeds from issue of shares:			
Ordinary shares		3,700,000	-
Redeemable Convertible Preference Shares		5,280,000	-
Finance costs paid		(6,353)	-
Payments of hire-purchase payables		(16,167)	-
Net Cash From Financing Activities		<u>8,957,480</u>	<u>-</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>4,589,305</b>	<b>2,911,844</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>20,000</b>	<b>4,609,305</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	20	<b><u>4,609,305</u></b>	<b><u>7,521,149</u></b>

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- \* The fair values of the assets acquired and liabilities assumed relating to the subsidiary companies acquired as at date of acquisition are as follows:

	2004 RM	2005 RM
Property, plant and equipment	492,170	-
Software development expenditure	1,762,113	-
Trade receivables	2,324,052	-
Other receivables and prepaid expenses	962,278	-
Amount due from contract customers	1,684,113	-
Cash and bank balances	3,642,861	-
Trade payables	(2,049,689)	-
Other payables and accrued expenses	(492,972)	-
Hire-purchase payable	(16,167)	-
Deferred maintenance income	(1,713,326)	-
Tax liabilities	(17,296)	-
Deferred tax liabilities	(549,300)	-
	6,028,837	-
Goodwill on consolidation	3,088,057	-
	9,116,894	-
Total purchase consideration	9,116,894	-
Less: Cash and bank balances	(3,642,861)	-
	5,474,033	-
Cash flow on acquisition, net of cash and cash equivalents acquired	5,474,033	-

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### **MSB GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005**

#### **1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the MSB Group are based on the audited consolidated statutory financial statements for the two financial years ended 31 December 2004 and 2005 prepared for statutory purposes. The audited consolidated statutory financial statements have been prepared under the historical cost convention.

The consolidated statutory financial statements of the MSB Group have been prepared in accordance with the applicable MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Consolidation**

The consolidated financial statements include the audited financial statements of MSB and of its subsidiary companies made up to the end of the financial year.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition.

The results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal, as applicable.

All intercompany transactions and balances are eliminated on consolidation.

Goodwill on consolidation represents the excess of MSB's cost of investment over the fair values of the identifiable net assets of the subsidiary companies at the effective date of acquisition and is amortised on a straight-line basis over a period of 20 years unless an impairment has occurred.

##### **Revenue**

Revenue in respect of software licensing fee is recognised based on a fixed percentage of the revenue generated by the licensee of the licensed software in accordance with the licensing agreement entered into.

Revenue in respect of sales of goods is recognised upon delivery of products and when the risks and rewards of ownership have passed.

Revenue from provision of information technology solutions that are of short duration is recognised when the services are rendered. Regular maintenance revenue is recognised evenly over the period in which the maintenance works are carried out and revenue in respect of subsequent period is deferred until it is earned.



## 11. ACCOUNTANTS' REPORT

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### **Contracts**

Revenue from and expenses of contracts that are of longer duration are recognised by reference to the stage of completion of the contract activity. Contract costs consist of costs that relate directly to the specific project, costs that are attributable to contract activity in general and can be allocated to the project and such other costs as are specifically chargeable to the customer under terms of the contract. Allowances for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

### **Employee Benefits**

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the MSB Group. Sick leaves are recognised when the absences occur.

The MSB Group makes statutory contributions to an approved provident fund and contributions are charged to the income statements. Once the contributions have been paid, the MSB Group has no further payment obligations.

### **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 between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statements, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### Foreign Currency Conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates or, where settlement has not yet been made at the end of the financial year, at approximate exchange rates prevailing at that date. All foreign exchange gains or losses are taken up in the income statements.

The principal closing rate used in translation of foreign currency amounts is as follows:

<u>Foreign Currency</u>	<u>2004</u>	<u>2005</u>
	RM	RM
1 US Dollar	3.800	3.780

### Impairment of Assets

The carrying amounts of property, plant and equipment, software development expenditure and goodwill on consolidation are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss in respect of goodwill is not reversed unless the loss is caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals are recognised in the income statements.

### Property, Plant and Equipment and Depreciation

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

Gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

Depreciation of property, plant and equipment is computed on the straight-line method based on the estimated useful lives of the various assets. The annual rates of depreciation based on the estimated useful lives of the various classes of depreciable assets are as follows:

Furniture and fittings	20%
Office equipment	20%
Computer software and hardware	20% - 25%
Motor vehicles	20%
Renovations	10%

### Software Development Expenditure

Software development expenditure is charged to the income statements in the year in which it is incurred except that development expenditure relating to specific projects with commercial viability and for which there is a clear indication of the marketability of the software being developed, is carried forward. Such development expenditure is amortised on a straight-line method over five years in which benefits are expected to be derived commencing from the period in which the software is available for sale or use.

### Receivables

Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivable accounts.

### Deferred Maintenance Income

Deferred maintenance income represents income received in advance for maintenance work and is recognised in the income statements evenly over the period in which the maintenance works are carried out.

### Provisions

Provisions are made when the MSB Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

### Cash Flow Statements

The MSB Group adopts the direct method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### 3. REVENUE

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Projects	12,380,251	14,368,085
Maintenance income	2,664,474	3,844,309
Small scale projects and integration charges	710,594	1,608,062
	<u>15,755,319</u>	<u>19,820,456</u>

### 4. OPERATING COSTS APPLICABLE TO REVENUE

The operating costs classified by nature, applicable to revenue, are as follows:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Cost of software and hardware	5,812,814	5,805,949
Contract costs recognised	2,313,900	2,524,499
Information technology solutions services received	-	1,217,622
Directors' remuneration:		
Emoluments	460,213	254,436
Staff costs	480,643	1,860,662
Depreciation of property, plant and equipment	165,963	237,260
Amortisation of:		
Software development expenditure	748,916	447,549
Goodwill on consolidation	115,802	154,403
Other operating expenses	2,008,929	1,975,410
	<u>12,107,180</u>	<u>14,477,790</u>

Staff costs include salaries, bonuses, contributions to Employees Provident Fund ("EPF") and all other staff related expenses. Contributions to EPF amounted to RM144,014 (RM122,500 in 2004).

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### 5. PROFIT FROM OPERATIONS

This is arrived at:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>After charging:</b>		
Auditors' remuneration:		
Current year	25,000	28,000
Underprovision in prior years	-	2,000
Rental of:		
Office	159,336	219,307
Motor vehicle	-	723
Realised loss on foreign Exchange	188	37,539
Loss on disposal of property, plant and equipment	-	2,289
<b>And crediting:</b>		
Interest income	31,524	94,494
Gain on disposal of property, plant and equipment	8,052	-
	<u>31,524</u>	<u>94,494</u>

### 6. FINANCE COSTS

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Interest expense on:		
Trust receipts	1,770	-
Hire-purchase	4,583	-
	<u>6,353</u>	<u>-</u>

### 7. INCOME TAX EXPENSE

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Estimated tax payable:		
Current year	491,000	351,800
Under/(Over)provision in prior years	(64,385)	79,112
	426,615	430,912
Deferred tax (Note 15):		
Current year	(43,400)	-
Underprovision in prior years	13,100	-
	<u>(30,300)</u>	<u>-</u>
	<u>396,315</u>	<u>430,912</u>

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

MSB was granted pioneer status under the Promotion of Investments Act, 1986 (Amendments) ("the said Act") pursuant to MSB's MSC status entitlement under the MSC Bill of Guarantee whereby the profits earned from the development of Islamic financial software applications are exempted from Malaysian income tax for the period 1 September 2004 to 31 August 2009. By virtue of the said pioneer status, provision for estimated current tax payable has been made for non-tax exempt income only. Based on existing tax laws, any dividends distributed out of tax-exempt profits will be tax-exempted in the hands of shareholder. As at 31 December 2005, MSB has tax-exempt income of RM6,758,000 (RM2,132,000 in 2004) which is subject to agreement with the tax authorities.

The tax effects of temporary differences of MSB which would give rise to deferred tax assets and liabilities are not recognised as the recovery and settlement of the assets and liabilities are estimated to be within the pioneer period.

A reconciliation of income tax expense applicable to profit before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Profit before tax	<u>3,681,362</u>	<u>5,442,946</u>
Tax at applicable tax rates of:		
20% on first RM500,000 of profit	100,000	100,000
28% thereafter	890,781	1,384,025
Tax effects of:		
Non-deductible expenses	102,738	296,055
Non-taxable income	(597,219)	(1,295,280)
Deferred tax liabilities not recognised	(48,000)	(133,000)
Realisation of deferred tax asset previously not recognised	(700)	-
Under/(Over)provision in prior years:		
Estimated tax payable	(64,385)	79,112
Deferred tax	<u>13,100</u>	<u>-</u>
	<u>396,315</u>	<u>430,912</u>

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

## 8. PROPERTY, PLANT AND EQUIPMENT

	COST					NET BOOK VALUE		
	At beginning of year RM	Additions RM	Arising from acquisition of subsidiary companies RM	Disposals RM	At end of year RM	At beginning of year RM	At end of year RM	At beginning of year RM
<b>2004 MSB Group</b>								
Furniture and fittings	-	84,304	124,037	-	208,341	-	-	-
Office equipment	-	9,250	255,600	-	264,850	-	-	-
Computer software and hardware	-	127,603	2,073,699	(20,352)	2,180,950	-	-	-
Motor vehicles	-	-	354,994	(229,975)	125,019	-	-	-
Renovations	-	72,388	279,615	(279,615)	72,388	-	-	-
<b>Total</b>	-	<b>293,545</b>	<b>3,087,945</b>	<b>(529,942)</b>	<b>2,851,548</b>	-	-	-
	ACCUMULATED DEPRECIATION					NET BOOK VALUE		
	At beginning of year RM	Charge for the year RM	Disposals RM	Arising from acquisition of subsidiary companies RM	At end of year RM	At end of year RM	At beginning of year RM	At beginning of year RM
Furniture and fittings	-	11,991	-	110,417	122,408	85,933	-	-
Office equipment	-	5,436	-	245,268	250,704	14,146	-	-
Computer software and hardware	-	126,153	(19,046)	1,736,290	1,843,397	337,553	-	-
Motor vehicles	-	16,790	(227,974)	332,240	121,056	3,963	-	-
Renovations	-	5,593	(172,930)	171,560	4,223	68,165	-	-
<b>Total</b>	-	<b>165,963</b>	<b>(419,950)</b>	<b>2,595,775</b>	<b>2,341,788</b>	<b>509,760</b>	-	-

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

2005 MSB Group	COST				NET BOOK VALUE		
	At beginning of year RM	Additions RM	Disposals RM	At end of year RM	At beginning of year RM	At end of year RM	At beginning of year RM
Furniture and fittings	208,341	17,958	-	226,299	81,883	85,933	85,933
Office equipment	264,850	20,884	-	285,734	25,460	14,146	14,146
Computer software and hardware	2,180,950	340,238	(14,365)	2,506,823	474,845	337,553	337,553
Motor vehicles	125,019	-	-	125,019	1,880	3,963	3,963
Renovations	72,388	47,449	-	119,837	104,924	68,165	68,165
Total	2,851,548	426,529	(14,365)	3,263,712	688,992	509,760	509,760
					ACCUMULATED DEPRECIATION		
	At beginning of year RM	Charge for the year RM	Disposals RM	At end of year RM	At end of year RM	At beginning of year RM	At beginning of year RM
Furniture and fittings	122,408	22,008	-	144,416	144,416	85,933	85,933
Office equipment	250,704	9,570	-	260,274	260,274	14,146	14,146
Computer software and hardware	1,843,397	192,909	(4,328)	2,031,978	474,845	337,553	337,553
Motor vehicles	121,056	2,083	-	123,139	1,880	3,963	3,963
Renovations	4,223	10,690	-	14,913	104,924	68,165	68,165
Total	2,341,788	237,260	(4,328)	2,574,720	688,992	509,760	509,760



## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

Included in the cost of property, plant and equipment of the MSB Group is an amount of approximately RM2,084,000 (RM884,000 in 2004), representing fully depreciated property, plant and equipment which are still in use by the MSB Group.

### 9. SOFTWARE DEVELOPMENT EXPENDITURE

	MSB Group	
	2004 RM	2005 RM
<b>At cost:</b>		
At beginning of year	-	6,271,664
Incurred during the year	1,172,097	1,596,335
Arising from acquisition of subsidiary companies	5,099,567	-
At end of year	6,271,664	7,867,999
<b>Cumulative amortisation:</b>		
At beginning of year	-	(4,086,370)
Current year amortisation	(748,916)	(447,549)
Arising from acquisition of subsidiary companies	(3,337,454)	-
At end of year	(4,086,370)	(4,533,919)
Net book value	2,185,294	3,334,080

Current charges to software development expenditure include the following:

	MSB Group	
	2004 RM	2005 RM
<b>Staff costs:</b>		
Others	1,144,754	1,075,287
Contributions to EPF	27,243	118,399
<b>Directors' remuneration:</b>		
Emoluments	-	358,533
Rental of office	-	23,247

### 10. GOODWILL ON CONSOLIDATION

	MSB Group	
	2004 RM	2005 RM
At beginning of year	-	2,972,255
Arising from acquisition of subsidiary companies	3,088,057	-
Amortisation for the year	(115,802)	(154,403)
At end of year	2,972,255	2,817,852

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### 11. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables of the MSB Group represent amounts receivable for the provision of information technology solutions and dealing in related products. The credit period granted to trade receivables is 30 days (30 days in 2004).

Other receivables and prepaid expenses consist of:

	MSB Group	
	2004 RM	2005 RM
Other receivables	74,812	429,646
Refundable deposits	88,132	89,490
Prepaid expenses	539,598	436,315
Tax recoverable	182,664	98,288
	<u>885,206</u>	<u>1,053,739</u>

### 12. AMOUNT DUE FROM CONTRACT CUSTOMERS

	MSB Group	
	2004 RM	2005 RM
Contract costs incurred plus recognised profits	6,433,019	3,095,145
Progress billings received and receivable	<u>(5,509,381)</u>	<u>(1,554,029)</u>
Due from contract customers	<u>923,638</u>	<u>1,541,116</u>
Retention sum held by contract customers (included under trade receivables)	<u>38,500</u>	<u>168,755</u>

### 13. CASH AND BANK BALANCES

	MSB Group	
	2004 RM	2005 RM
Fixed deposits with licensed financial institutions	2,553,764	4,534,394
Cash on hand and at banks	<u>2,055,541</u>	<u>2,986,755</u>
	<u>4,609,305</u>	<u>7,521,149</u>

Fixed deposits of the MSB Group earn interest at 3.00% (ranging from 2.65% to 3.00% in 2004) per annum.

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

Included in fixed deposits of the MSB Group is an amount of RM2,507,886 (RM992,943 in 2004) pledged to a licensed bank as security for banking facilities granted.

As at 31 December 2005, the MSB Group has unutilised credit facilities totalling RM2,500,000 (RM950,000 in 2004) obtained from a licensed bank. These facilities are secured by way of lien over fixed deposits of a subsidiary company supported by letter of set-off. In 2004, the credit facilities bore interest at rates ranging from 2.5% to 8.5% per annum.

## 14. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables comprise amounts outstanding for trade purchases. The credit period granted to the MSB Group for trade purchases is 30 days (30 days in 2004).

Other payables and accrued expenses consist of:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Other payables	209,741	54,549
Accrued expenses	780,899	560,487
	<u>990,640</u>	<u>615,036</u>

## 15. DEFERRED TAX LIABILITIES

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
At beginning of year	-	519,000
Arising from acquisition of subsidiary companies	549,300	-
Transfer to income statements (Note 7)	(30,300)	-
	<u>519,000</u>	<u>519,000</u>

The deferred tax liabilities represent the tax effects of temporary differences arising from:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Software development expenditure	458,000	380,000
Property, plant and equipment	61,000	139,000
	<u>519,000</u>	<u>519,000</u>

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### 16. SHARE CAPITAL

	MSB Group	
	2004 RM	2005 RM
<b>Authorised:</b>		
Ordinary shares of RM1 each		
At beginning of year	100,000	4,000,000
Created during the year	3,900,000	-
At end of year	<u>4,000,000</u>	<u>4,000,000</u>
Redeemable convertible preference shares of RM1 each ("RCPS")		
At beginning of year	-	1,000,000
Created during the year	1,000,000	-
At end of year	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>5,000,000</u>	<u>5,000,000</u>
<b>Issued and fully paid:</b>		
Ordinary shares of RM1 each		
At beginning of year	20,000	660,000
Issued during the year	640,000	-
At end of year	<u>660,000</u>	<u>660,000</u>
Redeemable convertible preference shares of RM1 each		
At beginning of year	-	440,000
Issued during the year	440,000	-
At end of year	<u>440,000</u>	<u>440,000</u>
Total	<u>1,100,000</u>	<u>1,100,000</u>

#### 2004

Pursuant to Members' Circular Resolutions dated 26 April 2004 and 27 August 2004, MSB increased its authorised share capital from RM100,000 to RM5,000,000 by way of creation of 3,900,000 ordinary shares of RM1 each and 1,000,000 RCPS.

Also, pursuant to Members' Circular Resolutions dated 26 April 2004, 10 August 2004 and 27 August 2004, the issued and paid-up share capital of MSB was increased from RM20,000 to RM1,100,000 by way of the issue of 640,000 new ordinary shares of RM1 each at an average issue price of RM5.78 per share and 440,000 RCPS at an issue price of RM12 per RCPS for cash for the purpose of the acquisition of MSSB and MWSB and increasing the working capital of MSB.

## 11. ACCOUNTANTS' REPORT

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**Deloitte & Touche**

The share premium arising from the issue of ordinary shares and RCPS amounted to RM7,900,000 has been credited to the share premium account.

The new ordinary shares issued rank pari passu in all respects with the then existing ordinary shares of MSB.

The main characteristics of the RCPS are as follows:

- (i) The holders of the RCPS shall be entitled at any time and from time to time prior to redemption or immediately prior to the listing of MSB on a recognised stock exchange (in which event the rights of conversion shall be deemed to be exercised) (whichever is earlier) to convert each RCPS held by the holders ('Conversion Rights') into one ordinary share of RM1 each in MSB as adjusted from time to time in accordance with the conversion ratio.
- (ii) The new ordinary shares resulting from the exercise of the Conversion Rights shall from the date of conversion rank pari passu in all respects with the existing ordinary shares of MSB and shall cease to have any preference or priority or to be called RCPS.
- (iii) The new ordinary shares shall not be entitled to any dividends, rights, allotments and/or other distribution the entitlement date of which precedes the allotment date of the new ordinary shares.
- (iv) The holder of the RCPS shall be entitled to redeem all (but not part only) of the RCPS held by such holder at any time or after the occurrence of any of the following events at the respective conversion ratios as stipulated in Article 5A.5.5 of MSB's Articles of Association:
  - (a) a material breach by MSB and/or all or certain shareholders of any of the representations, warranties and undertakings in the Subscription Agreement and/or the Shareholders Agreement entered into between MSB, its shareholders and the holders of the RCPS of MSB; or
  - (b) MSB does not secure listing by 31 December 2005; or
  - (c) MSB can achieve listing by or after 31 December 2005 but all shareholders other than the said holders of the RCPS elect against such listing;

by giving MSB no less than seven days notice in writing of its intention.

On 16 November 2005, MSB and the holders of the RCPS mutually agreed to extend condition (iv) (b) above from 31 December 2005 to 30 September 2006.

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### 17. RESERVES

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>Distributable:</b>		
Unappropriated profit	3,276,722	8,288,756
<b>Non-distributable:</b>		
Share premium	7,900,000	7,900,000
	<u>11,176,722</u>	<u>16,188,756</u>

### 18. FINANCIAL INSTRUMENTS

#### Financial Risk Management Objectives And Policies

The operations of the MSB Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The MSB Group has taken measures to minimise its exposure to risks and/or costs associated with the financing, investing and operating activities.

#### (i) Foreign currency risk

The MSB Group undertakes certain trade transactions in foreign currencies where the amounts outstanding are exposed to foreign currency risk. The currency giving rise to this risk is primarily United States Dollar. Foreign exchange exposure is kept to an acceptable level.

Analysis of financial assets and liabilities of the MSB Group by foreign currency is as follows:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>Cash and bank balances</b>		
United States Dollar	153,202	33,095
Ringgit Malaysia	4,456,103	7,488,054
	<u>4,609,305</u>	<u>7,521,149</u>
<b>Trade payables</b>		
United States Dollar	49,714	-
Ringgit Malaysia	2,449,277	477,958
	<u>2,498,991</u>	<u>477,958</u>

## 11. ACCOUNTANTS' REPORT

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Deloitte & Touche

(ii) **Interest rate risk**

The MSB Group is exposed to interest rate risk through the impact of rate changes on fixed deposits. The interest rates of the MSB Group's fixed deposits are disclosed in Note 13.

(iii) **Credit risk**

Concentration of credit risk exists when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the MSB Group's total credit exposure.

The MSB Group is dependent on a few key customers, which are regulated and governed by Bank Negara Malaysia, the composition of which may vary from year to year. In line with MSB Group's efforts to enter into transactions with a diversity of credit-worthy parties, the MSB Group continues to diversify its customer base to mitigate the significant concentration of credit risk.

(iv) **Liquidity risk**

The MSB Group has sufficient funds to finance its ongoing working capital requirements.

(v) **Cash flow risk**

The MSB Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

### **Financial Assets**

The principal financial assets of the MSB Group are cash and bank balances and trade and other receivables.

The accounting policies applicable to the major financial assets are as disclosed in Note 2.

### **Financial Liabilities And Equity Instruments**

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Significant financial liabilities include trade and other payables, which are stated at their nominal values.

Equity instruments are recorded at the proceeds received net of direct issue costs.

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### Fair Values

#### *Cash and cash equivalents, trade and other receivables and trade and other payables*

The carrying amounts approximate fair values because of the short maturity period for these instruments.

## 19. RELATED PARTY BALANCE

Significant related party balance as at the end of the financial year is as follows:

	MSB Group	
	2004 RM	2005 RM
<b>Related party</b>		
Purchase of computer hardware and software from a company in which a Director of MSB is also a director and has substantial financial interests	3,160,248	1,413,267
Recruitment advertisement charges payable to a company in which a Director of MSB is also a director	-	2,100
	-	2,100

Significant related party balances as at the end of the financial year are as follows:

	MSB Group	
	2004 RM	2005 RM
<b>Included in bank balances</b>		
Arose from maintaining of bank accounts with a financial institution in which a Director of MSB is also a director	511,656	1,977,713
<b>Included in trade payables</b>		
Arose from purchase of computer hardware and software from a company in which a director of MSB is also a director and has substantial financial interest	-	2,111,085
	-	2,111,085

The Directors of MSB are of the opinion that the above transactions have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.



## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

The options over ordinary shares of MSB granted to the Directors of MSB are as follows:

	<b>Unexercised options</b>	
	<b>2004</b>	<b>2005</b>
<b>Direct interest</b>		
Phong Hon Voon	-	15,047
Wong Kim Ming	-	13,932
David Hii Chin Yun	-	12,817
<b>Indirect interest</b>		
Datuk Ali Bin Abdul Kadir	-	50,000
Phong Hon Voon	-	5,003
Wong Kim Ming	-	5,003
David Hii Chin Yun	-	5,003

All share options granted are exercisable prior to the issuance of the prospectus in respect of MSB's listing exercise. Any share options unexercised thereafter will lapse.

## 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	<b>MSB Group</b>	
	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Cash on hand and at banks	2,055,541	2,986,755
Fixed deposits with licensed financial institutions	2,553,764	4,534,394
	<u>4,609,305</u>	<u>7,521,149</u>

## 21. SIGNIFICANT EVENTS

- (a) On 30 January 2004, MSB was awarded Multimedia Super Corridor status by the Government of Malaysia.
- (b) On 23 April 2004, MSB acquired the 100% equity interest in MSSB for a purchase consideration of RM9,116,892. Accordingly, MSSB's wholly-owned subsidiary company, MWSB, became an indirect subsidiary company of MSB.
- (c) On 22 September 2004, MSB changed its name from M-Cape Holdings Sdn Bhd to Microlink Solutions Sdn Bhd.

## 11. ACCOUNTANTS' REPORT

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Deloitte & Touche

- (d) On 11 October 2004, MSB acquired the 100% equity interest in MWSB from MSSB for a purchase consideration of RM2.
- (e) Pursuant to an agreement dated 17 February 2005, certain key employees and founders of MSB were granted an aggregate of 64,800 options in MSB on terms and subject to the conditions to be determined by the Board of Directors of MSB.
- (f) On 4 March 2005, MSB was converted to a public limited company and accordingly, changed its name from Microlink Solutions Sdn. Bhd. to Microlink Solutions Berhad.
- (g) On 8 April 2005, an investor has accepted MSB's offer of a total of 50,000 options in MSB on terms and subject to the conditions to be determined by the Board of Directors of MSB.
- (h) On 12 April 2005, MSB submitted its application to the SC in connection with the proposed listing of and quotation for the entire issued and paid-up share capital of MSB on the MESDAQ Market of Bursa Securities.
- (i) On 25 May 2005, Bursa Securities granted its approval-in-principle for the admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up capital of the Company on the MESDAQ Market, subject to the SC's approval for the listing application.

## 22. SUBSEQUENT EVENT

On 27 February 2006, the SC approved the abovementioned listing application, subject to MSB fulfilling certain requirements outlined by the SC.

## 23. SEGMENTAL REPORTING

No segmental information is presented as the MSB Group is principally engaged in the provision of information technology solutions to the financial services industry and operates principally in Malaysia.

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### F.1 FINANCIAL RATIOS OF THE MSB GROUP

The following financial ratios of the MSB Group are computed based on the audited financial statements of the MSB Group for the two financial years ended 31 December 2004 and 2005:

	2004 RM	2005 RM
Weighted average number of ordinary shares of RM1.00 each	308,988	660,000
Pre-tax earnings per ordinary share of RM1.00 each	11.91	8.25
Net earnings per ordinary share of RM1.00 each	10.63	7.59
Gross profit margin (%)	41.98	47.55
Net profit margin (%)	20.85	25.29
Net tangible assets per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date	10.79	16.87
After-tax return on shareholders' funds (%)	26.76	28.99

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### G. MSB

The income statements, balance sheets, statements of changes in equity and cash flow statements of MSB based on the audited financial statements for the three financial period/years ended 31 December 2005 are as follows:

#### INCOME STATEMENTS FOR THE FINANCIAL PERIOD/YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	Period from 7 July 2003 to 31 December 2003 RM	Year ended 2004 RM	Year ended 2005 RM
Revenue	-	3,011,772	6,061,058
Cost of sales	-	(134,727)	(427,740)
Gross profit	-	2,877,045	5,633,318
Administrative expenses	-	(363,542)	(813,641)
Other operating expenses	(8,325)	(214,843)	(92,266)
Other operating income	-	-	9,596
Profit/(Loss) before tax	(8,325)	2,298,660	4,737,007
Income tax expense	-	-	(2,000)
Net profit/(loss) for the period/year	(8,325)	2,298,660	4,735,007
Weighted average number of ordinary shares of RM1.00 each	7,305	308,988	660,000
Pre-tax earnings/(loss) per ordinary share of RM1.00 each	(1.14)	7.43	7.18
Net earnings/(loss) per ordinary share of RM1.00 each	(1.14)	7.43	7.17
Gross profit margin (%)	-	95.53	92.94
Net profit margin (%)	-	76.32	78.12

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### BALANCE SHEETS AS AT 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
<b>Property, plant and equipment</b>	-	180,195	272,157
<b>Software development expenditure</b>	-	428,780	1,979,441
<b>Investment in subsidiary companies</b>	-	9,116,894	9,116,894
<b>Current Assets</b>			
Other receivables and prepaid expenses	-	112,161	456,829
Amount owing by subsidiary companies	-	1,651,193	4,400,939
Cash and bank balances	20,000	297,894	604,983
	<u>20,000</u>	<u>2,061,248</u>	<u>5,462,751</u>
<b>Current Liabilities</b>			
Other payables and accrued expenses	8,325	189,637	174,782
Deferred maintenance income	-	307,145	630,844
Tax liabilities	-	-	275
	<u>8,325</u>	<u>496,782</u>	<u>805,901</u>
<b>Net Current Assets</b>	<u>11,675</u>	<u>1,564,466</u>	<u>4,656,850</u>
<b>Net Assets</b>	<u>11,675</u>	<u>11,290,335</u>	<u>16,025,342</u>
<b>Represented by:</b>			
Issued capital	20,000	1,100,000	1,100,000
Reserves	(8,325)	10,190,335	14,925,342
<b>Shareholders' Equity</b>	<u>11,675</u>	<u>11,290,335</u>	<u>16,025,342</u>
Net tangible assets per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date	<u>0.58</u>	<u>16.46</u>	<u>21.28</u>
After-tax return on shareholders' funds (%)	<u>-</u>	<u>20.36</u>	<u>29.55</u>

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD/YEARS ENDED 31 DECEMBER 2003, 2004 AND  
2005**

	Issued capital		Distributable reserve -	Non-	
	Ordinary shares	Redeemable convertible preference shares	Unappropriated profit/ (Accumulated loss)	distributable reserve -	Total
	RM	RM	(RM)	Share premium RM	RM
<b>Balance as at 7 July 2003 (date of incorporation)</b>	2	-	-	-	2
Issue of shares	19,998	-	-	-	19,998
Net loss for the period	-	-	(8,325)	-	(8,325)
<b>Balance as at 31 December 2003</b>	20,000	-	(8,325)	-	11,675
Issue of shares	640,000	440,000	-	7,900,000	8,980,000
Net profit for the year	-	-	2,298,660	-	2,298,660
<b>Balance as at 31 December 2004</b>	660,000	440,000	2,290,335	7,900,000	11,290,335
Net profit for the year	-	-	4,735,007	-	4,735,007
<b>Balance as at 31 December 2005</b>	660,000	440,000	7,025,342	7,900,000	16,025,342

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### CASH FLOW STATEMENTS FOR THE FINANCIAL PERIOD/YERS ENDED 31 DECEMBER 2003, 2004 AND 2005

	Period from 7 July 2003 to 31 December 2003 RM	Year ended 2004 RM	Year ended 2005 RM
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>			
Receipts from customers	-	1,667,724	3,635,011
Payments to suppliers and employees	-	(429,119)	(1,600,902)
Payments of income tax expense	-	-	(1,725)
Net Cash From Operating Activities	-	1,238,605	2,032,384
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	-	(196,353)	(142,420)
Proceeds from disposal of property, plant and equipment	-	-	3,864
Software development expenditure incurred	-	(627,464)	(1,596,335)
Payments for acquisition of subsidiary companies, net of cash acquired	-	(9,116,894)	-
Interest received	-	-	9,596
Net Cash Used In Investing Activities	-	(9,940,711)	(1,725,295)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares:			
Ordinary shares	20,000	3,700,000	-
Redeemable Convertible Preference Shares	-	5,280,000	-
Net Cash From Financing Activities	20,000	8,980,000	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	20,000	277,894	307,089
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR</b>	-	20,000	297,894
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR</b>	20,000	297,894	604,983

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### H. MSSB

The income statements, balance sheets, statements of changes in equity and cash flow statements of MSSB based on the audited financial statements for the three financial period/years ended 31 December 2005 are as follows:

#### INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
Revenue	8,917,781	18,204,368	18,039,459
Cost of sales	<u>(3,792,417)</u>	<u>(13,318,095)</u>	<u>(14,295,086)</u>
Gross profit	5,125,364	4,886,273	3,744,373
Distribution costs	(578,831)	(303,672)	(557,871)
Administrative expenses	(1,675,596)	(2,381,882)	(1,785,320)
Other operating expenses	(1,098,023)	(1,041,917)	(594,830)
Other operating income	<u>114,023</u>	<u>50,756</u>	<u>87,439</u>
Profit from operations	1,886,937	1,209,558	893,791
Finance costs	<u>(5,584)</u>	<u>(8,214)</u>	<u>-</u>
Profit before tax	1,881,353	1,201,344	893,791
Income tax expense	<u>(552,037)</u>	<u>(389,315)</u>	<u>(426,951)</u>
Net profit for the year	<u>1,329,316</u>	<u>812,029</u>	<u>466,840</u>
Number of ordinary shares of RM1.00 each	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Pre-tax earnings per ordinary shares of RM1.00 each	<u>0.94</u>	<u>0.60</u>	<u>0.45</u>
Net earnings per ordinary share of RM1.00 each	<u>0.66</u>	<u>0.41</u>	<u>0.23</u>
Gross profit margin (%)	<u>57.47</u>	<u>26.84</u>	<u>20.76</u>
Net profit margin (%)	<u>14.91</u>	<u>4.46</u>	<u>2.59</u>



## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### BALANCE SHEETS AS AT 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
<b>Property, plant and equipment</b>	5,208,850	329,565	416,835
<b>Software development expenditure</b>	1,999,632	1,756,514	1,354,639
<b>Investment in subsidiary companies</b>	4	-	-
<b>Current Assets</b>			
Trade receivables	1,785,158	5,296,553	3,603,040
Other receivables and prepaid expenses	7,379,904	1,067,264	1,223,715
Amount owing by a related company	162,496	279,254	273,013
Amount due from contract customers	351,062	923,638	1,352,601
Cash and bank balances	1,837,832	4,146,445	6,437,444
	<u>11,516,452</u>	<u>11,713,154</u>	<u>12,889,813</u>
<b>Current Liabilities</b>			
Trade payables	566,903	2,498,991	407,958
Other payables and accrued expenses	319,257	765,430	426,088
Amount owing to holding company	-	1,643,991	4,055,888
Deferred maintenance income	1,075,462	1,244,751	1,658,443
Hire-purchase payables - current portion	19,400	-	-
Tax liabilities	229,739	-	-
	<u>2,210,761</u>	<u>6,153,163</u>	<u>6,548,377</u>
<b>Net Current Assets</b>	9,305,691	5,559,991	6,341,436
<b>Long-Term and Deferred Liabilities</b>			
Hire-purchase payables - non-current portion	(3,233)	-	-
Deferred tax liabilities	(549,300)	(519,000)	(519,000)
	<u>(552,533)</u>	<u>(519,000)</u>	<u>(519,000)</u>
<b>Net Assets</b>	<u>15,961,644</u>	<u>7,127,070</u>	<u>7,593,910</u>
<b>Represented by:</b>			
Issued capital	2,000,000	2,000,000	2,000,000
Unappropriated profit	<u>13,961,644</u>	<u>5,127,070</u>	<u>5,593,910</u>
<b>Shareholder's Equity</b>	<u>15,961,644</u>	<u>7,127,070</u>	<u>7,593,910</u>
Net tangible assets per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date	<u>6.98</u>	<u>2.69</u>	<u>3.12</u>
After-tax return on shareholder's funds (%)	<u>8.33</u>	<u>11.39</u>	<u>6.15</u>

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**11. ACCOUNTANTS' REPORT**


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Deloitte &amp; Touche

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005**


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	<b>Issued capital RM</b>	<b>Distributable reserve - Unappropriated profit RM</b>	<b>Total RM</b>
<b>Balance as at 1 January 2003</b>	2,000,000	21,132,328	23,132,328
Net profit for the year	-	1,329,316	1,329,316
Dividends	-	(8,500,000)	(8,500,000)
<b>Balance as at 31 December 2003</b>	2,000,000	13,961,644	15,961,644
Net profit for the year	-	812,029	812,029
Dividends	-	(9,646,603)	(9,646,603)
<b>Balance as at 31 December 2004</b>	2,000,000	5,127,070	7,127,070
Net profit for the year	-	466,840	466,840
<b>Balance as at 31 December 2005</b>	2,000,000	5,593,910	7,593,910

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## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### CASH FLOW STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>			
Receipts from customers	9,336,703	14,289,686	19,717,701
Payments to suppliers and employees	(5,658,161)	(5,309,297)	(16,885,556)
Payments of income tax expense	(3,007,857)	(846,244)	(342,575)
Net Cash From Operating Activities	<u>670,685</u>	<u>8,134,145</u>	<u>2,489,570</u>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(77,760)	(107,897)	(284,109)
Proceeds from disposal of property, plant and equipment	-	4,764,646	3,884
Proceeds from disposal of subsidiary companies	-	4	-
Software development expenditure incurred	(886,853)	(846,118)	-
Interest received	113,137	41,283	81,654
Net Cash From/(Used In) Investing Activities	<u>(851,476)</u>	<u>3,851,918</u>	<u>(198,571)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Payment of dividends	(8,500,000)	(9,646,603)	-
Payment of hire-purchase payables	(19,400)	(22,633)	-
Finance costs paid	(5,584)	(8,214)	-
Net Cash Used In Financing Activities	<u>(8,524,984)</u>	<u>(9,677,450)</u>	<u>-</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(8,705,775)</b>	<b>2,308,613</b>	<b>2,290,999</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>10,543,607</b>	<b>1,837,832</b>	<b>4,146,445</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>1,837,832</u></b>	<b><u>4,146,445</u></b>	<b><u>6,437,444</u></b>

## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### I. MWSB

The income statements, balance sheets, statements of changes in equity and cash flow statements of MWSB based on the audited financial statements for the three financial years ended 31 December 2005 are as follows:

#### INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
Revenue	145,385	199,372	1,780,997
Cost of sales	(130,846)	(149,530)	(1,734,885)
Gross profit	14,539	49,842	46,112
Distribution costs	-	-	(1,675)
Administrative expenses	(33,687)	(11,414)	(81,130)
Other operating income	-	-	3,244
Profit/(Loss) before tax	(19,148)	38,428	(33,449)
Income tax expense	-	(7,000)	(1,961)
Net profit/(loss) for the year	(19,148)	31,428	(35,410)
Number of ordinary shares of RM1.00 each	2	2	2
Pre-tax earnings/(loss) per ordinary share of RM1.00 each	(9,574)	19,214	(16,724)
Net earnings/(loss) per ordinary share of RM1.00 each	(9,574)	15,714	(17,705)
Gross profit margin (%)	10.00	25.00	2.60
Net profit/(loss) margin (%)	(13.17)	15.76	(2.00)

## 11. ACCOUNTANTS' REPORT

Deloitte &amp; Touche

### BALANCE SHEETS AS AT 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
<b>Current Assets</b>			
Trade receivables	41,883	155,093	-
Other receivables and prepaid expenses	-	12,925	4,039
Amount due from contract customer	-	-	188,515
Cash and bank balances	95,267	164,966	478,722
	<u>137,150</u>	<u>332,984</u>	<u>671,276</u>
<b>Current Liabilities</b>			
Trade payable	-	-	70,000
Other payables and accrued expenses	2,124	4,000	14,165
Amount owing to holding company	-	38,773	345,051
Amount owing to related company	162,497	279,254	273,013
Tax liabilities	-	7,000	500
	<u>164,621</u>	<u>329,027</u>	<u>702,729</u>
<b>Net Current Assets/(Liabilities)</b>	<u>(27,471)</u>	<u>3,957</u>	<u>(31,453)</u>
<b>Net Assets/(Liabilities)</b>	<u>(27,471)</u>	<u>3,957</u>	<u>(31,453)</u>
<b>Represented by:</b>			
Issued capital	2	2	2
Unappropriated profit/(Accumulated loss)	<u>(27,473)</u>	<u>3,955</u>	<u>(31,455)</u>
<b>Shareholder's Equity/(Capital Deficiency)</b>	<u>(27,471)</u>	<u>3,957</u>	<u>(31,453)</u>
Net tangible assets/(net liabilities) per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date	<u>(13,736)</u>	<u>1,979</u>	<u>(15,727)</u>
After-tax return on shareholder's funds (%)	<u>-</u>	<u>794.24</u>	<u>-</u>

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**11. ACCOUNTANTS' REPORT**


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Deloitte &amp; Touche

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005**


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	<b>Issued capital RM</b>	<b>Distributable reserve - Unappropriated profit/ (Accumulated loss) RM</b>	<b>Total RM</b>
<b>Balance as at 1 January 2003</b>	2	(8,325)	(8,323)
Net loss for the year	-	(19,148)	(19,148)
<b>Balance as at 31 December 2003</b>	2	(27,473)	(27,471)
Net profit for the year	-	31,428	31,428
<b>Balance as at 31 December 2004</b>	2	3,955	3,957
Net loss for the year	-	(35,410)	(35,410)
<b>Balance as at 31 December 2005</b>	2	(31,455)	(31,453)

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**11. ACCOUNTANTS' REPORT**


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Deloitte &amp; Touche

**CASH FLOW STATEMENTS  
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005**


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	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM/(USED IN)</b>			
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	103,502	73,237	1,747,575
Payments to suppliers and employees	(8,237)	(3,538)	(1,428,602)
Payments of income tax expense	-	-	(8,461)
	<hr/>	<hr/>	<hr/>
Net Cash From Operating Activities	95,265	69,699	310,512
<b>CASH FLOWS FROM</b>			
<b>INVESTING ACTIVITY</b>			
Interest received	-	-	3,244
	<hr/>	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	95,265	69,699	313,756
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<hr/>	<hr/>	<hr/>
	2	95,267	164,966
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<hr/>	<hr/>	<hr/>
	95,267	164,966	478,722

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## 11. ACCOUNTANTS' REPORT

Deloitte & Touche

### J. AUDITED FINANCIAL STATEMENTS

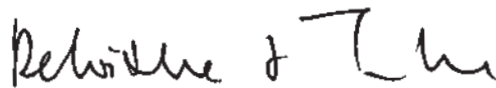
No audited financial statements of MSB and its subsidiary companies have been prepared in respect of any period subsequent to 31 December 2005.

### K. SUBSEQUENT EVENTS

There are no significant events that have occurred subsequent to 22 March 2006, being the date of the latest audited financial statements, until the date of this Report which will require adjustments to or disclosure in the financial statements other than as disclosed below:

- (a) On 13 April 2006, the 440,000 RCPS was converted to 440,000 ordinary shares of RM1.00 each.
- (b) On 27 April 2006, MSB completed a restricted issue of 114,800 ordinary shares of RM1.00 each for a total gross proceeds of RM1,360,160.
- (c) On 27 April 2006, the nominal value of each ordinary share of RM1.00 of MSB was split into ten MSB Shares.
- (d) On 27 April 2006, MSB completed a bonus issue of 103,258,000 MSB Shares on the basis of eight point five (8.5) new MSB Shares for every existing MSB Share held by way of capitalisation of share premium and unappropriated profit totalling RM10,325,800.
- (e) On 27 April 2006, MSB implemented the Employees' Share Option Scheme ("ESOS") for the eligible directors and employees of the MSB Group.

Yours very truly,



**DELOITTE & TOUCHE**  
AF 0834  
Chartered Accountants



**LAI CAN YIEW**  
2179/09/07 (J)  
Partner