

## 12. FINANCIAL INFORMATION

### 12.1 HISTORICAL FINANCIAL INFORMATION

The proforma consolidated income statements, proforma consolidated statement of assets and liabilities and proforma consolidated cashflow set out below are prepared on the assumption that our current Group structure has been in existence throughout the years under review and prepared based on a basis consistent with the accounting policies normally adopted by our Company and our subsidiary company, which are in accordance with applicable approved accounting standards in Malaysia issued or adopted by the Malaysian Accounting Standards Board. The proforma consolidated income statements, proforma consolidated statement of assets and liabilities and proforma consolidated cashflow should be read in conjunction with the accompanying notes and assumptions set out in Section 12.5 and Section 13 of this Prospectus.

#### 12.1.1 Proforma Consolidated Income Statements

The proforma consolidated income statements of our Group for the past 3 FYE ended 2003 to 2005 is as follows:-

	<b>FYE 2003</b>	<b>FYE 2004</b>	<b>FYE 2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	18,670	39,478	86,767
Gross profit	8,472	7,851	12,257
Gross profit margin (%)	45.4	19.9	14.1
Other operating income	327	71	889
Administrative and other operating expenses	(6,187)	(5,336)	(7,190)
EBITDA*	2,612	2,586	5,956
Depreciation	(336)	(378)	(430)
Amortisation of intangible assets	-	(300)	(293)
Finance costs	(64)	(136)	(138)
Profit from operations before exceptional items and minority interests	2,212	1,772	5,095
PBT	2,212	1,772	5,095
Taxation	(1,140)	(720)	(1,764)
PAT before minority interests	1,072	1,052	3,331
PAT margin (%)	5.8	2.7	3.8
Minority interests	-	-	-
PAT and minority interests	1,072	1,052	3,331
No. of ordinary shares assumed to be in issue ('000) <sup>1</sup>	73,424	73,424	73,424
Gross EPS <sup>2</sup> (RM)	0.03	0.02	0.07
Net EPS <sup>2</sup> (RM)	0.01	0.01	0.05

Notes:-

\* Earnings before interest, depreciation, taxation and amortisation.

<sup>1</sup> Based on number of shares assumed in issue after the Acquisition of SRSB but before the Public Issue.

<sup>2</sup> The gross EPS and net EPS are calculated based on proforma PBT and proforma PAT before minority interests respectively over the number of ordinary shares assumed to be issued pursuant to the Acquisition of SRSB but before the Public Issue.

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**12. FINANCIAL INFORMATION** (*cont'd*)

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**Financial Commentary****Review for the FYE 2003**

Revenue for the year increased marginally by 3%. However, revenue mix for the year shifted towards Next Generation Solutions (“NGS”) as the contribution from Telecommunication System Architecture Design and Solutions (“TSADS”) to the total revenue declined by 30%, while revenue contribution from NGS to the year’s total, increased from 12% to 40%. Both TSADS and NGS are part of the Telecommunication Carrier Division.

The increase in revenue from NGS is mainly attributable to the project for the design, supply, delivery, installation, testing and commissioning of the DSLAM for Telekom Malaysia amounting to approximately RM5.6 million. This technology enables Telekom Malaysia to provide ADSL, or “Streamyx”, and HDSL services to residential and business customers.

Revenue derived from TSADS projects includes consultation services for indoor antenna distribution of mobile coverage for TM Cellular, and on-going BSS and CDMA projects for Motorola and Telekom Malaysia, contributing approximately RM3.1 million, RM4.4 million and RM2.5 million respectively to the total revenue for TSADS during the year.

Gross profit reduced marginally by 2% as compared to the previous year mainly due to the lower profit margin achieved from the DSLAM project, which contributed 17% of the total gross profit for the year.

The after tax profit margin reduced by 6.4%, from 12.2% to 5.8% due to the lower profit margin achieved during the year and the increase in other operating expenses.

**Review for the FYE 2004**

Total revenue for FYE 2004 was RM39.48 million, a substantial increase of 111% from FYE 2003. Total revenue for the year was mainly derived from NGS, contributing approximately 89% to the total revenue for the year. NGS comprise the on-going DSLAM project and 3G projects with Telekom Malaysia secured in FYE 2004 which contributed to approximately RM16.8 million and RM14.7 million respectively to total revenue.

The remaining 11% of revenue was derived from TSADS mainly contributed from the on-going CDMA projects for Motorola amounting to approximately RM1.7 million during the year.

Gross profit margin reduced by 25.45% as compared to the previous financial year mainly due to lower profit margin achieved from the 3G project. The profit margin for the 3G project was low due to higher initial start up cost given that this is the 1<sup>st</sup> 3G project of our Group.

Pretax profit margin reduced by 7.3% mainly arising from the drop in gross profit margin. In addition, there were no dividend income derived from the investment in unit trust as the investment was disposed off early in the financial year.

The after tax profit margin reduced by 3.1%, from 5.8% to 2.7% in line with the decrease in pretax profit margin by 7.3%, from 11.8% to 4.5%. However, the proportion of decrease in after tax profit margin is lower, compared to the proportion of decrease in pretax profit margin. This is due to lower effective tax rate in the current year as compared to the previous year as the expenses not deductible for tax purposes were higher in the prior year mainly arising from higher entertainment expenses.

The increase in finance costs from RM64,172 in FYE 2003 to RM136,676 in FYE 2004 is mainly attributable to the additional overdraft facility take-up by our Group during the year. On average, the overdraft interest costs is between RM9,500 to RM10,000 per month.

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**12. FINANCIAL INFORMATION** (*cont'd*)

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**Review for the FYE 2005**

Total revenue for FYE 2005 was RM86.77 million, a substantial increase of 120% from FYE 2004. Total revenue for the year was mainly derived from NGS, contributing approximately 98.6% of the total revenue for the year. NGS comprise the on-going DSLAM and 3G projects with Telekom Malaysia which were secured in year 2004, and 2 additional projects from Telekom Malaysia for the implementation of MINIMUX and MSAN which was completed during the year. All 4 major projects contributed RM79.18 million to our Group's revenue for the year.

Approximately 46.4% of our Group's total gross profit was derived from MSAN projects. Due to the competitive pricing in securing new projects, our Group outsourced majority of our service work during the year which resulted in savings in administrative and other operating expenses. Administrative and other operating expenses make up 8.3% of our Group's revenue for the year as compared to 13.5% in the previous year.

Pretax profit margin for the year increased to 5.9% as compared to 4.5% in the previous year while after tax profit margin increased from 2.7% in FYE 2004 to 3.8% in FYE 2005.

**Auditors' Qualification**

There has been no qualification in the audited financial statements of our Group throughout the relevant years under review.

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## 12. FINANCIAL INFORMATION *(cont'd)*

### 12.1.2 Proforma Consolidated Statement of Assets and Liabilities

The following table sets out the summary of proforma consolidated statement of assets and liabilities of our Group as at 31 December 2005 as if the Acquisition of SRSB, Public Issue and utilisation of proceeds had been effected on that date. Details of the proforma consolidated statements of assets and liabilities of our Group are set out in Section 12.5 of this Prospectus.

	I	II
Proforma balance sheet as of 31 December 2005 RM'000	After Acquisition of SRSB RM'000	After I and Public Issue and utilisation of proceeds RM'000
<b>Non-Current Assets</b>		
Plant and equipment	-	876
Development cost	-	1,126
	-	3,500
	876	4,626
<b>Current Assets</b>		
Work in progress	-	1,479
Trade receivables	-	49,790
Other receivables	652	2,440
Cash and bank balances	*	25,959
	652	79,668
		82,173
<b>Current Liabilities</b>		
Trade payables	-	65,573
Other payables	658	2,634
Borrowings	-	1,486
	658	69,693
		68,207
<b>Net Current (Liabilities)/Assets</b>	(6)	9,975
	(6)	13,966
	10,851	18,592
<b>Financed by:</b>		
Share capital	#	7,342
Share premium	-	10,000
(Accumulated losses)/retained earnings	-	5,597
	(6)	3,351
<b>Shareholders' (Deficit)/Equity</b>	(6)	10,693
		18,448
<b>Long Term and Deferred Liabilities</b>		
Deferred tax	-	59
Hire-purchase payables	-	99
<b>Non-current Liabilities</b>	-	158
	(6)	10,851
		18,592
(NTL)/NTA per share (RM)	(300)	0.15
		0.15

Notes:-

\* *Negligible*

# *Represents 20 subscribers' shares of RM0.10 each*

## 12. FINANCIAL INFORMATION *(cont'd)*

### 12.1.3 Foreign Exchange Fluctuations

There was no material impact of foreign exchange, interest rates on our Group's historical operating profits for the past 3 financial years.

### 12.1.4 Taxation

Effective tax rate for FYE 2003, 2004 and 2005 was 46%, 43% and 33% respectively. In FYE 2003 and 2004, our Group incurred higher effective tax rate mainly due to high non-deductible expenses.

### 12.1.5 Exceptional and Extraordinary Items

There were no exceptional or extraordinary items in the past 3 financial years under review.

### 12.1.6 Material Change in Net Revenue

Within the stipulated contract and its validity period, our Group's net revenue is not subject to changes in prices, changes in volume or amount of products or services being sold or the introduction of new products or services which are not in the ordinary course of business.

### 12.1.7 Analysis of Trade Receivables

The analysis of our Group's trade receivables as at 31 December 2005 is tabulated as follows:-

	<b>Less than 90 days RM'000</b>	<b>More than 90 days less than 180 days RM'000</b>	<b>More than 180 days RM'000</b>	<b>Total RM'000</b>
Trade receivables	11,797	1,405	2,125	15,327
Less: Provision for doubtful debts <sup>1</sup>	-	(1)	(235)	(236)
	<u>11,797</u>	<u>1,404</u>	<u>1,890</u>	<u>15,091</u>
Due from customers on contract				<u>34,699</u>
				<u><u>49,790</u></u>

Subsequent to the year end and up to 31 May 2006 (being the latest practicable prior to the registration of this Prospectus), out of the trade receivables of RM49.79 million, approximately RM1.15 million has been collected.

The provision for doubtful debts of RM236,309 is made in compliance with the condition imposed by the SC vide its approval letter dated 27 October 2005. Please refer to Section 8.1 of this Prospectus for further details on the said condition imposed by the SC.

We have not made full provision for trade receivables with amounts outstanding exceeding 90 days as our Directors are confident of recovering these trade receivables. Furthermore, over 90% of these trade receivables are due from 3 of our major customers namely, Telekom Malaysia, Huawei and Motorola. Please refer to Section 12.1.8 below for further explanations.

The Trade Receivable Turnover Ratios for our Group for the past 3 financial years are as follows:-

	<b>FYE 2003</b>	<b>FYE 2004</b>	<b>FYE 2005</b>
Trade Receivable Turnover Ratio (days)	230 days	221 days	209 days

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**12. FINANCIAL INFORMATION** (*cont'd*)

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**12.1.8 Analysis of Trade Receivables and past payment records from Major Customers**

Our Group's trade receivables mostly consist of 3 major customers, namely Telekom Malaysia, Huawei and Motorola. The analysis of our Group's trade receivables and the past payment records from these major customers as at 31 December 2005 is as follows:-

	<b>% collected up to 31 December 2005</b>	<b>% outstanding as at 31 December 2005</b>
<b><u>Telekom Malaysia</u></b>		
In relation to sales in:		
FYE 2003	100	-
FYE 2004	52	48
FYE 2005	63	37
<b><u>Huawei</u></b>		
In relation to sales in:		
FYE 2003	100	-
FYE 2004	53	47
FYE 2005	62	38
<b><u>Motorola</u></b>		
In relation to sales in:		
FYE 2003	96	4
FYE 2004	97	3
FYE 2005	75	25

From the breakdown above, majority of the amount owing by our major customers has been collected as at 31 December 2005. Out of the amount outstanding as at 31 December 2005, only 3.8% has been outstanding for more than 180 days while only 6.6% has been outstanding for more than 90 days.

Out of these amounts that have been outstanding for more than 90 days, our Board is of the opinion that they are fully collectable based on the following reasons:-

- (i) Historically, the amount owing from these major customers have taken more than 180 days to collect;
- (ii) Currently, our Group has on-going projects with these major customers with further expansion of coverage area being negotiated. In addition, collection from these major customers is closely correlated with the duration of the contracts with these major customers which normally last for at least 2 years;
- (iii) These major customers of our Group have at least 4 years of good long-term business relationship with our Group. Furthermore, these major customers are MNCs and large corporations. As such, instances of uncollectable trade receivables are minimal; and
- (iv) We are constantly monitoring the trade receivables ageing of these major customers so as to ensure that they are collectable.

The analysis of trade receivables from major customers and the justification provided by our Board above has been confirmed by Avenue.

## 12. FINANCIAL INFORMATION *(cont'd)*

The Reporting Accountants have also reviewed the analysis of trade receivables from major customers as well as the justification provided by our Board and their findings are disclosed in Note 5.8 of the Accountants' Report set out in Section 13 of this Prospectus.

### 12.1.9 Segmental analysis of revenue and PBT

The segmental analysis of revenue and gross profit of our Group is as follows:-

#### (i) Analysis by companies

FYE	<----- Revenue ----->			<----- Gross Profit ----->		
	2003 RM'000	2004 RM'000	2005 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
SRSB	18,670	39,478	86,767	8,472	7,851	12,257
	18,670	39,478	86,767	8,472	7,851	12,257

#### (ii) Analysis by products/activities

FYE	<----- Revenue ----->			<----- Gross Profit ----->		
	2003 RM'000	2004 RM'000	2005 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
TSADS	11,112	4,394	1,209	6,359	1,514	131
NGS	7,558	35,080	85,548	2,113	6,334	12,126
Software	-	4	10	-	3	-
<b>Total</b>	18,670	39,478	86,767	8,472	7,851	12,257

#### (iii) Analysis by industries

FYE	<----- Revenue ----->			<----- Gross Profit ----->		
	2003 RM'000	2004 RM'000	2005 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Non-Governmental	18,670	39,478	86,767	8,472	7,851	12,257
Governmental	-	-	-	-	-	-
<b>Total</b>	18,670	39,478	86,767	8,472	7,851	12,257

### 12.1.10 Trend Analysis

Based on our Group's historical financial performance, our Group is confident of our future prospects and believes that we are ideally placed to capitalise on our capabilities to service and develop telecommunication infrastructures. The growth of our business is closely correlated to the growth in the telecommunication/ICT industry. As the Government continues its efforts in promoting the local telecommunication/ICT industry, the healthy growth of the industry is envisaged to continue to grow from strength and strength thus providing further growth opportunities to our Group.

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## 12. FINANCIAL INFORMATION *(cont'd)*

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### 12.1.11 Liquidity and Capital Resources

Historically, our Group's financial resources are mainly consists of a combination of both internal and external funds. Internal sources of funds are mainly generated from our Group's operating activities while external sources are mainly via bank borrowings. Internally generated funds forms 94% of our Group's source of liquidity. The Group has been maintaining a healthy gearing ratio of below 0.2 times for the past 2 financial years.

Our proforma consolidated cashflow statements set out below, has not taken into account of the proceeds raised from the Public Issue. Our Board is of the opinion that, after taking into account of our present cashflow position and the proceeds to be raised from the Public Issue, we would have adequate working capital for our business operations for a period of 12 months from the date of this Prospectus.

### 12.1.12 Our Directors' Declaration on Financial Performance

As at 31 May 2006 (being the latest practicable prior to the registration of this Prospectus), save as disclosed above, our Directors are not aware of:-

- (i) any known trends, demands, commitments, events or uncertainties that have had, or that the corporation reasonably expects to have, a material favourable or unfavourable impact on the financial performance, position and operations of our Group;
- (ii) any material capital expenditure commitments;
- (iii) any unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group;
- (iv) any substantial increase in revenue attributable to increase in prices, volume or goods/services being sold, the introduction of new products/services or any other factors; and
- (v) any known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

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**12. FINANCIAL INFORMATION** (*cont'd*)

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**12.1.13 Consolidated Cashflow Statements**

The proforma consolidated cashflow statement of our Group for the FYE 2005 is as follows:-

<b>CASHFLOW FROM OPERATING ACTIVITIES</b>	<b>RM'000</b>
Profit before tax	5,096
Adjustments for:-	
Depreciation of plant and equipment	430
Provision for doubtful debts	236
Amortisation of intangible assets	293
Intangible assets written off	908
Gain on disposal of plant and equipment	(18)
Reversal of licence cost over accrued in prior year	(850)
Finance costs	138
Interest income	(19)
Operating profit before working capital changes	6,214
Decrease in receivables	(28,752)
Increase in payables	41,687
Decrease in work in progress	5,312
Cash generated from operations	24,461
Interest paid	(138)
Tax paid	(1,100)
Net cash generated from operating activities	23,223
 <b>CASHFLOW FROM INVESTING ACTIVITIES</b>	
Purchase of plant and equipment	(246)
Proceeds from disposal of plant and equipment	18
Interest received	19
Net cash used in investing activities	(209)
 <b>CASHFLOW FROM FINANCING ACTIVITY</b>	
Repayment of hire purchase payables, representing net cash used in financing activity	(72)
 <b>Net increase in cash and cash equivalents</b>	<b>22,942</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>1,610</b>
<b>Cash and cash equivalents at end of the year</b>	<b>24,552</b>
 Cash and cash equivalents comprises:-	
Cash in hand and at banks	24,926
Deposits with a licensed bank	1,033
Bank overdraft	(1,407)
	<b>24,552</b>

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**12. FINANCIAL INFORMATION** (*cont'd*)

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For FYE 2005, our main source of cash inflow is from our operating activities which are mostly due to the movement in receivables and payables. Cashflow from operating activities contributes 94% of our Group's cash inflow. The main cash outflow is in our investing activities, mainly in plant and equipment for our operational purposes. Moving forward, our Group expects operating activities to continue being our main source of cash inflow.

**12.2 MATERIAL LITIGATION, MATERIAL COMMITMENT, BORROWINGS, CONTINGENT LIABILITIES AND WORKING CAPITAL**
**12.2.1 Material Litigation**

As at 31 May 2006 (being the latest practicable date prior to the registration of this Prospectus), neither our Company nor our subsidiary company are engaged in any material litigation either as plaintiff or defendant which has a material effect on the financial position of our Company or any of our subsidiary company and our Directors have no knowledge of any proceedings pending or threatened against our Company and our subsidiary company or of any facts likely to give rise to any proceedings which might materially affect the position and business of our Company and our subsidiary company.

**12.2.2 Material Commitment**

As at 31 May 2006 (being the latest practicable date prior to the registration of this Prospectus), save as disclosed below, there is no other material commitment in respect of acquisition of land and building, plant and machinery and other property, plant and equipments.

**12.2.3 Borrowings**

As at 31 May 2006 (being the latest practicable date prior to the registration of this Prospectus), the total outstanding borrowings of our Group from financial institutions amounted to approximately RM1.58 million comprising the following:-

	<b>Amount Outstanding</b>
	<b>RM</b>
<b>Short term (interest bearing)</b>	
Hire-purchase (due within next 12 months)	74,029
Overdraft	1,447,803
	<hr/> 1,521,832
<b>Long term (interest bearing)</b>	
Hire-purchase	55,943
<b>Total</b>	<hr/> 1,577,775 <hr/>
<b>Gearing ratio</b>	0.15

As at 31 May 2006 (being the latest practicable date prior to the registration of this Prospectus), all borrowings of the Group are interest bearing and our Group has no foreign currency borrowings. Our Group has also not defaulted on any payments of either interest and/or principal sums in respect of any borrowings.

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**12. FINANCIAL INFORMATION** (*cont'd*)

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**12.2.4 Contingent Liabilities**

As at 31 May 2006 (being the last practicable date prior to the registration of this Prospectus), save as disclosed below, our Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the profit or net assets value of our Group:-

- (i) On 16 January 2004, SRSB placed an irrevocable and absolutely guarantee by way of a performance guarantee in the form of a bank guarantee for the due performance of contract granted by Telekom Malaysia to our Group in respect of a contract for the supply of design, supply, delivery, installation, testing and commissioning of DSLAM system and associated equipment. The bank guarantee is for the amount of RM1,318,113 and is issued by Malayan Banking Berhad. The performance bond expires on 15 February 2007; and

**12.2.5 Working capital**

Our Directors are of the opinion that, after taking into consideration the consolidated cashflow, banking facilities available and the gross proceeds from the Public Issue, our Group will have adequate working capital for its present foreseeable requirements, in any case for a period of 12 months after the date of issuance of this Prospectus.

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## 12. FINANCIAL INFORMATION *(cont'd)*

### 12.3 FUTURE FINANCIAL INFORMATION

#### 12.3.1 Consolidated Profit Forecast

Our Directors forecast that the consolidated profit forecast of our Group for the FYE 2006 will be as follows:-

<b>FYE 2006</b>	<b>Forecast RM'000</b>
Revenue	119,320
PBT	5,135
Less: Taxation	1,481
PAT	3,654

Based on enlarged issued and paid-up share capital:-

Net EPS <sup>1</sup> (sen)	0.37
Net PE Multiple (based on Issue Price of RM0.36 per share) (times)	9.7

*Note:-*

*1 Based on the enlarged issued and paid-up share capital of 100,000,000 SRHB Shares.*

The principal bases and assumptions upon which the consolidated profit forecast has been made are set out in Section 12.4 of this Prospectus.

The consolidated profit forecast of our Group for FYE 2006 has been prepared based on the Directors' assessment of the present economic and operating conditions and a number of best estimate assumptions regarding future events and actions which, at the date the consolidated profit forecast was prepared, the Directors expect to take place. These future events may or may not take place. A forecast, by its very nature, is subject to uncertainties and unexpected events, many of which may be outside the control of our Group and our Directors. Also, events and circumstances often do not occur as anticipated and therefore actual results are likely to differ from the forecast results, and the difference may be material.

The consolidated profit forecast of our Group prepared based mainly on secured contracts and potential contracts expected to be secured in FYE 2006 by the Telecommunication Carrier Division. As such, variation to the forecast revenue and profits, if any, will be due to actual number of contracts secured by the Telecommunication Carrier Division and the pricing of these contracts for FYE 2006.

#### 12.3.2 Directors' Analysis of the Consolidated Profit Forecast

Our Directors have reviewed and analysed the reasonableness of the bases and assumptions stated after due and careful inquiry in arriving at the consolidated profit forecast for FYE 2006. Our Directors are of the opinion that the consolidated profit forecast is fair and reasonable in light of the future prospects of our Group, the future plans and strategies to be adopted by our Group and after taking into consideration the estimated level of gearing, liquidity and working capital requirements of our Group.

Total revenue for FYE 2006 is forecast at RM119.3 million, an increase of 38% from FYE 2005. The total revenue is expected to be derived mainly from the NGS segment, contributing approximately 95% of the total revenue. The NGS projects are mainly the on-going DSLAM, MSAN and 3G project with Telekom Malaysia secured in year 2005.

Gross profit margin is estimated at 12.5%, compared to 14.1% previous year mainly due to the lower profit margin forecasted from the 3G project. Pretax profit margin at 4.93% is mainly due to the drop in gross profit margin.

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## 12. FINANCIAL INFORMATION *(cont'd)*

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### 12.3.3 Sensitivity Analysis

Our Directors are of the opinion that the consolidated profit forecast of our Group is not subject to a high probability of variation, such as selling price, volume of sales, production costs, production capacity, operating expenses and financing costs.

The consolidated profit forecast assumptions are based on actual contracts secured and high potential contracts to be secured by our Group. The value of all projects is agreed upon prior to its commencement. Insofar as the achievement of the consolidated profit forecast is concerned, the secured contract's value and costs are not sensitive to fluctuations.

### 12.3.4 Dividend Forecast

Our Directors did not forecast any proposed dividends for FYE 2006. However, it is the policy of our Directors in recommending dividends to allow shareholders to participate in the profits of the Company as well as maintaining adequate reserve for the future growth of our Group.

Our Directors will take into consideration of a number of factors including but not limited to our financial performance, cashflow requirements, availability of distributable reserves and tax credits, future expansion plans and compliance with regulatory requirements when recommending any dividend payments.

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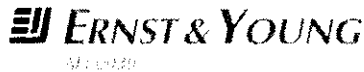
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**12. FINANCIAL INFORMATION** *(cont'd)*

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**12.4 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST FOR THE FYE 2006**

*(Prepared for inclusion in the Prospectus)*



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1 June 2006

The Board of Directors  
Silver Ridge Holdings Bhd  
4-6, Jalan 28/70A  
Desa Sri Hartamas  
50480 Kuala Lumpur

Dear Sirs

**SILVER RIDGE HOLDINGS BHD – CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2006**

We have reviewed the forecast of consolidated profit after taxation of Silver Ridge Holdings Bhd and its subsidiary, Silver Ridge Sdn Bhd ("the Group") for the year ending 31 December 2006 as set out in the Prospectus to be dated 26 June 2006, in accordance with the professional standard in Malaysia applicable to the review of forecasts, AI 3400. The forecast has been prepared in connection with the proposed listing of and quotation for the entire issued and paid-up share capital of 100,000,000 ordinary shares of RM0.10 each in Silver Ridge Holdings Bhd. ("SRHB" or the "Company") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("MESDAQ Market").

Our review has been undertaken to enable us to form an opinion as to whether the forecast, in all material respects, is properly prepared on the basis of the assumptions made by the directors as set out in the Appendix to this letter and is presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited financial statements for the year ended 31 December 2005. The directors of Silver Ridge Holdings Bhd. are solely responsible for the preparation and presentation of the forecast and the assumptions on which the forecast is based.

A forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). In particular, forecast of consolidated profit after taxation are substantially dependent on the achievability of the Specific Assumptions as set out in the Appendix to this letter. While information may be available to support the assumptions on which the forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variations could be material.

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12. FINANCIAL INFORMATION *(cont'd)*

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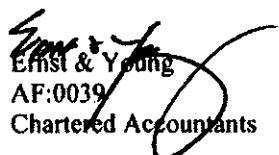


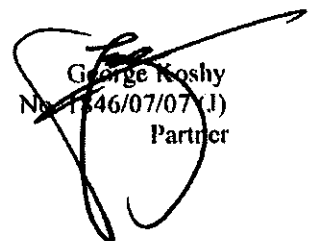
Subject to the matters stated in the preceding paragraphs:

- (a) nothing has come to our attention which causes us to believe that the assumptions made by the directors, as set out in the Appendix to this letter, do not provide a reasonable basis for the preparation of the forecast of consolidated profit after taxation; and
- (b) in our opinion, the forecast of consolidated profit after taxation, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the directors and is presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited financial statements for the year ended 31 December 2005.

The accompanying forecast and this letter have been prepared solely for the purposes stated above, in connection with the aforementioned proposal. This letter is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

Yours faithfully

  
Ernst & Young  
AF:0039  
Chartered Accountants  
  
Kuala Lumpur, Malaysia

  
George Koshy  
No. 146/07/07 (1)  
Partner

## 12. FINANCIAL INFORMATION (cont'd)

Appendix

**SILVER RIDGE HOLDINGS BHD.  
CONSOLIDATED PROFIT FORECAST ASSUMPTIONS**

The directors of Silver Ridge Holdings Bhd. ("SRHB") and its subsidiary, Silver Ridge Sdn. Bhd. ("the Group") forecast that, in the absence of unforeseen circumstances, the results for the financial year ending 31 December 2006 will be approximately:

	<b>RM'000</b>
Profit before tax	5,135
Less: Taxation	<u>(1,481)</u>
Profit after tax	<u>3,654</u>

The principal assumptions upon which the forecast has been prepared are as follows:

**A) SPECIFIC ASSUMPTIONS**

- (1) The forecast is prepared based on the ability of the Group to generate revenue from its Telecommunication Systems, Architecture Design and Solutions and Next Generation Solutions. This revenue is forecast to be derived from the following:

	<b>RM'000</b>
Ongoing customers and where awards have been received	68,380
Work completed on new contracts	<u>50,940</u>
Total	<u>119,320</u>

The anticipated gross profit margin for the RM68.38 million projects is expected to be maintained at an average of 12.5%.

In addition, the Group is forecast to complete RM50.94 million worth of new projects within financial year 2006 and at the anticipated gross profit margin of 7.9%.

- (2) The Group's revenue mix within the Telecommunications Carrier Division arising from Telecommunication System Architecture Design and Solutions and Next Generation Solutions is forecast to remain constant at the current proportion throughout the forecast period.
- (3) The Group will be able to continuously protect its proprietary technology/intellectual property rights and enhance its products and keep pace with the products offered by its competitors.



12. FINANCIAL INFORMATION (cont'd)

Appendix

**SILVER RIDGE HOLDINGS BHD.  
CONSOLIDATED PROFIT FORECAST ASSUMPTIONS (CONTD.)**

**B) GENERAL ASSUMPTIONS**

- (1) There will be no significant change in the prevailing political and economic conditions in Malaysia and elsewhere that will materially affect the activities or performance of the Group. There will be no significant change in the present legislation or Government regulations, rates and duties, levies and taxes and other operational regulations and restrictions which will adversely affect the operations of the Group and the market in which it operates.
- (2) There will be no significant change in the policies pertaining to its accounting, management, marketing and operations presently adopted by the Group. The acquisition of Silver Ridge Sdn. Bhd. which was completed on 27 January 2006 has been consolidated using the 'merger accounting' principles.
- (3) There will be no material change in the existing key personnel and management of the Group that will adversely affect the operational and marketing capabilities of the Group.
- (4) There will be no major breakdown or disruption of facilities, labour and materials, industrial disputes or any abnormal factors, both domestic and foreign, which will adversely affect the operations of the Group.
- (5) There will be no material increase in cost of materials, wages and other incidental costs that will adversely affect the activities and operations of the Group. Administration and operating costs will be incurred as forecast.
- (6) The credit periods extended to customers will be maintained at current levels and there will be no major incidences of bad debts.
- (7) The expenditure for the expansion in the Group's research and development activities will be incurred as planned. There will be no material acquisitions or disposals of property, plant and equipment other than those taken into consideration in the forecast and there will be no major delay or variation in the implementation of the research and development expenditure of the Group as planned.
- (8) Existing financial facilities will remain available with no significant changes in the interest rates and the assets will be able to secure sufficient financing facilities for working capital purposes if necessary.
- (9) The Group will not engage in any material litigation and there will be no legal proceedings against the Group which will adversely affect the activities or performance of the Group or give rise to any additional contingent liabilities which will materially affect the position or business.
- (10) The proposed listing is estimated to complete by July 2006. Listing expenses which are estimated to be RM1,312,000 will be written off against the share premium account.

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**12. FINANCIAL INFORMATION** *(cont'd)*

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**12.5 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

*(Prepared for inclusion in the Prospectus)*

1 June 2006

The Board of Directors  
Silver Ridge Holdings Bhd  
4-6, Jalan 28/70A  
Desa Sri Hartamas  
50480 Kuala Lumpur

Dear Sirs

**SILVER RIDGE HOLDINGS BHD – PROFORMA CONSOLIDATED FINANCIAL INFORMATION AS AT 31 DECEMBER 2005**

We report on the proforma consolidated financial information which have been prepared by the directors of Silver Ridge Holdings Bhd for illustrative purposes only, to provide information about how the consolidated financial information of Silver Ridge Holdings Bhd ("SRHB" or "the Company") and its subsidiary, Silver Ridge Sdn. Bhd. ("SRSB") (collectively known as "the Group") as at 31 December 2005 that has been presented might have been affected by the following proposals had the proposals been completed on that date:

- (a) The acquisition of 1,500,000 ordinary shares of RM1.00 each of SRSB, representing the entire issued and paid-up capital of SRSB for a total purchase consideration for RM7,342,398 satisfied via the issuance of 73,423,980 new ordinary shares of RM0.10 each in SRHB.
- (b) Proposed public issue of 26,576,000 new ordinary shares of RM0.10 each at an issue price of RM0.36 per share, representing approximately 26.58% of the enlarged issue and paid-up capital of SRHB; and
- (c) The proposed listing of and quotation for the enlarged issued and paid-up share capital of 100,000,000 ordinary shares of RM0.10 each of SRHB on the MESDAQ Market of Bursa Malaysia Securities Berhad.

(Collectively referred to as the "Proposals")

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12. FINANCIAL INFORMATION *(cont'd)*

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AF: 0039

The proforma financial information, because of its nature, may not give a true picture of the Group's actual financial results, financial position and cash flows.

It is the responsibility solely of the directors of SRHB to prepare the proforma consolidated financial information in accordance with the Securities Commission Prospectus Guidelines in respect of Public Offerings ("the Guidelines").

It is our responsibility to form an opinion on the proforma financial information as required by the Guidelines, and to report our opinion to you.

Our work consisted primarily of comparing the unadjusted financial information presented in their original form, considering the adjustments and discussing the proforma consolidated financial information with the responsible officers of SRHB. Our work involved no independent examination of any of the underlying financial information other than the financial statements of the Company, and its subsidiary, SRSB for the period/year ended 31 December 2005 on which we have reported to the members of the Company and SRSB on 16 May 2006.

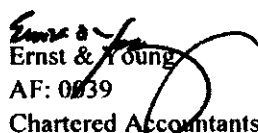
Our work on the proforma financial information does not constitute an audit or review in accordance with applicable MASB Approved Standards on Auditing in Malaysia and accordingly, we do not express such assurance on the proforma financial information.

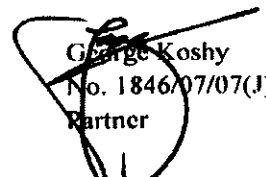
In our opinion:

- (a) the proforma financial information has been properly prepared by the directors of the Company on the basis stated and such basis is consistent with the accounting policies adopted by the Group;
- (b) the financial statements used in the preparation of the proforma financial information have been properly prepared in accordance with applicable MASB Approved Accounting Standards in Malaysia; and
- (c) each material adjustment made to the information used in the preparation of the proforma financial information is appropriate for the purposes of preparing such financial information.

This letter has been prepared solely for the purposes stated above, in connection with the aforementioned Proposals. This letter is not to be reproduced, referred to in any other document, used or relied upon for any other purpose without our prior written consent.

Yours faithfully

  
Ernst & Young  
AF: 0039  
Chartered Accountants

  
George Koshy  
No. 1846/07/07(J)  
Partner

Kuala Lumpur, Malaysia

12. FINANCIAL INFORMATION *(cont'd)***SILVER RIDGE HOLDINGS BHD  
PROFORMA CONSOLIDATED INCOME STATEMENTS**

The proforma consolidated income statements of the Group which have been prepared based on the audited financial statements of SRHB and SRSB on the assumption that the SRHB group had been in existence throughout the period under review:

	31 December		
	2003 RM'000	2004 RM'000	2005 RM'000
Revenue	18,670	39,478	86,767
Profit before amortisation, depreciation, finance costs and tax	2,612	2,586	5,956
Amortisation and depreciation	(336)	(678)	(723)
Profit before finance costs and tax	2,276	1,908	5,233
Finance costs	(64)	(136)	(138)
Profit before taxation	2,212	1,772	5,095
Taxation	(1,140)	(720)	(1,764)
Profit after taxation	1,072	1,052	3,331

## 12. FINANCIAL INFORMATION (cont'd)

**SILVER RIDGE HOLDINGS BHD**  
**PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

The proforma consolidated statement of assets and liabilities of the group have been prepared based on the audited financial statements of SRHB and SRSB as at 31 December 2005 on the assumption that the SRHB group had been in existence throughout the period under review:

	RM'000
<b>NON-CURRENT ASSETS</b>	
Plant and equipment	876
<b>CURRENT ASSETS</b>	
Contract work in progress	1,479
Trade receivables	49,790
Other receivables	2,440
Cash and bank balances	25,959
	<u>79,668</u>
<b>CURRENT LIABILITIES</b>	
Trade payables	65,573
Other payables	2,584
Borrowings	1,486
Taxation	50
	<u>69,693</u>
<b>NET CURRENT ASSETS</b>	<u>9,975</u>
	<u>10,851</u>
<b>FINANCED BY:</b>	
Share capital	7,342
Retained profits	3,351
Shareholders' equity	<u>10,693</u>
Deferred taxation	59
Hire purchase payables	99
Non-current liabilities	158
	<u>10,851</u>

# Represents cash in hand of RM2.00

\* Represents 20 subscribers' shares of RM0.10 each

## 12. FINANCIAL INFORMATION (cont'd)

**SILVER RIDGE HOLDINGS BHD**  
**PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The proforma consolidated cash flow statement of the group has been prepared based on the audited financial statements of SRHB and SRSB as at 31 December 2005 on the assumption that the SRHB group had been in existence throughout the period under review:

	<b>RM'000</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Profit before tax	5,095
Adjustments for:	
Depreciation of plant and equipment	430
Provision for doubtful debts	236
Amortisation of intangible assets	293
Intangible assets written off	908
Gain on disposal of plant and equipment	(18)
Reversal of license cost over accrued in prior year	(850)
Finance costs	138
Interest income	(19)
Operating profit before working capital changes	<u>6,213</u>
Increase in receivables	(28,752)
Increase in payables	41,688
Decrease in work in progress	5,312
Cash generated from operations	<u>24,461</u>
Interest paid	(138)
Tax paid	(1,100)
Net cash generated from operating activities	<u>23,223</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of plant and equipment	(246)
Proceeds from disposal of plant and equipment	18
Interest received	19
Net cash used in investing activities	<u>(209)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>	
Repayment of hire purchase payables, representing net cash used in financing activity	<u>(72)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	22,942
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>1,610</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>24,552</u>
Cash and cash equivalents comprises:	
Cash in hand and at banks	24,926
Deposits with a licensed bank	1,033
Bank overdraft	(1,407)
	<u>24,552</u>

**ER** ERNST & YOUNG (667785-W)

Chartered Accountants, Kuala Lumpur  
For audit only purposes only

## 12. FINANCIAL INFORMATION (cont'd)

**SILVER RIDGE HOLDINGS BHD**  
**PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2005**

	As at 31.12.2005	Adjustment	Proforma	Adjustment	Proforma
	RM'000	I	I	II	II
		RM'000	RM'000	RM'000	RM'000
<b>NON-CURRENT ASSETS</b>					
Plant and equipment	-	876	876	250	1,126
Development costs	-	-	-	3,500	3,500
	<u>-</u>		<u>876</u>		<u>4,626</u>
<b>CURRENT ASSETS</b>					
Work in progress	-	1,479	1,479		1,479
Trade receivables	-	49,790	49,790		49,790
Other receivables	652	1,788	2,440		2,440
Cash and bank balances	#	25,959	25,959	2,505	28,464
	<u>652</u>		<u>79,668</u>		<u>82,173</u>
<b>CURRENT LIABILITIES</b>					
Trade payables	-	65,573	65,573		65,573
Other payables	658	1,976	2,634		2,634
Borrowings	-	1,486	1,486	(1,486)	-
	<u>658</u>		<u>69,693</u>		<u>68,207</u>
<b>NET CURRENT</b>					
<b>(LIABILITIES)/ASSETS</b>					
	<u>(6)</u>		<u>9,975</u>		<u>13,966</u>
	<u>(6)</u>		<u>10,851</u>		<u>18,592</u>
<b>FINANCED BY:</b>					
Share capital	*	7,342	7,342	2,658	10,000
Share premium	-	-	-	5,597	5,597
(Accumulated losses)/					
Retained earnings	(6)	3,357	3,351	(500)	2,851
Shareholders' (deficit)/equity	<u>(6)</u>		<u>10,693</u>		<u>18,448</u>
Deferred tax	-	59	59		59
Hire purchase payable	-	99	99	(14)	85
Non-current liabilities	-	-	158		144
	<u>(6)</u>		<u>10,851</u>		<u>18,592</u>
Net (liabilities)/tangible assets	<u>(6)</u>		<u>10,693</u>		<u>14,948</u>
Net (liabilities)/tangible assets per share (RM)	<u>(300)</u>		<u>0.15</u>		<u>0.15</u>

# Represents RM2.00 cash in hand

\* Represents 20 subscribers' shares of RM0.10 each.

## 12. FINANCIAL INFORMATION (cont'd)

**SILVER RIDGE HOLDINGS BHD**  
**NOTES TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION**
**1. Basis of preparation**

The proforma consolidated financial information has been prepared for illustrative purposes only to show the effects of the Proposals on the audited balance sheets, income statements and cash flow statements as at 31 December 2005 had the Proposals been implemented and completed on that date and by way of incorporating the adjustments as stated in Notes 2 to 4 below.

**2. Adjustment column I**

Adjustment column I reflects the proposed acquisition of the entire issued and paid-up capital of SRSB for RM7,342,398 which was completed on 27 January 2006 via the issuance of 73,423,980 new ordinary shares of RM0.10 each in SRHB to the vendors of SRSB.

SRSB has been consolidated using the 'merger accounting' principles. When the merger method is used, the cost of investment in the Company's book is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares acquired is treated as merger reserve or deficit. The merger deficit of RM5,842,000 is adjusted against retained earnings. The results of the Company being merged are included as if the merger had been affected through the current and previous financial years.

**3. Adjustment column II**

Adjustment column II incorporates the effect of Proforma I and the proposed public issue of 26,576,000 new ordinary shares of RM0.10 each in SRHB at an issue price of RM0.36 per share. The proposed utilisation of the proceeds from the public issue is as follows:

	<b>RM'000</b>
Upgrading of information technology systems	250
Marketing campaigns in promoting products	500
Expansion of R&D activities and facilities	3,500
Repayment of loans	1,500
Estimated listing expenses	1,312
Working capital	2,505
<b>Total proceeds</b>	<b>9,567</b>

It has been assumed that the proceeds were received and utilised as at 31 December 2005.



## 12. FINANCIAL INFORMATION (cont'd)

**SILVER RIDGE HOLDINGS BHD**  
**NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONTD.)**
**4. Effects on Share Capital, Share Premium and Retained Earnings**

The effects of the above transactions on the Share Capital, Share Premium and Retained Earnings are summarised as follows:

	Share Capital RM'000	Share Premium RM'000	(Accumulated Losses)/ Retained Earnings RM'000
As at 31 December 2005	*	-	(6)
Merger with SRSB	7,342	-	3,357
As per Proforma I	7,342	-	3,351
Proposed Public Issue	2,658	6,909	-
Utilisation of proceeds from Public Issue	-	(1,312)	(500)
As per Proforma II	10,000	5,597	2,851

\* Represents 20 subscribers' shares of RM0.10 each.

### 13. ACCOUNTANTS' REPORT

*(Prepared for inclusion in the Prospectus)*



AF: 0039

■ Chartered Accountants  
Level 21A, Menara Milenium  
Jalan Dutaanegara  
Pusat Bandar Damansara  
50490 Kuala Lumpur, Malaysia

Mail Address:  
P.O. Box 11040  
50734 Kuala Lumpur, Malaysia

■ Phone : (03) 7495-8000  
Fax : (03) 2095-5332  
(General Line)  
(03) 2095-9076  
(03) 2095-9078  
[www.ey.com/ny](http://www.ey.com/ny)

1 June 2006

The Board of Directors  
Silver Ridge Holdings Bhd.  
4-6, Jalan 28/70A  
Desa Sri Hartamas  
50480 Kuala Lumpur

Dear Sirs,

#### 1 INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 26 June 2006 in connection with the proposed listing of and quotation for the entire proposed issued and paid-up share capital of 100,000,000 ordinary shares of RM0.10 each in Silver Ridge Holdings Bhd. ("SRHB" or the "Company") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("MESDAQ Market").

This report has been prepared solely for the purposes stated above, in connection with the aforementioned prospectus. This report is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

There has been no change in accounting policies of SRHB and its subsidiary for all the financial years relevant to this report.

This report has been prepared on a basis consistent with the accounting policies normally adopted by SRHB and its subsidiary, which are in accordance with applicable MASB Approved Accounting Standards in Malaysia issued or adopted by the Malaysian Accounting Standards Board.

#### 2 GENERAL INFORMATION

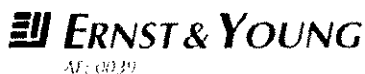
##### 2.1 The Company

SRHB was incorporated in Malaysia as a public limited company under the Companies Act, 1965 on 29 September 2004. The intended principal activities of the Company are that of investment holding, provision of management services and general trading.

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

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**2 GENERAL INFORMATION (CONTD.)**

**2.2 Listing Scheme**

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of SRHB on the MESDAQ Market, the Company:

- (a) completed the acquisition of 1,500,000 ordinary shares of RM1.00 each of Silver Ridge Sdn. Bhd. ("SRSB"), representing the entire issued and paid-up capital of SRSB for a total purchase consideration for RM7,342,398 satisfied via the issuance of 73,423,980 new ordinary shares of RM0.10 each in SRHB on 27 January 2006;
- (b) proposes a public issue of 26,576,000 new ordinary shares of RM0.10 each at an issue price of RM0.36 per share, representing approximately 26.58% of the enlarged issue and paid-up capital of SRHB; and
- (c) proposes the listing of and quotation for the enlarged issued and paid-up share capital of 100,000,000 ordinary shares of RM0.10 each of SRHB on the MESDAQ Market thereafter.

**2.3 Share Capital**

SRHB was incorporated in Malaysia as a public limited company under the Companies Act, 1965 on 29 September 2004. The registered office is located at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur.

The Company was incorporated with an authorised share capital of RM100,000 represented by 1,000,000 ordinary shares of RM0.10 each. The issued and fully paid-up share capital of the Company as at the date of incorporation was RM2 represented by 20 ordinary shares of RM0.10 each.

The authorised share capital was subsequently increased to RM25,000,000 represented by 250,000,000 ordinary shares of RM0.10 each.

13. ACCOUNTANTS' REPORT (cont'd)



2 GENERAL INFORMATION (CONTD.)

2.3 Share Capital (Contd.)

On completion of the proposed listing, the issued and paid-up share capital of SRHB will increase from RM2 comprising 20 ordinary shares of RM0.10 each to RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each, analysed as follows:

	Number of shares of RM0.10 each	RM
<b>Issued and fully paid-up share capital</b>		
Upon incorporation on 29 September 2004	20	2
Issued for acquisition of SRSB which was completed on 27 January 2006	73,423,980	7,342,398
Proposed public issue	26,576,000	2,657,600
	<u>100,000,000</u>	<u>10,000,000</u>

2.4 Subsidiary

At the date of this report, the details of SRHB's wholly owned subsidiary which was incorporated on 5 November 1992 is as follows:

Company	Authorised Share Capital	Issued and Paid-up Share Capital	Principal Activities
SRSB	RM5,000,000	RM1,500,000	Next generation telecommunication solution that provides telecommunication system architecture and design, next generation network solution as well as telecommunication related software solutions.

SRSB was incorporated in Malaysia as a private limited liability company under the Companies Act, 1965.

SRHB and its subsidiary are collectively known as the SRHB Group or the Group throughout the financial periods covered in this Report.

**13. ACCOUNTANTS' REPORT** *(cont'd)***3 FINANCIAL STATEMENTS AND AUDITORS**

<b>Company</b>	<b>Auditors</b>	<b>Financial periods</b>
SRHB	Ernst & Young	31 December 2005
SRSB	Ho Chee Mee & Co	31 December 2001 to 31 December 2004
	Ernst & Young	31 December 2005

There were no reservations or qualifications mentioned in the auditors' reports on the financial statements in the respective periods covered in this report.

The accompanying summarised financial statements are consistent, in all material aspects, with the financial statements from which they were derived.

For a better understanding of the financial position and results of these companies' operations for the periods and the scope of the audits, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and the audit reports therein.

**4 DIVIDENDS**

Details of dividends declared by SRSB are as follows:

<b>Financial year</b>	<b>Share capital (RM'000)</b>	<b>Gross dividend rate (%)</b>	<b>Net dividend (RM'000)</b>
31 December 2001	1,500	15	225 (tax exempt)
31 December 2004	1,500	150	1,620 (less 28% tax)
31 December 2005	1,500	150	1,620 (less 28% tax)

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



## 5 SUMMARISED FINANCIAL INFORMATION

The financial information of the Company and its subsidiary are based on the audited financial statements for the relevant periods under review and are summarised as set out below.

## 5.1 SRHB

SRHB was incorporated on 29 September 2004 with an issued and paid-up capital of RM2.

## 5.1.1 Summarised Balance Sheet

	Note	31 December 2005 RM'000
<b>CURRENT ASSETS</b>		
Prepayments	5.10	652
Cash	5.11	#
		<u>652</u>
<b>CURRENT LIABILITIES</b>		
Sundry payables	5.13	<u>658</u>
<b>NET CURRENT LIABILITIES</b>		<u>(6)</u>
<b>REPRESENTING:</b>		
Share capital	5.15	*
Accumulated losses		<u>(6)</u>
Shareholders deficit		<u>(6)</u>

# Represents cash in hand of RM2.00

\* Represents 20 subscribers' shares of RM0.10 each

## 5.1.2 Summarised Income Statement

		29.9.04 (date of incorporation) to 31.12.05 RM'000
Revenue		-
Other operating expenses		<u>(6)</u>
Loss before taxation		<u>(6)</u>
Taxation	5.18	<u>-</u>

13. ACCOUNTANTS' REPORT (cont'd)



5.1 SRHB (Contd.)

5.1.3 Summarised Statement of Changes in Equity

	Share Capital RM	Accumulated Loss RM	Total RM
<b>At 29 September 2004 (date of incorporation)</b>	*	-	*
Loss for the financial period	-	(6)	(6)
<b>At 31 December 2005</b>	*	(6)	(6)

\* Represents 20 subscribers' shares of RM0.10 each

5.1.4 Summarised Cash Flow Statement

	29.9.04 (date of incorporation) to 31.12.05 RM'000
Operating loss before working capital changes	(6)
Increase in prepayments	(652)
Increase in payables	658
Net cash generated from operating activities	-
Cash and cash equivalents at date of incorporation	#
Cash and cash equivalents at end of financial period	#

# Represents cash in hand of RM2.00

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



## 5.2 SRSB

## 5.2.1 Summarised Balance Sheets

	Note	31 December		
		2003 RM'000	2004 RM'000	2005 RM'000
<b>NON-CURRENT ASSETS</b>				
Plant and equipment	5.4	1,154	1,060	876
Quoted investment	5.5	1,500	-	-
Intangible assets	5.6	-	1,201	-
		<u>2,654</u>	<u>2,261</u>	<u>876</u>
<b>CURRENT ASSETS</b>				
Contract work in progress	5.7	253	6,791	1,479
Trade receivables	5.8	11,753	23,951	49,790
Other receivables	5.10	4,474	2,006	2,446
Cash and bank balances	5.11	1,296	3,051	25,959
		<u>17,776</u>	<u>35,799</u>	<u>79,674</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	5.12	5,142	23,688	65,573
Other payables	5.13	3,970	3,633	2,584
Borrowings	5.14	1,552	1,513	1,486
Taxation		-	-	50
		<u>10,664</u>	<u>28,834</u>	<u>69,693</u>
<b>NET CURRENT ASSETS</b>		<u>7,112</u>	<u>6,965</u>	<u>9,981</u>
		<u>9,766</u>	<u>9,226</u>	<u>10,857</u>
<b>FINANCED BY:</b>				
Share capital	5.15	1,500	1,500	1,500
Retained profits		8,050	7,482	9,199
Shareholders' equity		<u>9,550</u>	<u>8,982</u>	<u>10,699</u>
Deferred taxation	5.16	53	67	59
Hire purchase payables	5.17	163	177	99
Non-current liabilities		<u>216</u>	<u>244</u>	<u>158</u>
		<u>9,766</u>	<u>9,226</u>	<u>10,857</u>
Net tangible assets per share (RM)		<u>6.4</u>	<u>5.2</u>	<u>7.1</u>



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



## 5.2 SRSB (Contd.)

## 5.2.2 Summarised Income Statements

	Note	31 December		
		2003 RM'000	2004 RM'000	2005 RM'000
Revenue		18,670	39,478	86,767
Cost of sales		(10,198)	(31,627)	(74,510)
Gross profit		8,472	7,851	12,257
Other operating income		327	71	889
Administrative expenses		(2,024)	(1,920)	(1,723)
Other operating expenses		(4,499)	(4,094)	(6,184)
Profit from operations		2,276	1,908	5,239
Finance costs		(64)	(136)	(138)
Profit before taxation		2,212	1,772	5,101
Taxation	5.18	(1,140)	(720)	(1,764)
Profit after taxation		1,072	1,052	3,337
Weighted average number of ordinary shares in issue ('000)		1,500	1,500	1,500
Net earnings per share (sen)		71	70	222

## 5.2.3 Summarised Statements of Changes in Equity

	Share Capital RM	Distributable Retained Profits RM	Total RM
At 1 January 2003	1,500	6,978	8,478
Net profit for the year	-	1,072	1,072
At 1 January 2004	1,500	8,050	9,550
Net profit for the year	-	1,052	1,052
Dividends	-	(1,620)	(1,620)
At 31 December 2004	1,500	7,482	8,982
Net profit for the year	-	3,337	3,337
Dividends	-	(1,620)	(1,620)
At 31 December 2005	1,500	9,199	10,699

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



## 5.2 SRSB (Contd.)

## 5.2.4 Summarised Cash Flow Statements

	31 December		
	2003 RM'000	2004 RM'000	2005 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax	2,212	1,772	5,101
Adjustments for:			
Depreciation of plant and equipment	336	378	430
Provision for doubtful debts	-	-	236
Amortisation of intangible assets	-	300	293
Intangible assets written off	-	-	908
Gain on disposal of plant and equipment	-	-	(18)
Gain on disposal of quoted investment	-	(32)	-
Dividend income	(249)	-	-
Reversal of license cost over accrued in prior year	-	-	(850)
Finance costs	64	136	138
Interest income	(34)	(27)	(19)
Operating profit before working capital changes	2,329	2,527	6,219
Increase in receivables	(11,060)	(9,337)	(27,138)
Increase in payables	7,651	18,207	40,068
(Increase)/decrease in work in progress	(225)	(6,538)	5,312
Cash (used in)/generated from operations	(1,305)	4,859	24,461
Interest paid	(64)	(136)	(138)
Tax paid	(1,228)	(1,100)	(1,100)
Net cash (used in)/generated from operating activities	(2,597)	3,623	23,223
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment	(194)	(198)	(246)
Purchase of intangible assets	-	(1,501)	-
Proceeds from disposal of quoted investment	-	1,532	-
Proceeds from disposal of plant and equipment	-	6	18
Placement of deposit pledged to licensed bank	-	-	-
Interest received	34	27	19
Dividend received	249	-	-
Net cash generated from/(used in) investing activities	89	(134)	(209)

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



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## 5.2 SRSB (Contd.)

## 5.2.4 Summarised Cash Flow Statements (Contd.)

	31 December		
	2003 RM'000	2004 RM'000	2005 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of hire purchase payables	(46)	(54)	(72)
Dividends paid	-	(1,620)	-
Net cash used in financing activities	(46)	(1,674)	(72)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(2,554)	1,815	22,942
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	2,349	(205)	1,610
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	(205)	1,610	24,552
Cash and cash equivalents comprises:			
Cash in hand and at banks	310	2,037	24,926
Deposits with a licensed bank	986	1,014	1,033
Bank overdraft	(1,501)	(1,441)	(1,407)
	(205)	1,610	24,552

## 5.3 SIGNIFICANT ACCOUNTING POLICIES

## a. Basis of Preparation

The financial statements of SRHB and SRSB have been prepared under the historical cost convention and comply with applicable MASB Approved Accounting Standards in Malaysia unless otherwise indicated in the accounting policies below.

## b. Plant and Equipment and Depreciation

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 5.3(I).

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13. ACCOUNTANTS' REPORT (cont'd)

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**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**b. Plant and Equipment and Depreciation (Contd.)**

Depreciation of plant and equipment are provided on a straight line basis to write off the cost of each asset to their residual value over the estimated useful life at the following annual rates:

Computer systems	20%
Renovation	20%
Furniture and fittings	10%
Office equipment	10%
Telecommunication equipment	10%
Motor vehicles	20%

Upon the disposal of an item of plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

**c. Intangible Assets**

**Development costs**

Development costs which relate to the design of, maintenance and testing of new or improved software products are recognised as an asset to the extent that it is expected that such assets will enhance the existing products and generate future economic benefits.

**Software license**

Software license represents the license to market, use and exploit all intellectual property rights in "Golden Gateway" purchased.

Development costs and software license is stated at cost and amortised on a straight line basis over a period of five years. The policy for the recognition and measurement of impairment losses is in accordance with Note 5.3(I).

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

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**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**d. Contract Work In Progress**

Where the outcome of a contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the proportion of contract revenue earned to date to the total contract value.

Where the outcome of a contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the total of costs incurred on contracts plus, recognised profits (less recognised losses), exceeds progress billings, the balance is classified as due from customers on contracts.

Prior to year ended 31 December 2005, SRSB had not conformed with MASB 7 - Construction Contracts.

**e. Cash and cash equivalents**

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

**f. Leases**

A lease is recognised as a finance lease if it transfers substantially to the SRSB all the risks and rewards incident to ownership. All other leases are classified as operating leases.

**(i) Finance Leases**

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the SRSB's incremental borrowing rate is used.

13. ACCOUNTANTS' REPORT (cont'd)



**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**f. Leases (Contd.)**

**(i) Finance Leases (Contd.)**

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for lease assets is consistent with that for depreciable property, plant and equipment as described in Note 5.3(b).

**(ii) Operating Leases**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

**g. Provisions for Liabilities**

Provision for liabilities are recognised when SRHB and SRSB have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

**h. Income Tax**

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period 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 taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**h. Income Tax (Contd.)**

Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

**i. Employee Benefits**

**(i) Short term benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the SRSB. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plans**

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

**j. Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably.

Revenue from contracts is accounted for by the stage of completion method as described in Note 5.3(d).

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


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**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****k. Foreign Currency Transactions**

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition. All exchange rate differences are taken to the income statement.

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
United States Dollar	3.80	3.80	3.79

**l. Impairment of Assets**

At each balance sheet date, SRHB and SRSB reviews the carrying amounts of its assets other than inventories, deferred tax assets and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

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



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

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**5.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**m. Financial Instruments**

Financial instruments are recognised in the balance sheet when SRHB and SRSB have become a party to the contractual provisions of the instrument.

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

**(i) Other Non-Current Investments**

Other non-current investments are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

**(ii) Receivables**

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

**(iii) Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**(iv) Interest-Bearing Borrowings**

Interest-bearing overdrafts are recorded at the amount of proceeds received, net of transactions costs. All borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

**(v) Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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



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## 5.4 PLANT AND EQUIPMENT

	Computer system RM'000	Renovation RM'000	Furniture, fittings, office and telecom- munication equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>					
At 1 January 2003	217	675	456	844	2,192
Additions	42	13	53	86	194
At 31 December 2003	259	688	509	930	2,386
Additions	98	73	23	96	290
Disposals	(7)	-	-	-	(7)
At 31 December 2004	350	761	532	1,026	2,669
Additions	190	22	34	-	246
Disposals	-	-	-	(84)	(84)
At 31 December 2005	540	783	566	942	2,831
<b>Accumulated Depreciation</b>					
At 1 January 2003	106	152	125	513	896
Charge for the year	46	133	51	106	336
At 31 December 2003	152	285	176	619	1,232
Charge for the year	54	147	52	125	378
Disposals	(1)	-	-	-	(1)
At 31 December 2004	205	432	228	744	1,609
Charge for the year	100	151	54	125	430
Disposals	-	-	-	(84)	(84)
At 31 December 2005	305	583	282	785	1,955
<b>Net Book Value</b>					
At 31 December 2005	235	200	284	157	876
At 31 December 2004	145	329	304	282	1,060
At 31 December 2003	107	403	333	311	1,154

- Included in plant and equipment for the year ended 31 December 2005 are motor vehicles with net book value of RM122,000 held under hire purchase arrangements.
- Certain motor vehicles for the year ended 31 December 2005 costing RM340,000 are registered in the names of certain directors who holds them in trust for the SRSB.

**13. ACCOUNTANTS' REPORT** (cont'd)**5.5 QUOTED INVESTMENT**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Quoted unit trust in Malaysia, at cost	1,500	-	-
Quoted unit trust in Malaysia, at market value	1,415	-	-

**5.6 INTANGIBLE ASSETS**

	<b>Software License</b>	<b>Development Costs</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January 2004	-	-	-
Addition, at cost	1,300	201	1,501
Amortisation during the year	(260)	(40)	(300)
At 31 December 2004	1,040	161	1,201
Amortisation during the year	(260)	(33)	(293)
Written off during the year	(780)	(128)	(908)
At 31 December 2005	-	-	-

**5.7 CONTRACT WORK IN PROGRESS**

	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At 1 January	27	291	6,791
Cost incurred during the year	10,424	38,126	69,198
	10,451	38,417	75,989
Recognised during the year	(10,198)	(31,626)	(74,510)
At 31 December	253	6,791	1,479

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



## 5.8 TRADE RECEIVABLES

	2005			Total RM'000
	Less than 90 days RM'000	More than 90 days less than 180 days RM'000	More than 180 days RM'000	
Trade receivables	11,797	1,405	2,125	15,327
Less: Provision for doubtful debts	-	(1)	(235)	(236)
	<u>11,797</u>	<u>1,404</u>	<u>1,890</u>	<u>15,091</u>
Due from customers on contract (Note 5.9)				<u>34,699</u>
				<u>49,790</u>

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

SRSB has significant concentration of credit risk that may arise from exposures to two debtors.

The net trade receivables balances exceeding 90 days amounting to RM3,294,000 comprises amounts owing by two debtors of RM3,275,000 and others of RM19,000. Subsequent to year end and until the date of this report, approximately RM1,132,000 and RM19,000 have been received from the two debtors and others respectively.

Although these balances have exceeded the normal credit period, no provision for doubtful debts has been set aside as the directors are confident of recovering the amounts outstanding as these comprise amounts due from major customers with good long term on-going business relationships in excess of 4 years. In the past, these major customers have taken more than 180 days to settle their outstanding balances.

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

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**5.8 TRADE RECEIVABLES (CONTD.)**

Based on our review of SRSB's trade receivables as at 31 December 2005, the provision for doubtful debts is as follows:

	RM'000
Trade receivables	50,026
Less:	
(a) Due from customers on contract (Note 5.9)	(34,699)
(b) Balances outstanding less than 90 days	(11,797)
	<u>3,530</u>
(c) Balances outstanding more than 90 days with subsequent receipts	(1,151)
(d) Balances outstanding more than 90 days, less than 180 days with no subsequent receipts from two major customers	(1,075)
(e) Balances outstanding more than 180 days with no subsequent receipts from two major customers	(1,068)
Provision for doubtful debts	<u>236</u>

**5.9 DUE FROM CUSTOMERS ON CONTRACT**

	2003 RM'000	2004 RM'000	2005 RM'000
Contract cost incurred to date	-	-	106,136
Attributable profits	-	-	20,108
	-	-	<u>126,244</u>
Less: Progress billings	-	-	(91,545)
Due from customers on contract	-	-	<u>34,699</u>

SRSB has complied with Malaysian Accounting Standards Board's Standard No. 7 - Construction Contracts (MASB 7) for year ended 31 December 2005. Prior to this, SRSB had not complied with MASB 7 as the contracts in financial years 2003 and 2004, in the opinion of the directors, were short term contracts.

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

## 5.10 OTHER RECEIVABLES

	SRHB		SRSB	
	2005	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000
Prepayments	652	1,172	950	26
Sundry receivables	-	229	586	1,145
Sundry deposits	-	-	188	39
Amount due from director	-	3,073	282	1,236
	<b>652</b>	<b>4,474</b>	<b>2,006</b>	<b>2,446</b>

The amount due from a director is unsecured, interest free and has no fixed terms of repayment and amount outstanding as at 31 December 2005 was subsequently received on 24 May 2006.

## 5.11 CASH AND CASH EQUIVALENTS

	SRHB		SRSB	
	2005	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000
Cash in hand and at bank	#	310	2,037	24,926
Fixed deposits with licensed banks	-	986	1,014	1,033
	<b>#</b>	<b>1,296</b>	<b>3,051</b>	<b>25,959</b>

Fixed deposits of RM673,000 have been pledged to a bank as security for banking facility granted to SRSB.

The weighted average interest rates during the financial year were 3.3% and the average maturity of deposits as at year end is 59 days.

# Represents cash in hand of RM2.00.

## 5.12 TRADE PAYABLES

The normal credit term granted to SRSB ranges from 30 to 90 days.

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

AF: 03/19

**5.13 OTHER PAYABLES**

	<b>SRHB</b>		<b>SRSB</b>	
	<b>2005</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Accruals	-	442	1,371	473
Sundry payables	658	1,722	1,258	32
Due to a director related company	-	1,806	1,004	2,079
	<b>658</b>	<b>3,970</b>	<b>3,633</b>	<b>2,584</b>

The amounts due to a director and director related companies are unsecured, interest free and have no fixed terms of repayment.

**5.14 BORROWINGS**

	<b>SRSB</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Short Term Borrowings</b>			
Secured:			
Bank overdrafts	1,501	1,441	1,407
Hire purchase payables (Note 5.17)	51	72	79
	<b>1,552</b>	<b>1,513</b>	<b>1,486</b>
<b>Long Term Borrowings</b>			
Hire purchase payables (Note 5.17)	163	177	99
	<b>163</b>	<b>177</b>	<b>99</b>
<b>Total Borrowings</b>			
Bank overdrafts	1,501	1,441	1,407
Hire purchase payables (Note 5.17)	214	249	178
	<b>1,715</b>	<b>1,690</b>	<b>1,585</b>

The bank overdraft facility is secured by:

- legal charges over properties belonging to director related companies;
- fixed deposits in the name of a director of SRSB; and
- joint and several guarantee of certain directors of SRSB.

The weighted average interest rate during the financial year for bank overdrafts is 8.2% to 8.4% per annum.

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



## 5.15 SHARE CAPITAL

	SRIIB		SRSB	
	2005	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000
<b>Issued and fully paid</b>				
Ordinary shares of RM0.10 each	*	-	-	-
Ordinary shares of RM1.00 each	-	1,500	1,500	1,500
	*	1,500	1,500	1,500

\* Represents 20 shares of RM0.10 each

## 5.16 DEFERRED TAX

	SRSB		
	2003	2004	2005
	RM'000	RM'000	RM'000
At beginning of the year	50	53	67
Transfer from/(to) income statement (Note 5.18)	3	14	(8)
At end of the year	53	67	59

## 5.17 HIRE PURCHASE PAYABLES

	SRSB		
	2003	2004	2005
	RM'000	RM'000	RM'000
<b>Minimum lease payments:</b>			
Not later than 1 year	89	89	89
Later than 1 year and not later than 2 years	89	89	51
Later than 2 years and not later than 5 years	74	105	55
	252	283	195
Less: Future finance charges	(38)	(34)	(17)
	214	249	178
<b>Present value of finance lease liabilities:</b>			
Not later than 1 year	51	72	79
Later than 1 year and not later than 2 years	72	79	47
Later than 2 years and not later than 5 years	91	98	52
	214	249	178
<b>Analysed as:</b>			
Due within 12 months (Note 5.14)	51	72	79
Due after 12 months (Note 5.14)	163	177	99
	214	249	178

The hire purchase attracted interest at the balance sheet date at between 3.15% to 5.00% per annum.



**13. ACCOUNTANTS' REPORT** (cont'd)**5.18 TAXATION**

	SRHB		SRSB	
	2005	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
Current year	-	1,085	706	1,700
Underprovision in prior years	-	52	-	72
	-	1,137	706	1,772
Deferred tax relating to origination and reversal of temporary differences (Note 5.16)	-	3	14	(8)
	-	1,140	720	1,764

**5.19 FINANCIAL INSTRUMENTS****a. Financial Risk Management Objective and Policy**

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

**b. Interest Rate Risk**

SRSB's primary interest rate risk relates to interest-bearing debt, as SRSB had no substantial long-term interest-bearing assets as at 31 December 2005. The investment in financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in fixed deposits which yield better returns than cash at bank.

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

**c. Liquidity Risk**

SRSB actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, SRSB maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, SRSB strives to maintain available banking facilities of a reasonable level to its overall debt position.

**13. ACCOUNTANTS' REPORT** (cont'd)**5.19 FINANCIAL INSTRUMENTS (Contd.)****d. Credit Risk**

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the SRSB's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via company management reporting procedures.

As at balance sheet date, SRSB has significant concentration of credit risk in the form of outstanding balance due from 2 customers representing 98% of the total trade receivables.

**e. Fair Value**

The methods and assumptions used to estimate the fair values of Cash and Cash Equivalents, Trade and Other Receivables/Payables and Short Term Borrowings are at carrying amounts due to the relatively short term maturity of these financial instruments.

**6 ESTIMATED EXPENSES RELATING TO FLOATATION**

Estimated listing expenses of RM1.312 million relating to the Proposals would be set off against the Share Premium.

**7 PUBLIC ISSUE PROCEEDS**

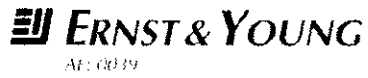
The cash proceeds of RM8.255 million (after deducting estimated listing expenses of RM1.312 million) to be received from the Public Issue will be utilised for the following purposes:

	<b>RM'000</b>
Upgrading of information technology systems	250
Marketing campaigns in promoting products	500
Expansion of R&D activities and facilities	3,500
Repayment of loans	1,500
Working capital	2,505
	<u>8,255</u>
Estimated listing expenses	1,312
	<u><u>9,567</u></u>

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

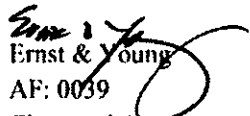
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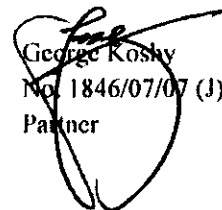
**8 AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared for any period subsequent to 31 December 2005.

Yours faithfully,

  
Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia

  
George Kosky  
No. 1846/07/07 (J)  
Partner

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14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT

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*(Prepared for inclusion in the Prospectus)*

*Infocredit*



**Infocredit D&B (Malaysia) Sdn Bhd (527570-M)**  
Level 9-3A, Menara Milenium, Jalan Damantela,  
Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.  
Tel : 603.2718.1000 Fax : 603.2718.1001  
Website : [www.icdnb.com.my](http://www.icdnb.com.my)

Date: 1 JUN 2006

The Board of Directors  
Silver Ridge Holdings Bhd  
4-6, Jalan 28/70A,  
Desa Sri Hartamas,  
50480 Kuala Lumpur  
Wilayah Persekutuan

**Re: Independent Market Research Report for Silver Ridge Holdings Bhd (“SRHB”)**

This Report has been prepared for inclusion in the Prospectus to be dated **26 JUN 2006** pursuant to the listing of SRHB on MESDAQ Market of Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an industry assessment on the Telecommunication Infrastructure Solutions Provider in Malaysia and to prepare an Independent Market Research Report on its proposed subsidiary companies' (collectively known as the “the SRHB Group”) operations.

The research methodology for the study includes primary research approach that involves interviews with trade associations and related Government agencies/authorities, as well as secondary research such as reviewing press articles, periodicals, literatures, Internet research and on-line databases.

Infocredit D&B (Malaysia) Sdn Bhd (the “Independent Market Researcher” or “IMR”) has prepared this Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. We acknowledge that if there are significant changes affecting the content of the Report after the issue of the Prospectus and before the issue of securities, the IMR has an on-going obligation to either cause the Report to be updated for the changes or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf  
**INFOCREDIT D&B (MALAYSIA) SDN BHD**

A handwritten signature in black ink, appearing to be 'Tan Sze Chong', written over a horizontal line.

Tan Sze Chong  
Managing Director



## EXECUTIVE SUMMARY

This intention of this report is to provide industry assessment on the Telecommunication Infrastructure Solutions Providers in Malaysia and with specific focus on the Broadband and Third Generation ("3G") sectors. The objective of the research is to outline the changing market context and trend within these two sectors. Potential structures, impediments, viability and prospect of the industry are also assessed.

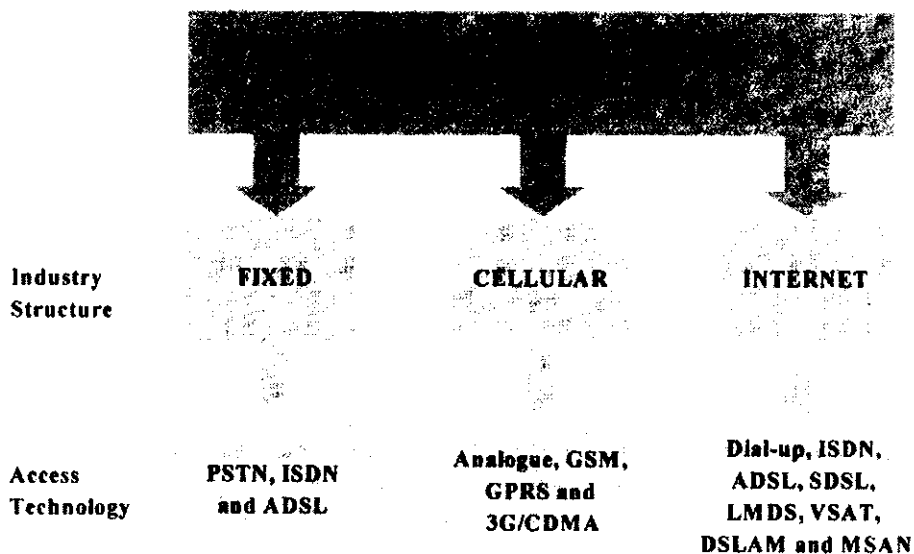
### 1 INTRODUCTION

#### 1.1 OVERVIEW OF TELECOMMUNICATION INDUSTRY IN MALAYSIA

In Malaysia, the building of the telecommunication infrastructure has been a Government priority since the 1970s. Presently, Malaysia has one of the most advanced telecommunication networks amongst the developing countries, utilising technologies such as fibre optics, satellites, wireless transmission, digitalisation and satellite services.

The telecommunications industry structure can be segmented into fixed line, cellular and Internet services, as illustrated below.

**Malaysia: Telecommunications Industry Structure**



Source: Infocredit D&B

14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(cont'd)*



**1.1.1 FIXED-LINE SECTOR**

Fixed-line telephony transmits voice and data communications via a fixed-connection point, with communication taking place via copper wire, fibre-optic cable or a fixed-radio link. Generally, there are two types of fixed line revenues, depicted as follows:

- Call charges: the revenue generated per call
- Access lines: the revenue from connections and rental of access lines to the fixed network.

Within access lines, there are two types of lines namely the exchange lines and Integrated Services Digital Network ("ISDN") lines. Exchange lines are lines going to telephone exchanges such as the Public Switched Telephone Network ("PSTN") and Asymmetric Digital Subscriber Line ("ADSL"), while ISDN lines are high-speed (but not broadband) lines carrying voice and data traffic.

**1.1.2 CELLULAR TELECOMMUNICATIONS SECTOR**

Cellular services involve transmission of voice and data whereby services are not delivered via a fixed line or link. Revenues are generated mainly from voice and data transmissions, including the use of short messaging services ("SMS"), multimedia messaging services ("MMS") and other forms of mobile data services.

Locally, the cellular network operates via one of the three (3) systems as described below:

**(I) Global System for Mobile Communication ("GSM")**

GSM or 2G is a digital cellular system that is widely used globally. GSM digitises and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot. It operates at either the 900 MHz or 1800 MHz frequency band.

**(II) General Packet Radio Services ("GPRS")**

GPRS or 2.5G is a packet-based wireless communication service that promises data rates from between 56 Kilobytes per second ("Kbps") and 114 Kbps and continuous connection to the Internet for cellular phone and computer users. The higher data rates will allow users to take part in video conferences and interact with multimedia Web sites and similar applications using mobile handheld devices as well as notebook computers.

GPRS is based on GSM communication and will complement existing services such as circuit-switched cellular phone connections and the SMS. In theory, GPRS packet-based service should cost users less than circuit-switched services since communication channels are being used on a shared-use, as-packets-are-needed basis rather than dedicated only to one user at a time. It should also be easier to make applications available to mobile users because the faster data rate means that middleware applications need not adapt to the slower speed of wireless systems. As GPRS becomes available, mobile users of a virtual private network will be able to access the private network continuously rather than through a dial-up connection.

14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (cont'd)



***(III) Universal Mobile Telecommunications Services ("UMTS")***

UMTS is a 3G broadband. It is a packet-based transmission of text, digitised voice, video and multimedia at data rates up to 2 megabits per second ("Mbps") that offers a consistent set of services to mobile computer and phone users. It offers Wide-band Code Division Multiple Access (WCDMA) radio technology. The CDMA technology offers higher throughput and real-time services that are designed to deliver pictures, graphics, video communications, and other multimedia information as well as voice and data to mobile wireless subscribers.

**1.1.3 INTERNET SERVICES**

In 1995, Mimos Berhad introduced the first Internet service in Malaysia under the brand name of Jaring. Since then, the number of Internet Service Providers ("ISPs") has grown to five (5) players, namely Mimos Berhad ("Mimos"), Telekom Malaysia Berhad ("Telekom Malaysia"), Digi Telecommunications Sdn. Bhd., TT dotCom Sdn. Bhd ("TT dotCom") and Celcom Berhad ("Celcom"). Among the ISPs, Celcom is the only one that does not provide Internet access services but only to its cellular phone subscribers. The Internet penetration was propagated with the Government's effort to promote the adoption of the information technology.

Most subscribers access the Internet using dial-up technology and ISDN. As Internet gains prominence, broadband technologies namely ADSL, Symmetrical Digital Subscriber Line ("SDSL"), Local Multipoint Distribution System ("LMDS") and Very Small Aperture Terminal ("VSAT") emerged. These technologies facilitate enhanced speed and efficient management in the transfer of data and voice to accommodate high-speed Internet and heavy multimedia usages.

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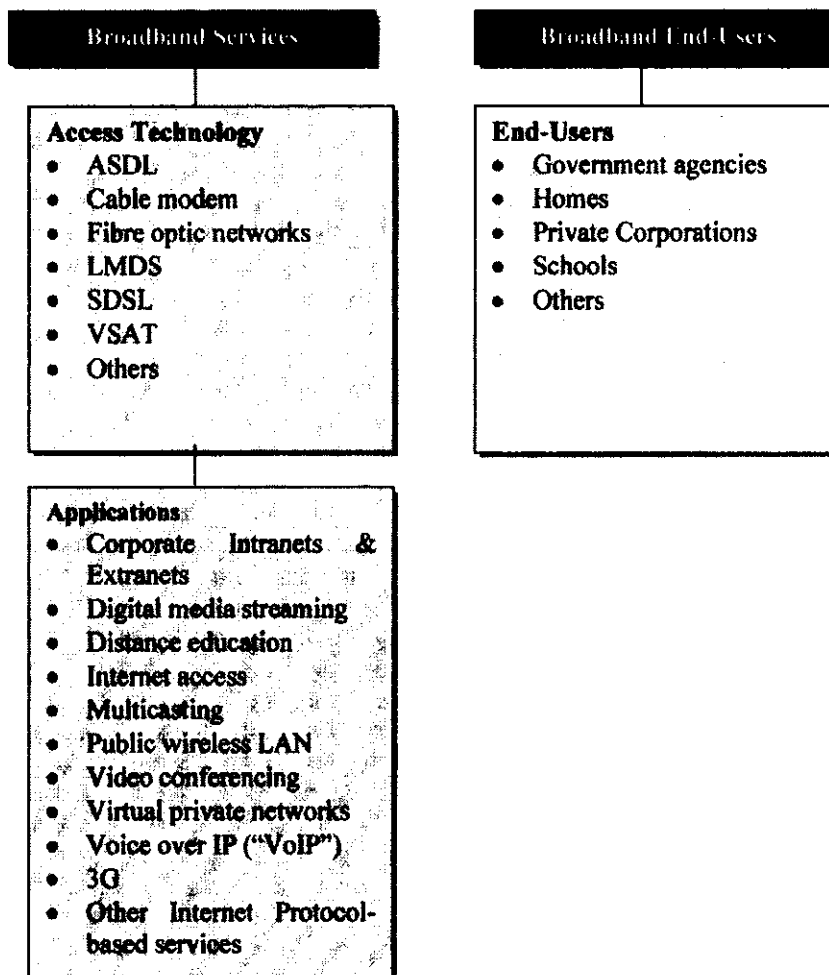


## 2 INTRODUCTION TO BROADBAND AND 3G

### 2.1 DEFINITION OF BROADBAND

Broadband can be defined as a transmission capacity that is faster than the primary rate ISDN, at 1.5 or 2.0 Megabytes per second ("Mbps"). Broadband is considered to correspond to transmission speed equal or greater than 256 kbits/s. It is a medium or last mile for the users to connect, receive and transfer data and voice, using high-speed digital technologies. It is faster than the traditional modem dial-up and ISDN. Generally, broadband uses a wide band of frequencies to transmit information.

#### An Overview of Broadband Services in Malaysia



Source: Infocredit D&B



## 14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (cont'd)



## 2.1.1 OVERVIEW OF BROADBAND IN MALAYSIA

In Malaysia, the broadband industry is relatively new. In terms of product life cycle, it is still at an infancy stage. The penetration rate is lower compared to developed countries such as USA, Japan and South Korea.

Satellite broadband services is very new in Malaysia, as the deployment of satellite broadband services have only been carried out by two (2) local telecommunication companies ("telcos"), namely Telekom Malaysia and Maxis Communications Bhd.

## Malaysia: Internet Subscribers by Type, 1998 – 2005

	1998	1999	2000	2001	2002	2003	2004	2005
Internet Dial-Up								
- Number of Subscriptions ('000)	405	668	1,659	2,113	2,614	2,881	3,293	3,672
- Growth Rate (%)	97.6	64.9	148.4	27.4	23.7	10.2	5.6	1.4
- Penetration Rate (%)	1.8	2.9	7.1	8.8	10.5	11.4	12.7	13.9
- Estimated Number of Users ('000)	1,215	2,004	4,977	6,345	7,842	8,643	9,879	11,016
ISDN								
- Subscribers	8,866	18,089	34,512	52,202	71,181	70,219	59,292	48,942
- ISDN B Channel Equivalent Subscribers	17,732	36,178	69,024	104,404	142,362	140,438	118,584	97,884

Note: The estimated number of dial-up users is based on the generally accepted rate of 3 users per account in Malaysia  
Source: MCMC

Generally, the majority of the population are still using dial-up access and ISDN as a medium to connect to the Internet. The penetration rate of dial-up Internet subscribers in Malaysia stood at 13.9% or 3.7 million subscribers in 2005.

## Malaysia: Broadband Subscribers by Technology, 2002 – 2005

	2002	2003	2004	2005
Number of Subscriptions				
- ADSL	18,511	108,173	247,802	477,685
- SDSL	542	1,931	2,834	3,712
- Others	249	302	1,865	9,233
- Total	19,302	110,406	252,501	490,630
Penetration Rate (%)	0.08	0.45	0.98	1.86

Sources: MCMC

In Malaysia, the penetration rate of broadband services has increased from 0.08% in 2002 to 1.86% in 2005. Among the 490,630 subscribers, 97.4% of them are using ADSL as the medium. The aggressive promotions and new products launches by Telekom Malaysia, Maxis, Mimos, TT dotCom and Nasioncom Sdn Bhd have accelerated the penetration rate.

## 2.2 DEFINITION OF 3G

3G is an evolution of the telecommunication current system, which has already made available by telecommunication companies in most developed countries. 3G is a broadband, packet-based transmission for text, digitised voice, video, and multimedia at data rates up to 2 Mbps based on the GSM communication standard of UMTS.



A comparison of these services is simplified in the figure below.

#### Comparisons of 2G, 2.5G and 3G Services

Services	2G	2.5G	3G
Voice Telephony	✓	✓	✓
Short Messaging (SMS)	✓	✓	✓
Circuit Data	9.6 Kbp/s	28.8 Kbp/s	64.0 Kbp/s
Multimedia Messaging	✗	✓	✓
Packet Data	✗	62.4 Kbp/s	2.0 Mbps
Video Messaging	✗	✓	✓
Video Telephony	✗	✗	✓

Source: Infocredit D&B

#### 2.2.1 OVERVIEW OF 3G IN MALAYSIA

The current technology that the telco operators adopt in the market place comprises a mixture of 2G and 2.5G, 3G and Enhanced Data GSM Environment (EDGE) platforms. The services offered by these platforms aside from the traditional voice and SMS, include MMS and GPRS.

In Malaysia, 3G services is made available through technologies such as WCDMA, which offers much higher data speeds to mobile and portable wireless devices than commonly offered by 2G or 2.5G. It supports mobile/portable voice, images, data and video communications at up to 2Mbps (local area access) or 384 Kbps (wide area access). A five (5) MHz-wide carrier is used, compared to 200 kHz-wide for narrowband CDMA.

As the evolution of the telecommunications industry gain pace, the regulatory environment will have to give more support to the growth of alternative, more advanced service providers. In realising the importance of government policy in the growth of the local telecommunications industry, the Government has adopted a bidding mechanism that encouraged operators that are able to attach significant value to the licences.

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### 3 GOVERNMENT LEGISLATION, POLICIES & INCENTIVES

Since 1 April 1999, the telecommunication and multimedia industry is regulated by MCMC. Previously, the telecommunication industry was regulated by the Jabatan Telekom Malaysia, while the broadcasting industry was regulated by the Ministry of Information. The Commission was established under Communication & Multimedia Act ("CMA") which came into force on 1 November 1998.

Subsidiary legislation under CMA includes:

- Communications and Multimedia (Spectrum) Regulations 2000
- Licensing Regulations
- Communications and Multimedia (Technical Standards) Regulations 2000

Under CMA, the ownership or provision of any network facilities, the provision of any network services, the provision of any application services, or the provision of any content applications services requires a license. The regulatory framework established by the CMA and the Licensing Regulations provide four (4) main categories of licences as follows:

- Network Facilities Provider Licence
- Network Services Provider Licence
- Applications Services Provider Licence
- Content Applications Services Provider Licence

Within each of the above four (4) categories, CMA provides the issuance of individual and class licences.

In terms of policies, the Government has set foreign ownership restrictions, anti-competitive behaviour restrictions, industry development framework as well as regime under the Telecommunication Act for interconnection prices, local termination, equal access, Internet access as well as radio base stations.

Malaysia has offered a 10-point Bill of Guarantees. A vital commitment given by the Government to MSC-status companies is to provide a comprehensive and realistic framework of cyberlaws and intellectual property laws to facilitate and assist the development of a truly IT and multimedia environment.

Multimedia Development Corporation has actively helped to develop and pioneer the cyberlaws. It gives Multimedia Super Corridor ("MSC")-status companies a sound framework to protect the intellectual property of the respective companies and at the same time ensure the smooth delivery of services by these companies.

MSC has initiated seven (7) flagship applications to accelerate the transformation of Malaysia into a knowledge-based society. These applications will stimulate the need for telecommunications medium as the tool to deliver them to end-users. These applications are engineered to jumpstart the MSC initiative and create a multimedia utopia for innovative producers and users of multimedia technology.

## 14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT (cont'd)



#### 4 KEY PLAYERS

The following players were selected as they have activities similar to the range of products and services provided by SRHB.

##### *Key Market Players in Broadband (Wireless/Fixed Line)*

<i>Company</i>	<i>Core Business</i>
Apex Communication Sdn Bhd	<p>Implementation of various solutions and systems in the private, government and education sectors</p> <p>Involved in the manufacture, supply, installation and commissioning of broadcasting equipment for the RTM television and transmission stations throughout Malaysia:</p> <p>Supplies equipments such as trolleys, universal power supplies (UPS), notebooks, projectors many more computer peripherals from various established company brands.</p>
KUB Telekomukasi Sdn Bhd	Provision of integrated solutions for telecommunications, electronics and multimedia related business and network management, consultancy services, research and also systems engineering services.
Trisilco Folec Sdn Bhd	<p>Provision of network-engineering services to all the major telecommunications operators and vendors in Asia.</p> <p>Trisilco Folec has a wide array of skillets engaged in design, deployment, upgrading and optimisation of wireless and cellular communications networks, and microwave transmission systems in Malaysia, Singapore, Indonesia, Philippines and Thailand.</p>
Commverge Solutions (M) Sdn Bhd	<p>Provides telecommunications and Internet Service Providers with independent and unbiased end-to-end technology and business solutions,</p> <p>Able to design, implement and maintain converged voice and data networks, mobile network infrastructure, as well as 2.5G and 3G application platforms.</p>
Permec Transmission Sdn Bhd	Provision of fibre optic transmission system, wireless system, broadcast and broadband access system.
SRHB	A next generation telecommunication provider that provides telecommunication system architecture & design, next generation network solutions as well as telecommunication related software solutions.

##### *Key Market Players in 3G/Next Generation Telecommunication Solutions*

<i>Company</i>	<i>Core Business</i>
Ericsson (Malaysia) Sdn Bhd	Provide total solutions - from systems and applications to services and core technology for mobile handsets.

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14. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(cont'd)*

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*Infocredit*



Based upon the combined revenues of key players in the broadband (wireless/fixed line) sector in Malaysia, SRHB Group captured a market share of approximately 6% out of the RM671 million in 2004. In terms of the 3G/next generation telecommunication solutions segment, SRHB Group's market share is estimated at 8% in 2004.

It is important to distinguish SRHB Group from the players listed above as some of these companies have operations abroad and operates in other segments of the telecommunication/ICT industry. More than 90% of SRHB Group's target market is focused on telecommunication infrastructure for Telcos. The other major players have diversified portfolio that includes provision telecommunication services for other markets such as schools (for educational purpose) and SME/MNC (for commercial use) as well as other ICT project revenue.

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## 5 PROSPECT AND OUTLOOK

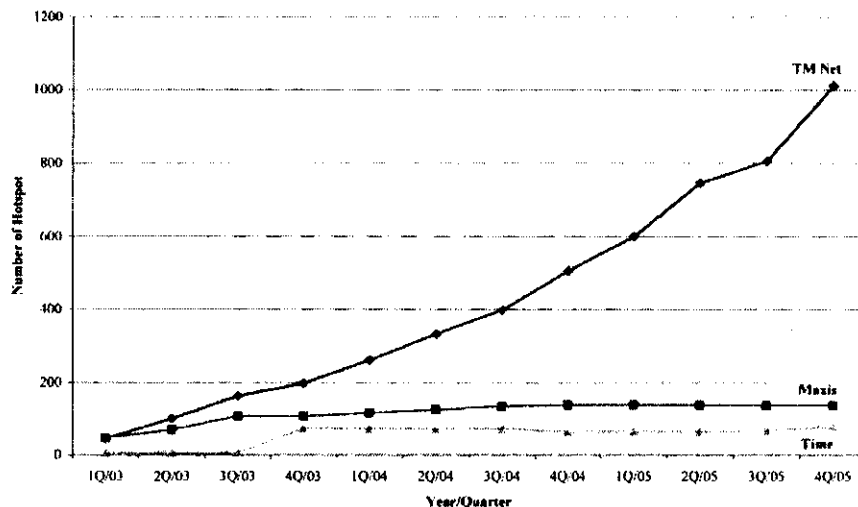
### 5.1 PROSPECTS OF BROADBAND

In Malaysia, the broadband industry is highly scalable as its penetration rate is as low as 1.86% in 2005 as compared to the dial-up Internet penetration rate of 13.9%. As the Internet and multimedia applications start to become heavy and extensive, users will feel the need to upgrade to faster access speed. The growth of broadband services will be driven by the proliferation of applications such as Wireless Fidelity ("WiFi"), VoIP and the implementation of 3G.

Another application that is rapidly catching up is the WiFi as it enables Internet users to browse the Internet in public places, within the range of the WiFi base station. Currently, most laptops are equipped with WiFi capabilities.

At present, the WiFi service is limited to certain Hotspots locations. In 2005, there are 1,227 hotspots, with TM Net (by TM Net Sdn Bhd) leading with 1,011 hotspot locations, followed by Maxis (by Maxis Communications Bhd), 137 and TIME (by TIME dotNet Berhad), 79.

**Malaysia: Number of Hotspots by Licensees, 2003 - 2005**



Q - Quarter  
Sources: MCMC

Under the Framework for Industry Development 2002-2006, MCMC has formulated a National Broadband Plan to achieve a 50.0% broadband penetration rate for Malaysian households by 2007. The objective of the plan is to speed up the adoption of broadband in Malaysia as well as formulate appropriate pricing strategies and gauge infrastructure adequacy. All these positive indicators point to the fact that there are abundant opportunities for Broadband sector in Malaysia. Players in the network infrastructure and telecommunication services are expected to benefit from this proliferation of Internet driven by Broadband.



## 5.2 PROSPECTS OF 3G

3G is the follow up to the first generation (1G) and second generation 2G in wireless communications. 3G standards are being developed in worldwide and it is claimed that it is only a matter of time before universal deployment takes place. Malaysia is currently in the 2.5G and migrating to 3G. 3G includes capabilities and features such as enhanced multimedia (voice, data, video, and remote control), usability on all popular modes (cellular telephone, e-mail, paging, fax, videoconferencing, and Web browsing), broad bandwidth and high speed (upwards of 2 Mbps), routing flexibility (repeater, satellite, LAN), operating at approximately 2 GHz to transmit and receive frequencies and roaming capability throughout Europe, Japan, and North America.

In 2002, MCMC awarded two (2) out of four (4) 3G spectrum blocks to Telekom Malaysia and Maxis' subsidiary UMTS (Malaysia) Sdn Bhd. The network rollout for Telekom Malaysia's 3G services known as Celcom 3G was in May 2005 while the other service provider, Maxis Communications Bhd, launched its 3G service in July 2005. In March 2006, another two 3G spectrum licences have been awarded to TT dotCom and MiTV Corporation Sdn Bhd ("MiTV").

To minimise duplication of resources, Government policies are in place to allow buildings in designated areas to share each other's network resources. This is to ensure that the network operators are not constrained by financial resources when the telecommunications market becomes gradually liberalised. The Government made a commitment that foreign suppliers from other World Trade Organisation countries would be free to provide cross-border telecommunication services into Malaysia. In the cellular services segment, both access and call charges are unregulated, allowing local operators to have the freedom to determine their own rates.

In contrast, fixed-line tariffs are highly regulated by the Government within the PSTN segment (domestic calls), which has only little bearing on the level of competition as Telekom Malaysia is still holding its monopolistic position. Unlike the PSTN/IP segment (long-distance calls), call rates are dictated based on market forces by Alternative Voice Service Providers. With the advent of 3G services and Mobile Virtual Network Operators, the landscape of the telecommunication industry is expected to see further transformation.

It is not easy to predict when full deployment will take place, but the fact is that licences have already been awarded to the telecommunications carriers such as Telekom Malaysia, Maxis, TT dotCom and MiTV. The next phase will involve these players estimating the demand of the end-users and gradually upgrading their capacity accordingly. Nevertheless, the deployment of 3G will need players such as SRHB Group to implement the network, which is expected to be a key driving force for the SRHB Group in the future.

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Company No.: 667785-W

**15. DIRECTORS' REPORT***(Prepared for inclusion in the Prospectus)***Registered Office:**

Level 7, Menara Milenium  
 Jalan Damansara  
 Pusat Bandar Damansara  
 Damansara Heights  
 50490 Kuala Lumpur  
 Wilayah Persekutuan

**20 JUN 2006****The Shareholders of Silver Ridge Holdings Bhd**

Dear Sir/Madam,

On behalf of the Board of Directors of Silver Ridge Holdings Bhd, I report after due inquiry that during the period from 31 December 2005, being a date to which the last audited financial statements of our Company and our subsidiary company have been made up, to the date hereof, being a date not earlier than 14 days before the issue of this Prospectus, that:-

- (i) the business of our Company and our subsidiary company have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of our Directors, no circumstances have arisen since the last audited financial statements of our Company and our subsidiary company which have adversely affected the trading or the value of the assets of our Company or our subsidiary company;
- (iii) the current assets of our Company and our subsidiary company appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) save for the contingent liabilities disclosed in Section 12.2.4 of this Prospectus, there are no other contingent liabilities that have arisen by reason of any guarantees or indemnities given by our Company or our subsidiary company;
- (v) in the opinion of the Directors, they are not aware of since the last audited financial statements of our Company and our subsidiary company where, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (vi) save as disclosed in the Accountants' Report as set out in Section 13 of this Prospectus, there have been no material changes in published reserves nor any unusual factors affecting the profits of our Company and our subsidiary company since the last audited financial statements of our Company and our subsidiary company.

Yours faithfully  
 For and on behalf of the Board of Directors  
**SILVER RIDGE HOLDINGS BHD**

  
 Mohd Subhimi Bin Abdullah  
 Managing Director