

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)

Shamsir Jasani Grant Thornton 

Chartered Accountants

(PREPARED FOR INCLUSION IN THIS PROSPECTUS)

Date: 10 August 2006

The Board of Directors
SCAN Associates Berhad
Level 8, Menara Naluri
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50450 Kuala Lumpur

Dear Sirs,

**SCAN ASSOCIATES BERHAD ("SCAN") AND ITS SUBSIDIARY COMPANIES ("SCAN GROUP")
ACCOUNTANTS' REPORT**

1. INTRODUCTION

This report has been prepared by us, an Approved Company Auditor for inclusion in this Prospectus in connection with the floatation of the entire issued and paid up share capital of SCAN on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") which includes the following:-

(i) Public Issue

Public Issue of 50,500,000 new ordinary shares of RM0.10 each ("Public Issue Share") to the Malaysian Public, at an issue price of RM0.50 per Public Issue Share, by way of private placement to identified investors, pink form allocation and allocation to the Malaysian public; and

(ii) Listing and Quotation on MESDAQ Market of Bursa Securities

In conjunction with the Public Issue, SCAN seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital of SCAN comprising 200,000,000 SCAN Shares on the Official List of the MESDAQ Market of Bursa Securities.

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10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **2. GENERAL INFORMATION****2.1 Restructuring scheme**

In conjunction with and as part of the listing of and quotation for the entire issued and paid-up share capital of SCAN on the MESDAQ Market of Bursa Securities, the following was carried out:-

(a) Bonus Issue

Bonus Issue to the existing shareholders of SCAN amounted to 8,570,000 new ordinary shares of RM1.00 each in SCAN effected via capitalisation of the retained profits and capital redemption reserve of SCAN; and

(b) Rights Issue

Rights Issue of 2,095,000 new ordinary shares of RM1.00 each in SCAN at par to all the existing shareholders in SCAN. The Rights Issue was undertaken on a proportionate basis of approximately 0.16 new ordinary shares for every 1 existing ordinary share held in SCAN.

Upon completion of the Bonus Issue and Rights Issue, the par value of RM1.00 per ordinary share of SCAN was subsequently subdivided into ten (10) ordinary shares of RM0.10 each.

The Bonus Issue and Rights Issue were completed on 9 May 2006 and 19 May 2006 respectively.

2.2 Background

SCAN Associates Bhd. was incorporated and domiciled in Malaysia under the Companies Act, 1965 on 9 September 2000, as a private limited liability company under the name of Secure Computing & Networking Associates Sdn. Bhd.. The Company changed to its current name on 27 August 2002. Subsequently, it was converted to a public company on 15 June 2005.

2.3 Share capital**(a) Ordinary shares****(i) Authorised share capital**

The changes in the Company's authorised ordinary share capital since its date of incorporation were as follows:-

Date of creation	No. of shares	Par value RM	Cumulative total RM
9 September 2000	100,000	1.00	100,000
24 October 2000	4,900,000	1.00	5,000,000
12 August 2002	4,500,000	1.00	4,500,000
5 May 2005	5,000,000	1.00	5,000,000
9 May 2006	20,000,000	1.00	25,000,000
19 May 2006	250,000,000	0.10	25,000,000

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **2. GENERAL INFORMATION (CONT'D)****2.3 Share capital (cont'd)****(a) Ordinary shares (cont'd)****(i) Authorised share capital (cont'd)**

On 12 August 2002, the Company had re-classified its authorised ordinary share capital to 4,500,000 ordinary shares and 500,000 redeemable preference shares.

On 5 May 2005, the Company had re-classified its existing authorised share capital of RM5,000,000 divided into 4,500,000 ordinary shares of RM1.00 each and 500,000 preference shares of RM1.00 into 5,000,000 ordinary shares divided into 5,000,000 ordinary shares of RM1.00 each.

On 9 May 2006, the Company increased its authorised share capital to RM25,000,000 divided into 25,000,000 ordinary shares of RM1.00 each.

Subsequently, on 19 May 2006, the Company had splitted its authorised ordinary share capital from RM1.00 to RM0.10 per share.

(ii) Issued and fully paid-up ordinary share capital

The changes in the Company's issued and fully paid-up ordinary share capital since its date of incorporation were as follows:-

Date of allotment	No. of shares	Par value RM	Consideration	Cumulative total RM
9 September 2000	2	1.00	Subscribers' shares	2
24 October 2000	2,999,998	1.00	Other than cash (capitalisation of development expenditure)	3,000,000
2 July 2001	1,285,000	1.00	Cash	4,285,000
9 May 2006	8,570,000	1.00	Other than cash (Bonus issue)	12,855,000
19 May 2006	2,095,000	1.00	Cash (Rights issue)	14,950,000 *
19 May 2006	149,500,000	0.10	Subdivide from RM1.00 per share to RM0.10 per share	14,950,000

* The shares were partly paid by an amount of RM1,600,000 as at 19 May 2006. The balance of RM495,000 was fully paid subsequently.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **2. GENERAL INFORMATION (CONT'D)****2.3 Share capital (cont'd)****(b) Redeemable preference shares**

- (i) The changes in the Company's authorised redeemable preference shares since its date of incorporation were as follows:-

Date of creation	No. of shares	Par value RM	Cumulative total RM
12 August 2002	500,000	1.00	500,000
5 May 2005	-	-	-

On 5 May 2005, the authorised redeemable preference shares had been fully re-classified to ordinary share capital of RM1.00 each.

- (ii) The changes in the Company's issued and fully paid redeemable preference shares since its date of incorporation were as follows:-

Date of allotment	No. of shares	Par value RM	Consideration	Cumulative total RM
12 August 2002	5,000	1.00	Cash	5,000

The redeemable preference shares were fully redeemed on 30 December 2003.

2.4 Principal activity

The Company is principally engaged in providing Information and Communication Technology (ICT) Security Solutions. The subsidiary companies of the Company are as follows:-

<u>Name of company</u>	<u>Effective equity interest held by SCAN %</u>	<u>Principal activities</u>	<u>Date and place of incorporation</u>
i. SCAN Crypto-Tech Sdn Bhd ("SCTSB")	100	Intended for provision of crypto solution and secure mobile communications products and services #	6 September 2002 Malaysia
ii. PT SCAN Nusantara ("PTSN")	99	Provision of ICT Solutions	27 September 2004 Indonesia

SCAN and the above subsidiary companies will be collectively referred to as SCAN Group.

The subsidiary company has yet to commence business operations

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **2. GENERAL INFORMATION (CONT'D)****2.5 Share capital history of subsidiary companies****A. SCTSB**

The changes in the Company's authorised share capital and issued and fully paid-up share capital since its date of incorporation were as follows:-

(a) Authorised share capital

Date of creation	No. of ordinary shares	Par value RM	Cumulative total RM
6 September 2002	100,000	1.00	100,000

(b) Issued and fully paid-up share capital

Date of allotment	No. of ordinary shares	Par value RM	Consideration	Cumulative total RM
6 September 2002	2	1.00	Subscribers' shares	2

B. PTSN

The changes in the Company's authorised share capital and issued and fully paid-up share capital since its date of incorporation were as follows:-

(a) Authorised share capital

Date of creation	No. of ordinary shares	Par value			Cumulative total		
		Rp	USD	RM	Rp'000	USD	RM
27 September 2004	200,000	9,188	1.00	3.80	1,837,600	200,000	760,000

(b) Issued and fully paid-up share capital

Date of allotment	No. of ordinary shares	Par value			Consideration	Cumulative total		
		Rp	USD	RM		Rp'000	USD	RM
27 September 2004	100,000	9,188	1.00	3.80	Subscribers' shares	918,800	100,000	380,000

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **3. FINANCIAL STATEMENTS AND AUDITORS****(a) SCAN**

The financial statements of SCAN for the relevant financial years and period under review were audited by other firm of auditors. The financial statements under review were reported without any audit qualification.

(b) SCTSB

The financial statements of SCTSB for the relevant financial years and period under review were audited by other firm of auditors. The financial statements under review were reported without any audit qualification except for the financial year ended 31 December 2005.

The Auditors' report for the financial year ended 31 December 2005 emphasis that the Company was not involved in any business activity during the financial year. The Company's ability to continue as a going concern is dependent upon its ability to secure profitable future business.

(c) PTSN

The financial statements of PTSN for the relevant financial years and period under review were audited by other firm of auditors. The financial statements under review were reported without any audit qualification.

The Auditors' report of the Company emphasis that as at 31 December 2005, the Company is still under the development stage. The success of this Company and to be profitable in the near future will depend on how the Company can generate enough revenue to support their operational cost.

4. CONVERSION RATE

In the preparation of our report, we have converted all figures in Indonesia Rupiah Dollar ("IDR") to Ringgit Malaysia ("RM"). The applied rate of exchange for all financial years and period under review is IDR1: RM0.0004.

5. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on a basis consistent with the accounting policies normally adopted by SCAN Group and in accordance with applicable approved accounting standards in Malaysia.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP****6.1 Summarised income statements****(a) SCAN Group**

The following table sets out the summary of the financial results prepared based on the audited consolidated financial statements of the SCAN Group for the three (3) financial years ended ("FYE") 31 December 2003 to 31 December 2005 and 6 months financial period ended ("FPE") 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Revenue	20,436,195	21,574,831	25,980,496	19,312,270
Gross profit	6,627,094	12,376,325	16,823,168	8,148,605
Profit before amortisation, depreciation, interest and taxation	6,388,366	10,185,579	10,567,858	4,971,194
Amortisation	(600,000)	(600,000)	(500,000)	-
Depreciation	(563,371)	(672,542)	(1,262,234)	(816,395)
Interest expenses	(1,610,133)	(940,678)	(132,133)	(160,804)
Profit before taxation but after amortisation, depreciation and interest	3,614,862	7,972,359	8,673,491	3,993,995
Taxation	(111,400)	(111,639)	207,497	163,295
Profit after taxation before minority interest	3,503,462	7,860,720	8,880,988	4,157,290
Minority interest	-	1,411	2,389	-
Profit after taxation	3,503,462	7,862,131	8,883,377	4,157,290
Weighted average number of shares assumed to be issued	149,500,000	149,500,000	149,500,000	149,500,000
Gross earnings per share ("EPS") (sen)	2.42	5.33	5.80	5.34*
Net EPS (sen)	2.34	5.26	5.94	5.56*

* Annualised

10. ACCOUNTANTS' REPORT (Cont'd)

Shamsir Jasani Grant Thornton 

6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)

6.1 Summarised income statements (cont'd)

(a) SCAN Group (cont'd)

Notes:-

- (i) The gross earnings per share has been calculated based on their profit before taxation on the assumption that the issued and fully paid-up share capital of SCAN of 149,500,000 ordinary share at RM0.10 each in issue after the share split.

The net earnings per share has been calculated based on the profit after taxation and on the assumption that the issued and fully paid-up share capital of SCAN of 149,500,000 ordinary shares of RM0.10 each in issue after the share split.

- (ii) There were no extraordinary or exceptional items in all the financial years and period under review.
- (iii) SCAN Group's results have been restated through appropriate consolidation adjustment to eliminate inter-company transactions under the group structure.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)**

6.1 Summarised income statements (cont'd)

(b) SCAN

The following table sets out the summary of the financial results prepared based on the audited financial statements of SCAN for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Revenue	20,436,195	21,574,831	25,980,496	16,617,904
Gross profit	6,627,094	12,376,325	16,834,990	7,917,939
Profit before amortisation, depreciation, interest and taxation	6,388,897	10,330,527	11,654,518	5,069,841
Amortisation	(600,000)	(600,000)	(500,000)	-
Depreciation	(563,371)	(672,542)	(1,238,530)	(790,398)
Interest expenses	(1,610,133)	(940,678)	(132,133)	(20,425)
Profit before taxation but after amortisation, depreciation and interest	3,615,393	8,117,307	9,783,855	4,259,018
Taxation	(111,400)	(111,639)	(8,669)	103,647
Profit after taxation	3,503,993	8,005,668	9,775,186	4,362,665
Weighted average number of ordinary shares issued	4,285,000	4,285,000	4,285,000	133,411,326
Gross earnings per share ("EPS") (sen)	84.37	189.44	228.33	6.38 *
Net EPS (sen)	81.77	186.83	228.13	6.54 *

* Annualised

There were no extraordinary or exceptional items in all the financial years and period under review.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)**

6.1 Summarised income statements (cont'd)

(c) **SCTSB**

The following table sets out the summary of the financial results prepared based on the audited financial statements of SCTSB for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Revenue	-	-	-	-
Gross profit	-	-	-	-
Loss before amortisation, depreciation, interest and taxation	(531)	(3,844)	(1,250)	(180)
Amortisation	-	-	-	-
Depreciation	-	-	-	-
Interest expenses	-	-	-	-
Loss before taxation but after amortisation, depreciation and interest	(531)	(3,844)	(1,250)	(180)
Taxation	-	-	-	-
Loss after taxation	(531)	(3,844)	(1,250)	(180)
Weighted average number of ordinary shares issued	2	2	2	2
Gross loss per share ("LPS") (sen)	(26,550)	(192,200)	(62,500)	(18,000)*
Net LPS (sen)	(26,550)	(192,200)	(62,500)	(18,000)*

* Annualised

There were no extraordinary or exceptional items in all the financial years and period under review.

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.1 Summarised income statements (cont'd)****(d) PTSN**

The following table sets out the summary of the financial results prepared based on the audited financial statements of PTSN for the past 4 months FPE 31 December 2004, FYE 31 December 2005 and 6 months FPE 30 June 2006:-

Period/Year ended	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Revenue	-	-	2,694,366
Gross profit	-	-	66,388
Loss before amortisation, depreciation, interest and taxation	(253,655)	(971,540)	(98,464)
Amortisation	-	-	-
Depreciation	(1,319)	(23,704)	(25,998)
Interest expenses	-	-	(140,379)
Loss before taxation but after amortisation, depreciation and interest	(254,974)	(995,244)	(264,841)
Taxation	49,623	166,542	59,648
Loss after taxation	(205,351)	(828,702)	(205,193)
Weighted average number of ordinary shares issued	26,301	100,000	100,000
Gross loss per share ("LPS") (sen)	(969.45)	(995.24)	(529.68) *
Net LPS (sen)	(780.77)	(828.70)	(410.39) *

* Annualised

There were no extraordinary or exceptional items in all the financial year and periods under review.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.2 Summarised balance sheets****(a) SCAN Group**

The following table sets out the summary of the financial position prepared based on the audited consolidated financial statements of the SCAN Group as at 31 December 2003 to 30 June 2006:-

As at	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Share capital	4,285,000	4,285,000	4,285,000	14,950,000
Exchange reserves	-	-	(33,283)	(70,725)
Capital redemption reserve	5,000	5,000	5,000	-
Unappropriated profit	1,012,219	8,874,350	16,157,727	11,750,017
	5,302,219	13,164,350	20,414,444	26,629,292
Minority interest	-	2,389	-	-
Borrowings	12,546,951	6,146,473	285,827	2,122,382
	17,849,170	19,313,212	20,700,271	28,751,674
Property, plant and equipment	2,243,176	2,470,640	2,565,187	4,561,835
Development expenditure	1,100,000	500,000	-	-
Deferred tax asset	-	-	216,166	285,888
Total non-current assets	3,343,176	2,970,640	2,781,353	4,847,723
Current assets	31,234,889	26,954,035	23,528,851	31,433,109
Current liabilities	(16,728,895)	(10,611,463)	(5,609,933)	(7,529,158)
Net current assets	14,505,994	16,342,572	17,918,918	23,903,951
	17,849,170	19,313,212	20,700,271	28,751,674
Net tangible assets ("NTA")	4,202,219	12,664,350	20,414,444	26,629,292
NTA per share of:				
- RM1.00 each (sen)	98.07	295.55	476.42	-
- RM0.10 each (sen)	-	-	-	17.81

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)**

6.2 Summarised balance sheets (cont'd)

(b) SCAN

The following table sets out the summary of the financial position prepared based on the audited financial statements of SCAN as at 31 December 2003 to 30 June 2006:-

As at	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Share capital	4,285,000	4,285,000	4,285,000	14,950,000
Capital redemption reserve	5,000	5,000	5,000	-
Unappropriated profit	1,014,615	9,020,283	17,195,469	12,993,134
	5,304,615	13,310,283	21,485,469	27,943,134
Borrowings	12,546,951	6,146,473	285,827	210,191
	17,851,566	19,456,756	21,771,296	28,153,325
Property, plant and equipment	2,243,176	2,470,640	2,430,306	4,288,478
Investment in subsidiaries	2	376,202	376,202	376,202
Development expenditure	1,100,000	500,000	-	-
Total non-current assets	3,343,178	3,346,842	2,806,508	4,664,680
Current assets	31,236,783	26,720,877	24,144,885	29,309,989
Current liabilities	(16,728,395)	(10,610,963)	(5,180,097)	(5,821,344)
Net current assets	14,508,388	16,109,914	18,964,788	23,488,645
	17,851,566	19,456,756	21,771,296	28,153,325
Net tangible assets ("NTA")	4,204,615	12,810,283	21,485,469	27,943,134
NTA per share of:				
- RM1.00 each (sen)	98.12	298.96	501.41	-
- RM0.10 each (sen)	-	-	-	18.69

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)**

6.2 Summarised balance sheets (cont'd)

(c) **SCTSB**

The following table sets out the summary of the financial position prepared based on the audited financial statements of SCTSB as at 31 December 2003 to 30 June 2006:-

As at	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Share capital	2	2	2	2
Accumulated loss	(2,396)	(6,240)	(7,490)	(7,670)
	<u>(2,394)</u>	<u>(6,238)</u>	<u>(7,488)</u>	<u>(7,668)</u>
Current assets	2	2	2	2
Current liabilities	(2,396)	(6,240)	(7,490)	(7,670)
Net current liabilities	<u>(2,394)</u>	<u>(6,238)</u>	<u>(7,488)</u>	<u>(7,668)</u>
	<u>(2,394)</u>	<u>(6,238)</u>	<u>(7,488)</u>	<u>(7,668)</u>
Net tangible liabilities ("NTL")	(2,394)	(6,238)	(7,488)	(7,668)
NTL per share (sen)	(119,700)	(311,900)	(374,400)	(383,400)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.2 Summarised balance sheets (cont'd)****(d) PTSN**

The following table sets out the summary of the financial position prepared based on the audited financial statements of PTSN as at 31 December 2004 to 30 June 2006:-

As at	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Share capital	380,000	380,000	380,000
Exchange reserve	(19,713)	(33,283)	(65,316)
Accumulated loss	(205,350)	(1,034,052)	(1,239,245)
	154,937	(687,335)	(924,561)
Borrowings	-	-	1,912,191
	154,937	(687,335)	987,630
Property, plant and equipment	37,060	134,881	273,357
Deferred tax asset	54,387	216,166	285,888
	91,447	351,047	559,245
Current assets	296,133	584,190	3,797,489
Current liabilities	(232,643)	(1,622,572)	(3,369,104)
Net current assets/(liabilities)	63,490	(1,038,382)	428,385
	154,937	(687,335)	987,630
Net tangible assets/(liabilities) ("NTA"/"NTL")	154,937	(687,335)	(924,561)
NTA/(NTL) per share (sen)	154.94	(687.34)	(924.56)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Summarised cash flow statements****(a) SCAN Group**

The following sets out the summary of cash flows prepared based on the audited consolidated financial statements of SCAN Group for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	14,496,272	19,353,406	28,129,416	15,215,830
Cash payments to suppliers	(13,870,461)	(9,758,690)	(8,788,424)	(8,903,800)
Cash payments to employees and administration expenses	(253,927)	(4,759,454)	(9,574,441)	(7,216,008)
Cash generated from/(used in) operations	371,884	4,835,262	9,766,551	(903,978)
Interest received	-	-	-	124,704
Other income received	402,557	398,770	260,843	-
Interest paid	(546,476)	(867,116)	(69,407)	(148,859)
Tax paid	-	(93,072)	-	-
Dividend paid	-	(535,625)	-	(1,600,000)
Net cash generated from/(used in) operating activities	227,965	3,728,219	9,957,987	(2,528,133)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from issuance of rights issue	-	-	-	2,095,000
Purchase of property, plant and equipment	(565,546)	(608,851)	(1,320,234)	(2,816,862)
Proceeds from disposal of property, plant and equipment	-	-	5,278	663
Advance from/(Repayment to) Directors	7,756	1,215	6,076	(11,243)
Net cash used in investing activities	(557,790)	(607,636)	(1,308,880)	(732,442)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Summarised cash flow statements (cont'd)****(a) SCAN Group (cont'd)**

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
(Placement)/Withdrawal of fixed deposits with licensed banks	(335,799)	1,710,752	2,189,324	(748,557)
Repayment of redeemable preference shares	(500,000)	-	-	-
(Repayment)/Addition of hire purchase	(213,768)	239,048	(291,198)	(75,636)
Proceeds from term loan	-	-	-	3,443,325
Repayment of term loan	(5,549,870)	(9,864,203)	(10,892,512)	(354,829)
Advance to affiliated company	(530)	(144,948)	-	-
Proceeds from issuance of share capital to minority shareholders	-	3,800	-	-
Net cash (used in)/generated from financing activities	(6,599,967)	(8,055,551)	(8,994,386)	2,264,303
CASH AND CASH EQUIVALENTS				
Net decrease	(6,929,792)	(4,924,968)	(345,279)	(996,272)
Brought forward	16,510,648	9,580,856	4,655,888	4,310,609
Carried forward	9,580,856	4,655,888	4,310,609	3,314,337

CASH AND CASH EQUIVALENTS

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

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Cash and bank balances	276,187	1,391,219	287,248	3,306,973
Deposits with licensed financial institutions	9,304,669	3,264,669	4,023,361	7,364
	9,580,856	4,655,888	4,310,609	3,314,337

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Summarised cash flow statements (cont'd)****(b) SCAN**

The following sets out the summary of cash flows prepared based on the audited financial statements of SCAN for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	14,496,272	19,353,406	28,129,416	12,152,146
Cash payments to suppliers	(13,870,461)	(9,758,690)	(8,774,726)	(5,951,796)
Cash payments to employees and administration expenses	(253,927)	(4,759,454)	(7,910,349)	(4,130,326)
Cash generated from operations	371,884	4,835,262	11,444,341	2,070,024
Other income received	402,557	398,770	260,505	-
Interest received	-	-	-	123,977
Interest paid	(546,476)	(867,116)	(517,021)	-
Tax paid	-	(93,072)	-	-
Dividend paid	-	(535,625)	-	(1,600,000)
Net cash generated from operating activities	227,965	3,738,219	11,187,825	594,001
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceed from issuance of rights issue	-	-	-	2,095,000
Purchase of property, plant and equipment	(565,546)	(608,851)	(1,162,196)	(2,658,675)
Proceeds from disposal of property, plant and equipment	-	-	5,278	663
Advance from/(Repayment to) Directors	7,756	1,215	6,076	(11,242)
Acquisition of investment	-	(376,200)	-	-
Net cash used in investing activities	(557,790)	(983,836)	(1,150,842)	(574,254)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Consolidated cash flow statements (cont'd)****(b) SCAN (cont'd)**

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
(Placement)/Withdrawal of fixed deposits with licensed banks	(335,799)	1,710,752	2,578,815	(583,273)
Repayment of redeemable preference shares	(500,000)	-	-	-
(Repayment)/Addition of hire purchase	(213,768)	239,048	(291,198)	(75,636)
Repayment of term loan	(5,549,870)	(9,864,203)	(11,282,003)	(81,659)
Advance to affiliated company	(530)	-	-	-
Advance to subsidiary companies	-	(144,948)	(1,053,382)	(474,142)
Net cash used in financing activities	(6,599,967)	(8,059,351)	(10,047,768)	(1,214,710)
CASH AND CASH EQUIVALENTS				
Net decrease	(6,929,792)	(5,304,968)	(10,785)	(1,194,963)
Brought forward	16,510,646	9,580,854	4,275,886	4,265,101
Carried forward	9,580,854	4,275,886	4,265,101	3,070,138

CASH AND CASH EQUIVALENTS

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

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
Cash and bank balances	276,185	1,011,217	241,740	3,062,775
Deposits with licensed financial institutions	9,304,669	3,264,669	4,023,361	7,363
	9,580,854	4,275,886	4,265,101	3,070,138

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Summarised cash flow statements (cont'd)****(c) SCTSB**

The following sets out the summary of cash flows prepared based on the audited financial statements of SCTSB for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

Year/Period ended	31/12/2003 RM	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM OPERATING ACTIVITY				
Cash payments to employees and administration expenses	(531)	(3,844)	(1,250)	(680)
Net cash used in operating activity	(531)	(3,844)	(1,250)	(680)
CASH FLOWS FROM FINANCING ACTIVITY				
Advance from holding company	531	3,844	1,250	680
Net cash generated from financing activity	531	3,844	1,250	680
CASH AND CASH EQUIVALENTS				
Net change	-	-	-	-
Brought forward	2	2	2	2
Carried forward	2	2	2	2

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.3 Summarised cash flow statements (cont'd)****(d) PTSN**

The following sets out the summary of cash flows prepared based on the audited financial statements of PTSN for the past 4 months FPE 31 December 2004, FYE 31 December 2005 and 6 months FPE 30 June 2006:-

Period/Year ended	31/12/2004 RM	31/12/2005 RM	30/6/2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	-	-	30,149
Cash payments to employees and administration expenses	(326,384)	(1,052,067)	(2,873,835)
Cash used in operating expenses	(326,384)	(1,052,067)	(2,843,686)
Other income received	102	338	727
Interest paid	-	(6,972)	(148,859)
Net cash used in operating activities	(326,282)	(1,058,701)	(2,991,818)
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of property, plant and equipment	(35,133)	(124,771)	(158,188)
Net cash used in investing activity	(35,133)	(124,771)	(158,188)
CASH FLOWS FROM FINANCING ACTIVITIES			
Placement of fixed deposits with licensed banks	-	(389,491)	(165,284)
Issuance of shares	380,000	-	-
Proceeds from term loan	-	389,491	3,443,325
Repayment of term loan	-	-	(273,170)
Advances from holding company	177,514	1,041,170	385,808
Net cash generated from financing activities	557,514	1,041,170	3,390,679
CASH AND CASH EQUIVALENTS			
Net increase/(decrease)	196,099	(142,302)	240,673
Foreign currency translation differences	(32,770)	(11,823)	(5,680)
Brought forward	-	163,329	9,204
Carried forward	163,329	9,204	244,197

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.4 Summarised statements of changes in equity****(a) SCAN Group**

The following table sets out the summary of the changes in equity prepared based on the audited consolidated financial statements of SCAN Group for the past three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

	← Non-Distributable →				Distributable (Accumulated losses)/	Total RM
	Share capital RM	Share premium RM	Capital redemption reserve RM	Exchange reserve RM	Unappropriated profit RM	
At 1 January 2003	4,290,000	495,000	-	-	(1,950,618)	2,834,382
Transfer to capital redemption reserves	-	-	5,000	-	(5,000)	-
Redemption of redeemable preference shares	(5,000)	-	-	-	-	(5,000)
Premium paid on redemption of preference shares	-	(495,000)	-	-	-	(495,000)
Dividend	-	-	-	-	(535,625)	(535,625)
Net profit for the financial year	-	-	-	-	3,503,462	3,503,462
At 31 December 2003	4,285,000	-	5,000	-	1,012,219	5,302,219
Net profit for the financial year	-	-	-	-	7,862,131	7,862,131
At 31 December 2004	4,285,000	-	5,000	-	8,874,350	13,164,350
Currency translation differences	-	-	-	(33,283)	-	(33,283)
Dividend	-	-	-	-	(1,600,000)	(1,600,000)
Net profit for the financial year	-	-	-	-	8,883,377	8,883,377
At 31 December 2005	4,285,000	-	5,000	(33,283)	16,157,727	20,414,444
Currency translation differences	-	-	-	(37,442)	-	(37,442)
Issued during the financial period	2,095,000	-	-	-	-	2,095,000
Transfer to share capital	8,570,000	-	(5,000)	-	(8,565,000)	-
Net profit for the financial period	-	-	-	-	4,157,290	4,157,290
At 30 June 2006	14,950,000	-	-	(70,725)	11,750,017	26,629,292

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.4 Summarised statements of changes in equity (cont'd)****(b) SCAN**

The following table sets out the summary of the changes in equity prepared based on the audited financial statements of SCAN for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

	<u>Non-Distributable</u>			<u>Distributable</u> (Accumulated losses)/	<u>Total</u> RM
	<u>Share capital</u> RM	<u>Share premium</u> RM	<u>Capital redemption reserve</u> RM	<u>Unappropriated profit</u> RM	
At 1 January 2003	4,290,000	495,000	-	(1,948,753)	2,836,247
Transfer to capital redemption reserve	-	-	5,000	(5,000)	-
Redemption of redeemable preference shares	(5,000)	-	-	-	(5,000)
Premium paid on redemption of preference shares	-	(495,000)	-	-	(495,000)
Dividend	-	-	-	(535,625)	(535,625)
Net profit for the financial year	-	-	-	3,503,993	3,503,993
At 31 December 2003	4,285,000	-	5,000	1,014,615	5,304,615
Net profit for the financial year	-	-	-	8,005,668	8,005,668
At 31 December 2004	4,285,000	-	5,000	9,020,283	13,310,283
Dividend	-	-	-	(1,600,000)	(1,600,000)
Net profit for the financial year	-	-	-	9,775,186	9,775,186
At 31 December 2005	4,285,000	-	5,000	17,195,469	21,485,469
Issued during the financial period	10,665,000	-	(5,000)	(8,565,000)	2,095,000
Net profit for the financial period	-	-	-	4,362,665	4,362,665
At 30 June 2006	14,950,000	-	-	12,993,134	27,943,134

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)**

6.4 Summarised statements of changes in equity (cont'd)

(c) SCTSB

The following table sets out the summary of the changes in equity prepared based on the audited financial statements of SCTSB for the three (3) FYE 31 December 2003 to 31 December 2005 and 6 months FPE 30 June 2006:-

	Share capital RM	Accumulated losses RM	Total RM
At 1 January 2003	2	(1,865)	(1,863)
Net loss for the financial year	-	(531)	(531)
At 31 December 2003	2	(2,396)	(2,394)
Net loss for the financial year	-	(3,844)	(3,844)
At 31 December 2004	2	(6,240)	(6,238)
Net loss for the financial year	-	(1,250)	(1,250)
At 31 December 2005	2	(7,490)	(7,488)
Net loss for the financial period	-	(180)	(180)
At 30 June 2006	2	(7,670)	(7,668)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **6. HISTORICAL FINANCIAL INFORMATION OF SCAN GROUP (CONT'D)****6.4 Summarised statements of changes in equity (cont'd)****(d) PTSN**

The following table sets out the summary of the changes in equity prepared based on the audited financial statements of PTSN for the past 4 months FPE 31 December 2004, FYE 31 December 2005 and 6 months FPE 30 June 2006:-

	Share capital RM	Exchange reserve RM	Accumulated losses RM	Total RM
At date of incorporation	380,000	-	-	380,000
Net loss for the financial period	-	-	(205,350)	(205,350)
At 31 December 2004	380,000	-	(205,350)	174,650
Currency translation differences	-	(33,283)	-	(33,283)
Net loss for the financial year	-	-	(828,702)	(828,702)
At 31 December 2005	380,000	(33,283)	(1,034,052)	(687,335)
Currency translation differences	-	(32,033)	-	(32,033)
Net loss for the financial period	-	-	(205,193)	(205,193)
At 30 June 2006	380,000	(65,316)	(1,239,245)	(924,561)

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. STATEMENT OF ASSETS AND LIABILITIES**

The following is a Proforma Group statement of assets and liabilities of SCAN Group prepared based on the audited financial statements of SCAN, SCTSB and PTSN as at 30 June 2006.

The Proforma Group's statement of assets and liabilities has been prepared for illustrative purposes only, to show the effects of all the transactions stated in Note 7.6. The statement should be read in conjunction with the notes thereto.

	Note	Proforma Group RM
NON-CURRENT ASSETS		
Property, plant and equipment	7.7	4,561,835
Development expenditure	7.8	13,000,000
Deferred tax		285,888
Total non-current assets		<u>17,847,723</u>
CURRENT ASSETS		
Receivables	7.9	19,618,482
Amount due from customers for contract work	7.10	2,901,963
Cash and bank balances	7.11	19,287,664
Total current assets		<u>41,808,109</u>
CURRENT LIABILITIES		
Payables	7.12	5,849,742
Bank borrowing	7.13	1,643,628
Tax payable		35,788
Total current liabilities		<u>7,529,158</u>
NET CURRENT ASSETS		<u>34,278,951</u>
		<u>52,126,674</u>
SHARE CAPITAL	7.14	20,000,000
RESERVES	7.15	30,004,292
SHAREHOLDERS' FUND		50,004,292
NON-CURRENT LIABILITIES		
Bank borrowing	7.13	1,912,191
Hire purchase creditors	7.16	210,191
		<u>52,126,674</u>

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****7.1 GENERAL**

- (a) The Company is principally engaged in the business of providing information and communication technology (ICT) security solutions.
- (b) The registered office and principal place of business are located at Level 8, Menara Naluri, 161-B, Jalan Ampang, 50450 Kuala Lumpur.

7.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

7.3 FINANCIAL RISK MANAGEMENT POLICIES

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

The main areas of financial risks faced by the Group and in respect of the major areas of treasury activity are set out as follows:-

(a) Foreign currency risk

The Group is exposed to foreign exchange risk on purchases and borrowings that are denominated in foreign currencies. It manages its foreign exchange exposure by a policy of matching as far as possible receipts and payments in each individual currency.

Surpluses of convertible currencies are either retained in foreign currency or sold for Ringgit Malaysia. The Group also uses forward foreign currency contracts to hedge a portion of its future foreign exchange exposure.

(b) Interest rate risk

The Group obtains financing through bank borrowings and hire purchase. Its policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.3 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(c) Market risk**

The Group does not have any quoted investments and hence is not exposed to market risks.

(d) Credit risk

The Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet reduced by the effects of any netting arrangements with counterparties.

The Group does not have any major concentration of credit risk related to any individual customer or counterparty.

The Company manages its exposure to credit risk by investing its cash assets safely and profitably, and by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis.

(e) Liquidity and cash flow risks

The Company's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practises prudent liquidity risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

7.4 CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2006:-

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimated and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.4 CHANGES IN ACCOUNTING POLICIES (CONT'D)**

The adoption of FRS 5, 108, 110, 116, 121, 127, 132, 133 and 136 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRS are discussed below:-

(a) FRS 2: Share-based Payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

During the current period, the Group is not involved in any share-based payment transactions.

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interest are now presented within total equity. In the consolidated income statement, minority interest are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period presentation of the Group financial statements is based on the revised requirements of FRS 101, with comparatives restated to conform with the current period presentation.

7.5 SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies set out below are consistent with those applied in the previous financial year:-

(a) Basis of accounting

The financial statements of the Group and the Company have been prepared under the historical cost, unless otherwise indicated in the individual accounting policies.

The preparation of financial statements in conformity with Financial Reporting Standards ("FRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual result may ultimately differ from those estimates.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(b) Revenue recognition**

Revenue from contract work/sale of solutions development is recognised on the percentage of completion method determined on the proportion of cost incurred to date against total estimated cost in cases where the outcome of the contract can be reliably estimated. In cases where the outcome of the contract cannot be reliably estimated, the revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable. In all cases, anticipated losses are provided for in full.

Revenue from services is recognised upon performance of the services.

(c) Basis of consolidation

The Group financial statements consolidate the audited financial statements of the parent Company and its subsidiary companies, which have been prepared in accordance with the Group's accounting policies.

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

All inter company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

The financial statements of the parent and its subsidiaries are all drawn up to the same reporting date.

Separate disclosure is made for minority interests.

Subsidiary companies are consolidated using the acquisition method of accounting from the date of which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition and exchange differences.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 7.5(p).

Research and development equipments in progress are not depreciated. The residual value and useful lives of property, plant and equipment are reviewed and adjusted in appropriate at each balance sheet date. Depreciation of property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following rates:-

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Property, plant and equipment and depreciation (cont'd)**

Computer equipments	33 1/3%
Computer software	33 1/3%
Office equipment	20%
Furniture and fittings	20%
Renovation	20%
Development assets	33 1/3%
Air-conditioner	20%
Motor vehicles	20%
Security operation centre	20%
Research and development equipment	33 1/3% and 20%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement and the attributable portion of the revaluation surplus is taken directly to retained profits.

(e) Borrowing costs

Interest costs on borrowings to finance the development works are capitalised as part of the development work in progress. Other borrowing costs are charged to the income statement as and when incurred.

(f) Investment in subsidiary companies

Investment in subsidiary companies is stated at cost less written down for permanent diminution in value of investment. Allowance for permanent diminution is only made where in the opinion of the directors, there is a permanent diminution in value. Permanent diminution in the value of an investment is recognised as an expenses in the period in which the diminution is identified.

(g) Research and development expenditure

Research and development expenditure is charged to the income statement in the financial year in which it is incurred, except in so far as it relates to a clearly defined project which the benefit therefrom can reasonably regarded as assured. The development expenditure is amortised in the income statement upon commencement of commercial production over a period of 5 years.

The development expenditure of a project should be recognised as an asset when all of the following criteria are met:-

- (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;
- (ii) the technical feasibility of the product or process can be demonstrated;

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(g) Research and development expenditure (cont'd)**

- (iii) the enterprise intends to produce and market, or use, the product or process;
- (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated; and
- (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

(h) Hire purchase assets

The cost of assets acquired under hire purchase agreement is capitalised. The depreciation policy on these assets is similar to that of the other property, plant and equipment as set out in Note 7.5(d). Outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. Finance expenses pertaining to the hire purchase are charged to the income statement over the duration of the hire purchase agreement.

(i) Income taxes

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it recognised in equity.

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

Deferred taxation is provided for under the liability method for all temporary differences arising between the tax bases of assets and, liabilities and their carrying amount in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profits. The amount of deferred tax provided is based on the expected manner or realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

(j) Provisions

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

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(k) Cash and cash equivalents**

Cash comprises of cash at bank and in hand including bank overdraft and deposits. Cash equivalents comprises of investments maturing within twelve months from the date of acquisition and which are readily convertible to known amount of cash which are subject to an insignificant risk of change in value. Deposits held as pledged securities for term loans are not included as cash and cash equivalents.

(l) Foreign currency**(i) Functional and presentation currency**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operate ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia which is the Company's functional and presentation currency.

(ii) Transaction and balances

Transactions in a currency other than the functional currency ("foreign currencies") are translated into functional currency at the exchange rates prevailing at the transaction dates or, where settlement has not taken place at the balance sheet date, at the approximate exchange rate prevailing at that date. All exchange gains or losses, including those arising from translation, are taken up in the income statement.

(iii) Translation of Group entities financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into presentation currency as follows:-

Assets and liabilities for each balance sheet presented are translated at the exchange rates ruling at the financial year end whereas the income and expenses for each income statement are translated at the average rate for the year. All exchange differences are dealt with through foreign exchange reserves within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after 1 April 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate. For acquisition prior to 1 April 2005, the exchange rates at the dates of acquisition were used.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(l) Foreign currency (cont'd)****(iv) Consolidation adjustments**

On consolidation, currency translation differences arises from the net investment in foreign entities and borrowings and other currency instruments designated as hedges of such investments are taken to the foreign currency translation reserves. When a foreign operations is disposed of, such differences are recognised in the income statements as part of the gain on the loss on disposal.

(v) Closing rate

The principal closing rates used in translation of foreign currency amounts and the financial statements of foreign entities are as follows:-

1IDR RM0.0004

(m) Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the period end.

(n) Trade and other payables

Payables are stated at cost which is the consideration to be paid in the future for products and services required.

(o) Financial instruments

Financial instruments carried on the balance sheet included cash and bank balances, investments, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

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

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.5 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(p) Impairment of assets**

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

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

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

A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(q) Employee benefits**(i) Short term benefits**

Salaries, wages, bonuses, allowances, paid annual leave, medical leave and non-monetary benefits are recognised as an expense in the financial year in which the services are rendered by the employees of the Company.

(ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement in the financial year to which they relate. Once the contributions have been paid, the Company has no future obligations.

(iii) Termination benefits

Employee termination benefits are recognised only either after an agreement is in place with the appropriate employee representatives specifying the terms of redundancy or after individual employees have been advised of the specific terms.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.6 SCHEME**

As an integral part of the listing and quotation for the entire issued and paid-up share capital of SCAN Group, SCAN Group undertook the following:-

(i) Public Issue

Public Issue of 50,500,000 new ordinary shares of RM0.10 each ("Public Issue Share") to the Malaysian Public, at an issue price of RM0.50 per Public Issue Share, by way of private placement to identified investors, pink form allocation and allocation to the Malaysian public; and

(ii) Listing and Quotation on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities")

In conjunction with the Public Issue, SCAN seeks the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital of SCAN comprising 200,000,000 SCAN Shares on the Official List of the MESDAQ Market of Bursa Securities.

The gross proceeds arising from the rights issue and public issue amounting to RM2.095 million and RM25.25 million respectively are expected to be fully utilised for the core business of SCAN Group in the following manner:-

	RM'000
Development expenditure	13,000
Overseas projects implementation	3,500
Overseas expansion	5,000
Working capital	3,970
Listing expenses	1,875
	<hr/>
	27,345
	<hr/>

The listing expenses are estimated at RM1.875 million and will be set off against the share premium account.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.7 PROPERTY, PLANT AND EQUIPMENT**

Proforma Group	Computer equipment and software RM	Motor vehicles RM	Office equipment, furniture and fittings, office renovation and air-conditioner RM	Development assets and security operation centre RM	Total RM
Cost					
At beginning of financial period	1,839,789	996,447	1,192,064	1,010,430	5,038,730
Addition	276,278	-	2,214,548	326,036	2,816,862
Disposal	-	-	-	-	-
Written off	-	-	(17,026)	(11,220)	(28,246)
Foreign currency translation	-	-	7,452	-	7,452
At end of financial period	2,116,067	996,447	3,397,038	1,325,246	7,834,798
Accumulated depreciation					
At beginning of financial period	1,152,413	394,283	679,207	247,640	2,473,543
Charged during the financial period	328,358	99,645	266,597	121,795	816,395
Disposal	-	-	-	-	-
Written off	-	-	(12,905)	(5,236)	(18,141)
Foreign currency translation	-	-	1,166	-	1,166
At end of financial period	1,480,771	493,928	934,065	364,199	3,272,963
Net book value	635,296	502,519	2,462,973	961,047	4,561,835

Included in property, plant and equipment of the Group are assets under hire purchase arrangements with net book value of RM414,830.

7.8 DEVELOPMENT EXPENDITURE

	Proforma Group RM
Development expenditure *	16,000,000
Less: Amortisation of research and development expenditure	(3,000,000)
	<u>13,000,000</u>

* of which RM13,000,000 is from listing proceed.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.9 RECEIVABLES**

	Proforma Group RM
Trade receivables	16,175,862
Other receivables	<u>3,442,620</u>
	<u>19,618,482</u>

7.10 AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

	Proforma Group RM
Cost incurred on contract to date	34,594,448
Attributable profits	<u>36,278,630</u>
	70,873,078
Less: Progress billings	<u>(67,971,115)</u>
	<u>2,901,963</u>

7.11 CASH AND BANK BALANCES

	Proforma Group RM
Fixed deposits with licensed banks	5,605,691
Cash and bank balances	<u>13,681,973</u>
	<u>19,287,664</u>

Included in the fixed deposits with licensed banks is an amount of RM5,598,327 which is pledged on lien to the bank as security for its banking facilities and contract received.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.12 PAYABLES**

	Proforma Group RM
Trade payables	2,734,203
Other payables	2,964,267
Hire purchase creditors (Note 7.16)	<u>151,272</u>
	<u>5,849,742</u>

Included in the other payables is amount due to Directors of RM3,987 which is unsecured, bears no interest and no fixed term of repayment has been arranged.

7.13 BANK BORROWING

	Proforma Group RM
Secured:-	
Due within one year	1,643,628
Due after one year	<u>1,912,191</u>
	<u>3,555,819</u>

The term loan is secured against the following:-

- (i) Fixed deposits amounting to RM550,948;
- (ii) Guarantee by escrow account amounting to 70% from credit facility;
- (iii) Standby letter of credit amounting to 30% of credit facility; and
- (iv) A corporate guarantee by the Company.

The term loan bears interest at rates ranging from 1.5% to 2.5% per annum above the bank's Base Lending Rate ("BLR").

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.14 SHARE CAPITAL**

	Proforma Group RM
Ordinary shares:-	
Issued and fully paid:-	
Brought forward	4,285,000
Bonus issue	8,570,000
Rights issue	2,095,000
Public issue	5,050,000
	<hr/>
Carried forward	20,000,000
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7.15 RESERVES

	Proforma Group RM
Unappropriated profit	11,750,017
Share premium arising from shares issued pursuant to the public offering	20,200,000
	<hr/>
	31,950,017
Less: Listing expenses	(1,875,000)
Less: Exchange reserve	(70,725)
	<hr/>
	30,004,292
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7.16 HIRE PURCHASE CREDITORS

	Proforma Group RM
Hire purchase liability	
- not later than 1 year (Note 7.12)	151,272
- later than 1 year but not later than 5 years	210,191
	<hr/>
	361,463
	<hr/>

Amount due not later than 1 year has been included in the payables.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.17 FINANCIAL INSTRUMENTS****(a) Interest rate risk**

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial asset and liabilities are as follows:-

<u>Financial asset</u>	Less than <u>1 year</u> RM	1 to 5 <u>years</u> RM	<u>Total</u> RM	Effective interest rate during the <u>financial period</u>
Fixed deposits with licensed banks	5,605,691	-	5,605,691	2.6%-3.2%
<u>Financial liabilities</u>				
Hire purchase creditors	151,272	210,191	361,463	6.0%-7.0%
Term loan	1,643,628	1,912,191	3,555,819	15.8% - 16.8%

(b) Credit risk

The maximum credit risk associated with recognised financial assets is the carrying amount shown in the balance sheet.

The Group has no significant concentration of credit risk with any single counterparty other than as set out below:-

	<u>% of trade receivables as at the balance sheet date</u>
Real Data Matrix Sdn. Bhd.	26%
PT TM Usaha Infopratama	17%
SCAN Consulting Services Sdn. Bhd.	16%

(c) Fair values

The carrying amounts of all financial assets and liabilities of the Group as at the balance sheet date approximated their fair values.

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **7. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES (CONT'D)****7.18 NET TANGIBLE ASSETS PER ORDINARY SHARE**

Based on the proforma group's statement of assets and liabilities as at 30 June 2006, the net tangible assets per share is calculated as follows:-

	Proforma Group RM
Net tangible assets ("NTA") as per proforma group's statement of assets and liabilities	<u>37,004,292</u>
Total number of issued and fully paid-up ordinary shares of RM0.10 each	<u>200,000,000</u>
NTA per ordinary share of RM0.10 each (sen)	<u>18.50</u>

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **8. CONSOLIDATED CASH FLOW STATEMENT**

The following is a consolidated cash flow statement of Proforma SCAN Group prepared for illustrative purposes based on the audited financial statements of SCAN, SCTSB and PTSN for the financial period ended 30 June 2006.

	<u>30.6.2006</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	15,215,830
Cash payments to suppliers	(8,903,800)
Cash payments to employees and for administrative expenses	(7,216,008)
Development expenditure incurred	<u>(13,000,000)</u>
Cash used in operations	(13,903,978)
Other income received	124,704
Interest paid	(148,859)
Dividend paid	<u>(1,600,000)</u>
Net cash used in operating activities	<u>(15,528,133)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from issuance of public issue	25,250,000
Proceeds from issuance of rights issue	2,095,000
Purchase of property, plant and equipment	(2,816,862)
Proceeds from disposal of property, plant and equipment	663
Advance to Directors	(11,243)
Listing expenses incurred	<u>(1,875,000)</u>
Net cash generated from investing activities	<u>22,642,558</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Placement of fixed deposits into licensed banks	(748,557)
Repayment of hire purchase liabilities	(75,636)
Proceeds from term loan	3,443,325
Repayment of term loan	<u>(354,829)</u>
Net cash generated from financing activities	<u>2,264,303</u>
Net increase in cash and cash equivalents	9,378,728
Cash and cash equivalents brought forward	<u>4,310,609</u>
Cash and cash equivalents carried forward	<u>13,689,337</u>

10. ACCOUNTANTS' REPORT (Cont'd)Shamsir Jasani Grant Thornton **8. CONSOLIDATED CASH FLOW STATEMENT (CONT'D)****CASH AND CASH EQUIVALENTS**

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

	<u>30.6.2006</u>
	RM
Cash and bank balances	13,681,973
Fixed deposits with licensed banks	<u>7,364</u>
	<u>13,689,337</u>

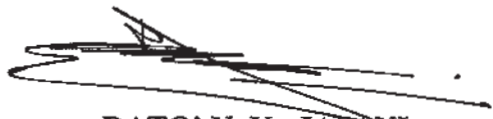
9. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to financial period ended 30 June 2006.

Yours faithfully,



SHAMSIR JASANI GRANT THORNTON
Firm Number: AF : 0737
Chartered Accountants



DATO' N. K. JASANI
Partner
Approval Number: 708/03/08(J/PH)