REDtone

*Changing Rules, Better Alternatives*

**REDtone International Berhad** (596364-U)
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REDTONE INTERNATIONAL BERHAD 596364-U

ANNUAL REPORT 2008

REDtone

*Changing Rules, Better Alternatives*

# REDTONE INTERNATIONAL BERHAD 596364-U

## ANNUAL REPORT 2008

# Contents

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the **Sixth Annual General Meeting** of the Company will be held at The Ballroom, Mezzanine Level, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on **Monday, 10 November 2008** at **10.00 a.m.** for the following purposes:

**AGENDA**

| | | |
|---|---|---|
| 1. | To receive and adopt the Statutory Financial Statements for the financial year ended 31 May 2008 together with the Reports of the Directors and Auditors thereon. | Resolution 1 |
| 2. | To approve the payment of the Directors' fees amounting to RM132,000 in respect of the financial year ended 31 May 2008. | Resolution 2 |
| 3. | To re-elect the following Directors who retire in accordance with **Article 85** of the Company's Articles of Association and, being eligible, offer themselves for re-election: | |
| | (a) Mr. Mathew Thomas a/l Vargis Mathews | Resolution 3 |
| | (b) En. Shaifubahrim bin Mohd Saleh | Resolution 4 |
| 4. | To re-elect the following Directors who retire in accordance with **Article 92** of the Company's Articles of Association and, being eligible, offer themselves for re-election: | |
| | (a) Mr. Cheang Kwan Chow | Resolution 5 |
| | (b) Mr. Lau Bik Soon | Resolution 6 |
| | (c) Dato' Suriah Abd Rahman | Resolution 7 |
| 5. | To re-appoint Messrs Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. | Resolution 8 |
| 6. | To transact any other ordinary business of which due notice shall be given. | |

**AS SPECIAL BUSINESS:**

To consider and if thought fit, to pass the following resolutions as Ordinary Resolution:

7. **Allotment of Shares Pursuant to Section 132D of the Companies Act, 1965** — Resolution 9

"**THAT** subject always to the Companies Act, 1965 and the approvals of the regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

8. **Proposed Issue of Options to Dato' Suriah Abd Rahman** — Resolution 10

"THAT, the Board of Directors of the Company be and is hereby authorized at any time, and from time to time, to offer and to grant to Dato' Suriah Abd Rahman, being the Independent Non-Executive Director of the Company, options to subscribe for such number of new ordinary shares of RM0.10 each in the Company ("REDtone Shares") to be allocated to her under the Employee Share Option Scheme ("Scheme"), provided always that:

(i) not more than 50% of the new REDtone Shares available under the Scheme shall be allocated, in aggregate, to the Directors and senior management of the Company and its subsidiaries; and

(ii) not more than 10% of the new REDtone Shares available under the Scheme shall be allocated to her, if she, either singly or collectively through persons connected with her, holds 20% or more of the issued and paid-up capital of the Company,

and subject always to such terms and conditions and/or any adjustments which may be made in accordance with the provisions of the By-Laws of the Scheme.

BY ORDER OF THE BOARD
**REDTONE INTERNATIONAL BERHAD**

Yeap Kok Leong (MAICSA No. 0862549)
Wong Wai Foong (MAICSA No. 7001358)
Company Secretaries

Kuala Lumpur
Dated: 20 October 2008

***Notes:***

1. *A member of the Company entitled to attend and vote at the above meeting is entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
2. *A proxy may but need not be a Member or a qualified legal practitioner or an approved company auditor or a person approved by the Registrar.*
3. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney authorised in writing or, if the appointer is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorised.*
4. *Where a member is an authorised nominee as defined under the Central Depositories Act, it may appoint one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.*
5. *The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a duly notarised certified copy of that power or authority, shall be deposited at the Registered Office of the Company at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument proposes to vote, and in the case of a poll, not less than forty-eight (48) hours before the time appointed for the taking of the poll, and in default, the instrument of proxy shall not be treated as valid.*

***Explanatory Notes on Special Business:-***

1. *Section 132D of the Companies Act, 1965*

   *In accordance with the Companies Act, 1965, the Directors would have to call a general meeting to approve the issue of new shares even though the number of shares involved is less than 10% of the issued capital. In order to avoid any delay and cost involved in convening such a general meeting, it is considered appropriate to seek the shareholders' approval for the Directors to issue shares in the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.*

2. *Proposed Issue of Option to Dato' Suriah Abd Rahman*

   *In accordance with the Listing Requirements of Bursa Malaysia Securities Bhd for the Mesdaq Market, to seek the shareholders' approval to enable Dato' Suriah Abd Rahman, an Independent Non-Executive Director to participate in the Employees' Share Option Scheme of the Company.*

# Statement Accompanying Notice of Annual General Meeting

**Pursuant to Paragraph 9.28(1) of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market**

**1. Directors standing for re-election or re-appointment**

(a) The Directors retiring by rotation and standing for re-election pursuant to Articles 85 of the Articles of Association of the Company are as follows:

- Mr Mathew Thomas a/l Vargis Mathews
- Encik Shaifubahrim bin Mohd Saleh

(b) The Director seeking for re-election pursuant to Article 92 of the Articles of Association of the Company is as follows:

- Mr. Cheang Kwan Chow
- Mr. Lau Bik Soon
- Dato' Suriah Abd Rahman

The profiles of the above Directors are set out in the section entitled "Profile of Directors" on pages 8 to 10 of the Annual Report. Their shareholdings in the Company are set out in the section entitled "Statement of Directors' Interests" on page 32 of the Annual Report.

**2. Board Meetings held in the financial year ended 31 May 2008**

A total of nine Board Meetings were held in the financial year ended 31 May 2008. The details of the attendance of Directors at the Board Meetings held in the financial year ended 31 May 2008 are disclosed on page 16 of the Annual Report.

**3. Date, Time and Venue of the Annual General Meeting**

The Sixth Annual General Meeting of the Company will be held as follows:

Date: Monday, 10 November 2008

Time: 10.00 a.m.

Venue: The Ballroom, Mezzanine Level, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur.

# Corporate Information

## BOARD OF DIRECTORS

**Dato' Larry Gan Nyap Liou @ Gan Nyap Liow**
*(Chairman/Independent Non-Executive Director)*

**Wei Chuan Beng**
*(Managing Director)*

**Zainal Amanshah bin Zainal Arshad**
*(Group Chief Executive Director)*

**Lau Bik Soon**
*(Executive Director)*

**Cheang Kwan Chow**
*(Non-Independent Non-Executive Director)*

**Mathew Thomas A/L Vargis Mathews**
*(Independent Non-Executive Director)*

**Shaifubahrim bin Mohd Saleh**
*(Independent Non-Executive Director)*

**Dato' Suriah Abd Rahman**
*(Independent Non-Executive Director)*

## AUDIT COMMITTEE

**Mathew Thomas A/L Vargis Mathews**
*(Chairman/Independent Non-Executive Director)*

**Cheang Kwan Chow**
*(Member/Non-Independent Non-Executive Director)*

**Shaifubahrim bin Mohd Saleh**
*(Member/Independent Non-Executive Director)*

## COMPANY SECRETARY

**Yeap Kok Leong (MAICSA No. 0862549)**
**Wong Wai Foong (MAICSA No. 7001358)**
Level 18, The Gardens North Tower,
Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Telephone no.: 03-2264 8888
Facsimile no.: 03-2282 2733

## REGISTERED OFFICE

Level 18, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Telephone no.: 03-2264 8888
Facsimile no.: 03-2282 2733

## HEAD OFFICE

Suite 22-30, 5th Floor
IOI Business Park
47100 Puchong
Selangor Darul Ehsan
Telephone no.: 03-8073 2288
Facsimile no.: 03-8073 7940
Website: www.redtone.com
E-mail: info@redtone.com

## REGISTRAR

**Tenaga Koperat Sdn Bhd**
Level 17, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Telephone no.: 03-2264 3883
Facsimile no.: 03-2282 1886

## PRINCIPAL BANKERS

**HSBC Bank Malaysia Berhad**

## NOMINATION COMMITTEE

**Dato' Larry Gan Nyap Liou @ Gan Nyap Liow**
*(Chairman/Independent Non-Executive Director)*

**Cheang Kwan Chow**
*(Member/Non-Independent Non-Executive Director)*

**Mathew Thomas A/L Vargis Mathews**
*(Member/Independent Non-Executive Director)*

**Shaifubahrim bin Mohd Saleh**
*(Member/Independent Non-Executive Director)*

## REMUNERATION COMMITTEE

**Dato' Larry Gan Nyap Liou @ Gan Nyap Liow**
*(Chairman/Independent Non-Executive Director)*

**Cheang Kwan Chow**
*(Member/Non-Independent Non-Executive Director)*

**Mathew Thomas A/L Vargis Mathews**
*(Member/Independent Non-Executive Director)*

**Shaifubahrim bin Mohd Saleh**
*(Member/Independent Non-Executive Director)*

## AUDITORS

**Ernst & Young**
Chartered Accountants

## LISTING

MESDAQ Market of the **Bursa Malaysia Securities Bhd**
Stock Name : **REDTONE**
Stock Code : **0032**

# Corporate Structure
as at 26 September 2008

REDtone
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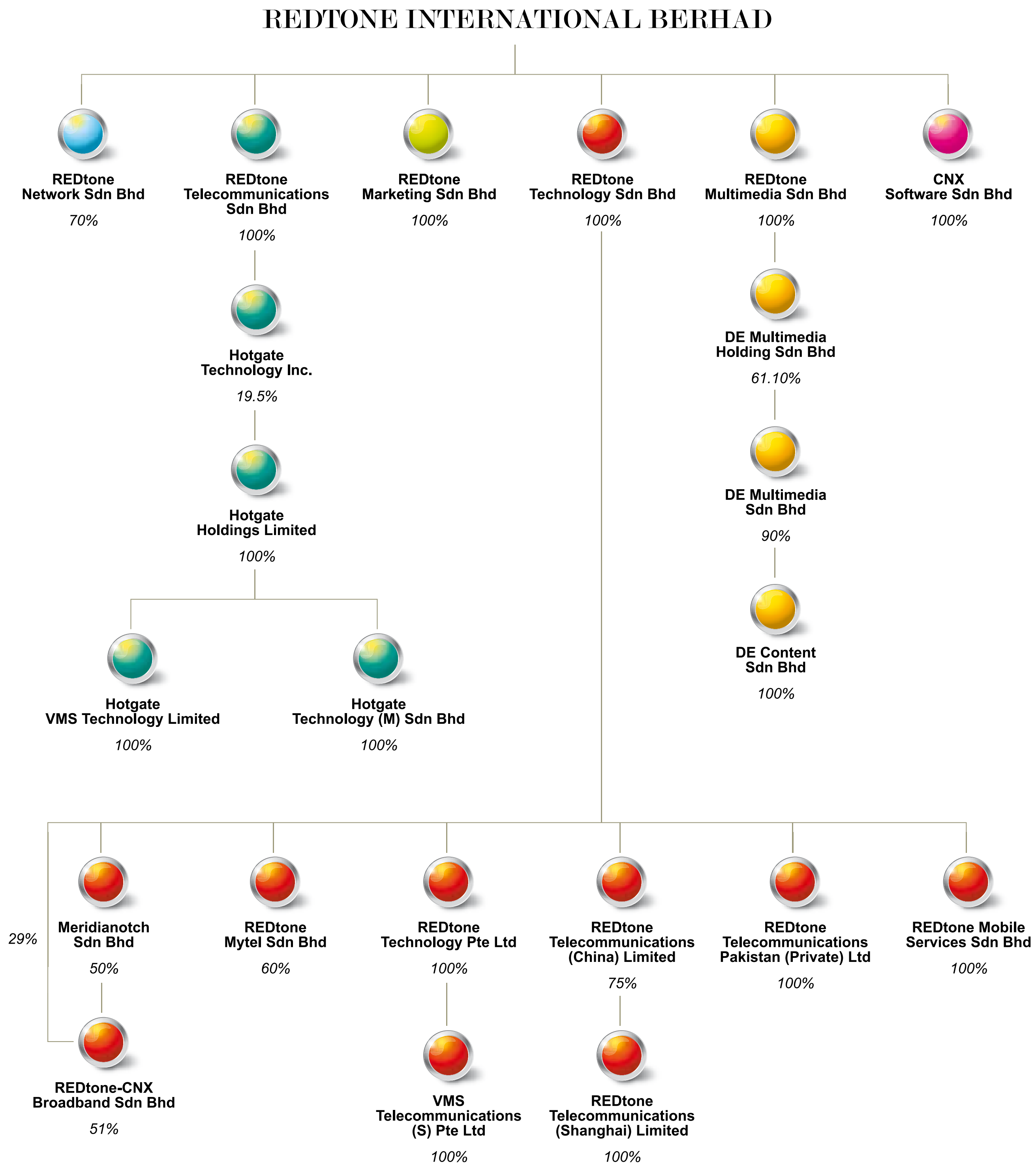
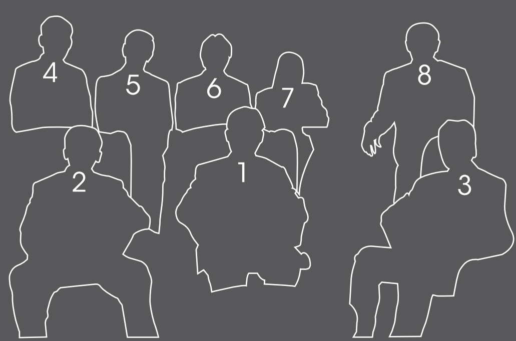


# Board of Directors

1. **Dato' Larry Gan Nyap Liou @ Gan Nyap Liow**
   *(Chairman/Independent Non-Executive Director)*
2. **Wei Chuan Beng**
   *(Managing Director)*
3. **Zainal Amanshah bin Zainal Arshad**
   *(Group Chief Executive Director)*
4. **Lau Bik Soon**
   *(Executive Director)*
5. **Cheang Kwan Chow**
   *(Non-Independent Non-Executive Director)*
6. **Shaifubahrim bin Mohd Saleh**
   (Independent Non-Executive Director)
7. **Dato' Suriah Abd Rahman**
   *(Independent Non-Executive Director*
8. **Mathew Thomas A/L Vargis Mathews**
   *(Independent Non-Executive Director)*



# Profile of Board of Directors

DATO' LARRY GAN NYAP LIOU @ GAN NYAP LIOW

WEI CHUAN BENG

## DATO' LARRY GAN NYAP LIOU @ GAN NYAP LIOW
*Chairman/Independent Non-Executive Director*

**Dato' Larry Gan**, aged 53, a Malaysian, is the Chairman and was appointed to the Board of Directors of the Company on 1 June 2006. Dato' is a Chartered Accountant and Certified Management Consultant.

Dato' Larry Gan retired in December 2004 from the global Accenture organization, the world's largest management and technology consulting services firm. He spent 26 years with the firm, 16 as Partner, and had many global leadership roles. He was Managing Partner – Malaysia from 1989 to 2004, Managing Partner – ASEAN 1993 to 1996, Managing Partner – ASIA 1997 to 1999 and Managing Partner, Corporate Development, ASIA PACIFIC, 1999 to 2002. He also managed the firm's multi billion dollar Venture Fund in Asia Pacific. Between 1997 and 2004, he was a member of the Global Management Council, and sat on the many global management committees governing partner admission, rewards and compensation.

Dato' Larry Gan is the Chairman for Cuscapi Berhad ("Formerly known as Datascan Berhad"), a Board Member of Tanjong Plc, AmBank (M) Berhad, Tien Wah Press Holdings Berhad and AMDB Berhad. He is also on the board of Minority Shareholders Watchdog Group and the British Malaysia Chamber of Commerce.

He has served as Chairman of Association of Computer Industry Malaysia (PIKOM) and the Vice-President of the Association of Asian Oceania Computer Industry Organization and a Member of the Minister of Science & Technology Think Tank, Copyright Tribunal, and the Labuan International Financial Exchange Committee.

Dato' Larry Gan is the Chairman of the Nomination Committee and Remuneration Committee of the Company.

He attended seven out of nine Board Meetings held during the financial year ended 31 May 2008.

## WEI CHUAN BENG
*Managing Director*

**Mr. Wei Chuan Beng**, aged 43, a Malaysian, is the Managing Director and was appointed to the Board of Directors of the Company on 15 November 2003. He obtained his Bachelor's Degree in Electrical Engineering from University Technology Malaysia in 1989 and Diploma in Management (Gold Medalist Award Winner) from Malaysia Institute of Management, Kuala Lumpur in 1995. He also completed an Entrepreneur Development Program from the renowned MIT Sloan School of Management in USA in January 2006. He began his career with Hewlett Packard Sales Malaysia Sdn Bhd in 1989 as System Engineer responsible for IT technical and customer relation and was subsequently promoted to Major Account Manager. Having gained the wide exposure in information technology, electronics and telecommunications industry, he began his entrepreneur pursuit by establishing a software development and system integration company, TQC Consultants (IT Division) Sdn Bhd ("TQC") in 1995 until 1996 when it was discontinued when REDtone became active in 1997. At TQC, he managed to grow a company with limited resources to increase shareholders' value and developed marketing strategies for different product lines. He started REDtone Telecommunications Sdn Bhd in 1996 with two other partners. As one of the founding members of the RIB Group, he is instrumental in shaping the Group's business relations and policies. His main responsibilities include management of the Group's overall business, expanding its overseas markets and financial-related matters.

At present, he is the Deputy Chairman for the Association of the Computer & Multimedia Malaysia (PIKOM) and the Education Chair person for the exclusive Young Presidents' Organization (YPO) and a Member of National Broadband Plan Committee in Malaysia.

Except for certain recurrent related party transactions of revenue or trading nature which are necessary for day-to-day operations of the subsidiaries and for which Mr. Wei Chuan Beng is deemed to be interested as disclosed under pages 20 and 21 of the Annual Report, there are no other business arrangement with the Company in which he has personal interest.

Mr. Wei attended eight out of nine Board Meetings held during the financial year ended 31 May 2008.

# Profile of Board of Directors


ZAINAL AMANSHAH BIN ZAINAL ARSHAD


LAU BIK SOON


CHEANG KWAN CHOW

## ZAINAL AMANSHAH BIN ZAINAL ARSHAD
*Group Chief Executive Officer*

**En. Zainal Amanshah bin Zainal Arshad**, aged 42, a Malaysian, is the Group Chief Executive Officer and was appointed to the Board of Directors of the Company on 15 November 2003. He obtained his Bachelor's Degree in Electrical Engineering from University of Kent, UK in 1989. Prior to joining REDtone, he worked for several local and multinational companies including NCR Malaysia Sdn Bhd, Solsis (M) Sdn Bhd, Xylog Business Solutions Sdn Bhd and Lotus Consulting Malaysia. In 2000, he joined REDtone Telecommunications Sdn Bhd as Executive Director responsible for the call centre and computer technology system and subsequently responsible for the discounted call business for the Malaysia market. He is currently primarily responsible for the Malaysia business and he sits on the board of eB Capital Berhad. He represents REDtone Telecommunications Sdn Bhd as Deputy Chairman of ASP Association (Protem).

He attended all nine Board Meetings held during the financial year ended 31 May 2008.

## LAU BIK SOON
*Executive Director*

**Mr. Lau Bik Soon**, aged 37, a Malaysian, is the Executive Director and was appointed to the Board of Directors of the Company on 13 August 2008. He obtained his First Class Honours Degree in Electrical Engineering from University of Technology Malaysia. Prior to joining REDtone, he was the Country Manager for Hitachi Data Systems Malaysia. Under his leadership, he has strengthened the organization and company's channel partner, and helped the company grow its business in Malaysia.

He also brings to REDtone more than 12 years' of experience in the ICT industry and in-depth understanding of the requirements of most organisations in Malaysia, be it small, medium or large enterprises. He has held numerous key positions including Sales Director, Partner Sales Manager, Enterprise Division Account Manager, Business Development Manager, Systems Engineer and R&D Engineer with organizations such as Cisco Systems, Sun Microsystems, Compaq Computer, TQC Consultant (IT Division) Sdn Bhd and Motorola Penang.

During his tenure with these organizations, he has attained various partner management excellence awards and has also won many accolades as a high achiever in sales.

## CHEANG KWAN CHOW
*Non-Independent Non-Executive Director*

**Mr. Cheang Kwan Chow**, aged 55, a Malaysian, is the Non-Independent Non-Executive Director of the Company and was appointed to the Board of Directors of the Company on 22 July 2008. He obtained his Master of Arts Communications Management from University of South Australia, Adelaide in 1999, Postgraduate Diploma in Export Marketing, Diploma in Export from Buckinghamshire College, England in 1978 and Diploma in Marketing from the Institute of Marketing (Cookham), United Kingdom in 1976. He is a member of the Chartered Institute of Arbitrators, London, United Kingdom and sits on the Panel of Arbitrators of The Palm Oil Refiners Association of Malaysia. He joined the Kuok Group of companies in 1980 and had over the years, held various senior management positions in Malaysia and Singapore.

Presently, he sits on the board of PPB Group Berhad and a Deputy Chairman of Malayan Sugar Manufacturing Company Berhad.

Mr. Cheang is also a member of the Audit Committee, the Nomination Committee and Remuneration Committee of the Company.

# Profile of Board of Directors


MATHEW THOMAS A/L VARGIS MATHEWS


SHAIFUBAHRIM BIN MOHD SALEH


DATO' SURIAH ABD RAHMAN

## MATHEW THOMAS A/L VARGIS MATHEWS
*Independent Non-Executive Director*

**Mr. Mathew Thomas A/L Vargis Mathews**, aged 53, a Malaysian, is the Independent Non-Executive Director of the Company and was appointed to the Board of Directors of the Company on 15 November 2003. He obtained his Chartered Association of Certified Accountants (UK) qualification from London in 1985. He is currently a Fellow of the Chartered Association of Certified Accountants, UK. He began his career in a small audit practice and after qualifying, joined Ernst & Whinney (now known as Ernst & Young) in 1987. In 1990, he left to start up his own audit and accounting practice and is currently the Managing Partner of Mathew & Partners, Chartered Accountants. He is an approved Company Auditor licensed by the Ministry of Finance. Currently, he sits on the boards of several private limited companies in Malaysia including Mathew & Partners Consulting Sdn Bhd, Westar Corporation Sdn Bhd and Ultimate Class Sdn Bhd. He is also a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Taxation. He is also the President of Kiwanis, Titiwangsa Division and the Auditor of the Kiwanis Malaysian District.

Mr. Mathew Thomas is the Chairman of the Audit Committee. He is also a member of the Nomination Committee and Remuneration Committee of the Company.

He attended all nine Board Meetings held during the financial year ended 31 May 2008.

## SHAIFUBAHRIM BIN MOHD SALEH
*Independent Non-Executive Director*

**En. Shaifubahrim bin Mohd Saleh**, aged 49, a Malaysian, is the Independent Non-Executive Director of the Company and was appointed to the Board of Directors of the Company on 15 November 2003. He obtained his Bachelor Degree in Computer Science, University Sains Malaysia in 1983. He has been in the IT industry for the last 24 years. He began his career as a marketing representative at IBM Malaysia before joining Logica Plc in 1988. Subsequently, he was attached to Oracle System and Data General before serving Banyan Systems, Asia Region as Managing Director. He was appointed as Managing Director of Aironet Wireless Communication Inc. in 1999. Subsequently, after the acquisition of Aironet by Cisco System Inc., in 2000, he was appointed as the Managing Director of Cisco System (Malaysia) Sdn Bhd. Currently, he sits on the board of eB Capital Berhad and several private limited companies. He is also currently an advisor and chairman of Export Promotion to Persatuan Industri Komputer dan Multimedia Malaysia, PIKOM, a council member of the Penang State IT Council.

En. Shaifubahrim is also a member of the Audit Committee, the Nomination Committee and Remuneration Committee of the Company.

He attended all nine Board Meetings held during the financial year ended 31 May 2008.

## DATO' SURIAH ABD RAHMAN
*Independent Non-Executive Director*

**Dato' Suriah Abd Rahman**, aged 58, a Malaysian, is the Independent Non-Executive Director of the Company and was appointed to the Board of Directors of the Company on 3 September 2008. She obtained her Bachelor of Arts (Honors) from University Malaya and Master of Arts from Leeds University, United Kingdom. She served under various capacities with the Government of Malaysia as Administrative and Diplomatic Officer (PTD) from 1972 to 2005. During this period, among the positions she held was as Deputy Director General, Implementation Coordination Unit, Prime Minister Department, Deputy Secretary General Ministry of Energy, Communications and Multimedia, and her last held position with the Government was as the Secretary General of Ministry of Science, Technology and Innovation. She served as advisor to the Minister of Science, Technology and Innovation from January to December 2006.

From 2000 to 2004, she served in multiple capacities as Board Member and Alternate Director in organizations such as Bank Simpanan Nasional, Multimedia Development Corporation, Pos Malaysia Berhad and Telekom Malaysia. From 2004 to 2005, she served as Board Member in Malaysia Trade Development Corporation, MIMOS Berhad, Multimedia Development Corporation, SIRIM Berhad, Technology Park Malaysia, an Alternate Chairman in Malaysian Standard and Accreditation Council, a Commission Member in Malaysian Communications and Multimedia Commission and an Advisory Board in National Science Centre.

Presently, she sits on the Board of Nine Bio Sdn Bhd and Universiti Putra Malaysia.

# Chairman's Letter to Shareholders

***"Our transformation into a full-service alternative communications provider is progressing well".***

It's not easy to tell shareholders that their company did not make a profit. For the first time, the Group recorded a loss after tax and after minority interest of RM6.80million for fiscal year 2008. This was mainly due to an increase in infrastructure costs, provision of diminution of investment in an associated company and unrealized foreign exchange losses for inter-company loans.

On a positive note, amidst intense competition, we achieved revenue of RM109.99 million which is higher compared to the preceding year. This underlines the Group's ability to offer services and products of high quality that continue to appeal to customers.

We made good progress in repositioning the Group. I am happy to note that we are well on our way to establishing ourselves as a communications company providing a full suite of core offerings around Data, Mobile, Voice and Content.

We are very excited with the growth prospects in the Data business. We now already have several hundred new customers using our Data services and there are clear signs that the customer base will increase.

We see great potential in the Mobile and Content markets and our entry at this stage via several ventures will place us in a good position to tap this potential.

The global economy is presently going through a very trying period. The domestic market remains highly competitive. We will need to be prudent with our investments and use of resources but yet aggressive with pursuing the new positioning. Your Board and management understand fully the challenges ahead.

I would like to take this opportunity to extend my appreciation to my fellow board members, the management and all employees for their hard work and dedication. Thanks also to our shareholders, customers, business associates and partners for their continuous support and confidence in the Group.

**DATO' LARRY GAN**
*Chairman*

# Group Managing Director's Letter to Shareholders

***"We are consolidating and aligning our operations as part of the remodeling process."***

The telco industry went through another challenging year which further reinforced the importance for us to maintain our innovativeness and ability to quickly adapt to changing market needs if we are to compete successfully in the marketplace.

Our unwavering commitment in taking the Group to the next level as a telco provider with several core services yielded encouraging results in the 12 months under review. We grew our Data business in Peninsular Malaysia into a profitable one. The SMEs (small and medium-sized enterprises) and SMIs (small and medium-sized industries) that we are targeting clearly are looking for an alternative for their Data requirements and we have been able to meet their needs with our specially tailored packages. For East Malaysia, we went full steam with our preparations to bring our WiMAX service there ahead of the August 31, 2008 deadline set by the Malaysian Communications and Multimedia Commission. We subsequently rolled out REDtone WiMAX in Sabah on August 20, making us the first in the country to offer high speed wireless Internet access via WiMAX technology to the corporate and SME sectors in East Malaysia. We expect to extend our REDtone WiMAX offering to Sarawak by the end of 2008.

After months of intense negotiation, we finally sealed our collaboration with Celcom to be a mobile virtual network operator or what is commonly referred to as MVNO. This initiative, our first under the Mobile business, will see us offering a wide range of mobile services such as SMS, MMS, GPRS and 3G to post-paid enterprise customers, a segment that we are particularly strong at. These services will be marketed under our REDtone brand.

In the Voice segment, fierce competition amongst the players continued to affect our margins. Nonetheless, our ability to add value to our offerings together with exceptional customer service enabled us to maintain a very strong and loyal customer base for our Voice services.

We teamed-up with Club Excellence (M) Sdn Bhd to form a joint-venture company where we have a 61% stake to expand into Internet TV. Marketed under the DETV brand, it signaled the start of our Content business. DETV offers an alternative channel for consumers to enjoy non-stop entertainment on their TV via broadband Internet connection and a simple Internet home gateway.

We recognized the need to consolidate our operations to ensure we remain on track in rebuilding our business. Towards this end, we undertook a share swap deal where we exchanged our 100% stake in VMS Technology Limited for a 19.5% equity in Hotgate Technology Inc, an Internet-enabled service provider. Hotgate Technology Inc is listed on the OTCBB (Over-The-Counter Bulletin Board) in the US. We ceased our TravelFon operations due to a change in market conditions which no longer made the business viable.

Of significance is our proposal to inject our Data business into eB Technologies (M) Sdn Bhd, a wholly-owned subsidiary of eB Capital Bhd. This will enable our Data business to fully realize its potential as eB is licenced to operate the 2.5GHz and 3.5GHz broadband spectrums. In return, we will increase our stake in eB from the current 23.17% to become a major shareholder with over 60%.

Looking ahead, we have identified the Data and Content businesses as growth areas that can provide us with long-tail revenue stream. The Data market is set to continue growing and we are eager to have a slice of this pie as we are now in a position to offer a comprehensive suite of Data solutions.

# Group Managing Director's Letter to Shareholders

The government's push for a higher broadband penetration in the country coupled with an increasing number of homes subscribing to broadband service will augur well for DETV.

We will continue to innovate as this is crucial to our success in the future. Besides carrying out R&D activities as planned, we also created an innovation framework. This framework provides a platform for our employees and business partners to contribute their ideas and will continue to assist us as we sharpen our competitive edge in this area. For financial year ended 31 May 2008, the Group spent approximately RM2.26million on R&D.

On our overseas operations, we are taking a cautious position as our focus is to first strengthen our operations in Malaysia. In China, we will continue to build on our e-commerce and Data businesses while for Pakistan, we will continue to seek out investors who will be able to add value to our business in the republic.

As and when we see a need to further consolidate our operations, we will do so.

I would like to conclude by saying a big thank you to all our shareholders and everyone who supported us as we remodel the Group to make it stronger.

**WEI CHUAN BENG**
*Group Managing Director*

# Corporate Governance Statement

The Board of Directors ("Board") of REDtone International Berhad appreciates the importance of embedding corporate governance best practices in the business and affairs of the Company and the Group and views corporate governance as synonymous with transparency, accountability and outstanding corporate performance. The Board is fully committed to sustaining its high standards of corporate governance with the goal of ensuring that the Group is in the forefront of good governance and is recognised as an exemplary organisation in this respect by further supporting and implementing the prescriptions of the Principles and Best Practices set out in Parts 1 and 2 of the Malaysian Code on Corporate Governance ("Code").

In October 2007, the Code was revised in line with developments in the domestic and international capital markets, to further improve corporate governance standards and strengthen investor confidence. The key amendments to the Code are aimed at strengthening Board of Directors and the Audit, Remuneration and Nomination Committees, and ensuring their roles and responsibilities are discharged effectively.

The Board will ensure that the changes are adequately reflected and updated in the Terms of Reference of the Audit, Remuneration and Nomination Committees and the Board endeavours to adequately reflect all changes by the require deadline in 2009.

## STATEMENT OF PRINCIPLES

The following sets out the manner in which the Principles in Part 1 of the Code have been applied by the Company and are under the headings of Board of Directors, Directors' Remuneration, Shareholders and Investors, and Accountability and Audit.

## A. BOARD OF DIRECTORS

### Board Responsibilities

The Company is led and controlled by an effective Board that has the overall responsibility to protect and enhance shareholder value. The Company acknowledges the pivotal role played by the Board of Directors in the stewardship of its strategic business direction and ultimately in the enhancement of its long-term shareholder value. Key responsibilities of the Board include the primary responsibilities prescribed under the Best Practices Provision AA I in Part 2 of the Code.

The Board remains resolute and upholds its responsibility in governing, guiding and monitoring the direction of the Company with the eventual objective of enhancing long term sustainable value creation aligned with shareholders' interests whilst taking into account the long term interests of all stakeholders, including shareholders, employees, customers, business associates and the communities in which the Group conducts its business.

The Board assumes responsibility for the following matters:

- Reviewing and adopting a corporate strategy for the Group
- Succession planning including appointing, training and monitoring management
- Developing and implementing an effective public communications program for the Group
- Reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including system for compliance with applicable laws, regulations, rules, directives and guidelines
- Developing an effective framework for identifying and monitoring significant business risks

### Board Committees

The Board of Directors delegates certain responsibilities to the Board Committees, namely the Audit Committee, Nomination Committee, and Remuneration Committee in order to enhance business and operational efficiencies as well as efficacies.

## A. BOARD OF DIRECTORS (CONT'D)

### Board Committees (Cont'd)

All Board Committees have written terms of reference and charters and the Board receives all minutes and reports of their proceedings and deliberations, where relevant. The Chairmen of the various Committees report to the Board on the outcome of Committee meetings. Such reports are usually incorporated in the minutes of the full Board meetings.

### Board Composition and Balance

The Board consists of a total of eight (8) Directors and the status of their directorship is as follows:

| DIRECTOR | STATUS |
|---|---|
| Dato' Larry Gan Nyap Liou @ Gan Nyap Liow<br>*(Chairman of Board)* | Non Executive<br>Independent |
| Mr. Wei Chuan Beng<br>*(Managing Director)* | Executive<br>Non Independent |
| Encik Zainal Amanshah bin Zainal Arshad<br>*(Group Chief Executive Officer)* | Executive<br>Non Independent |
| Mr. Peter Yeow Heng Ho<br>*(retired w.e.f. November 23, 2007)* | Executive<br>Non Independent |
| Mr. Leong Yew Weng<br>*(resigned w.e.f. September 21, 2007)* | Non Executive<br>Non Independent |
| Mr. Tan Gee Sooi<br>*(appointed w.e.f. September 21, 2007 and resigned w.e.f. July 22, 2008)* | Non Executive<br>Non Independent |
| Mr. Mathew Thomas A/L Vargis Mathews | Non Executive<br>Independent |
| Encik Shaifubahrim bin Mohd. Saleh | Non Executive<br>Independent |
| Mr. Cheang Kwan Chow<br>*(appointed w.e.f. July 22, 2008)* | Non Executive<br>Non Independent |
| Mr. Lau Bik Soon<br>*(appointed w.e.f. August 13, 2008)* | Executive<br>Non Independent |
| Dato' Suriah Abd Rahman<br>*(appointed w.e.f. September 3, 2008)* | Non Executive<br>Independent |

REDtone International Berhad complies with the Bursa Malaysia Listing Requirements with regard to board composition and the required ratio of independent directors. The profiles of the directors are set out on pages 8 to 10 of this Annual Report.

The roles of the Chairman and the Managing Director are segregated and clearly defined by their individual position descriptions. The Chairman is responsible for running the Board and ensures that all directors receive sufficient and relevant information on financial and non-financial matters to enable them to participate actively in Board decisions. The Managing Director is responsible for the day-to-day management of the business as well as the implementation of Board policies and decisions.

The Board will, from time to time, review its composition and size to ensure it fairly reflects the investments of the shareholders of the Company.

### Re-election of Directors

An election of directors will take place at each Annual General Meeting whereby one-third of the directors shall retire from office and being eligible offer themselves for re-election. This provides an opportunity for shareholders to renew their mandate. New directors appointed by the Board are subject to election by the shareholders at the next Annual General Meeting following their appointments.

# Corporate Governance Statement

**Meetings**

During the financial year ended 31 May 2008, the Board met on nine (9) occasions, deliberating upon and considering a variety of matters including the Group's financial results, major investments, strategic decisions and the overall direction of the Group.

Agenda and matters for discussion are prepared and circulated in advance of each meeting. All proceedings from Board meetings are recorded and the minutes maintained by the Company Secretary. During the financial year under review the Board meetings were held as follows:

**2007** – June 27, July 30, September 27, October 5, 11 and 29
**2008** – January 30, March 24 and April 28

Details of Directors attendance at meetings of the Board during the financial year under review are as follows:

| DIRECTOR | ATTENDANCE |
|---|---|
| Dato' Larry Gan Nyap Liou @ Gan Nyap Liow | 7/9 |
| Mr. Wei Chuan Beng | 8/9 |
| Encik Zainal Amanshah bin Zainal Arshad | 9/9 |
| Mr. Peter Yeow Heng Ho *(retired November 23, 2007)* | 1/6 |
| Mr. Leong Yew Weng *(resigned September 21, 2007)* | 2/2 |
| Mr. Tan Gee Sooi *(appointed w.e.f. September 21, 2007 and resigned w.e.f. July 22, 2008)* | 6/7 |
| Mr. Mathew Thomas A/L Vargis Mathews | 9/9 |
| Encik Shaifubahrim bin Mohd. Saleh | 9/9 |
| Mr. Cheang Kwan Chow *(appointed w.e.f. July 22, 2008)* | N/A |
| Mr. Lau Bik Soon *(appointed w.e.f. August 13, 2008)* | N/A |
| Dato' Suriah Abd Rahman *(appointed w.e.f. September 3, 2008)* | N/A |

**Supply of Information**

All members of the Board are supplied with information in a timely manner. Board papers are circulated prior to Board meetings to enable directors to obtain further information and explanations, where required, before the meetings.

Each director has unhindered access to information pertaining to the Group's business and affairs to enable them to discharge their duties. In addition, certain matters are reserved specifically for the Board's decision. These include approval of material acquisitions and disposals of assets, major corporate plans, financial results, and Board appointments. The directors also have direct access to the advice of Company Secretary, independent professional advisors and internal and external auditors, as and when appropriate, at the Company's expense.

**Appointments to the Board**

**Nomination Committee**

The Nomination Committee is responsible for identifying and recommending to the Board suitable nominees for Board appointments. The Nomination Committee is also responsible on the evaluation of director's performance. Ultimate responsibility and final decisions on all matters, however, lies with the Board.

# Corporate Governance Statement

## A. BOARD OF DIRECTORS (CONT'D)

**Appointments to the Board (Cont'd)**

**Nomination Committee**

The Nomination Committee comprised the following members in the financial year under review and their attendance at meetings is as follows:

| MEMBERS | ATTENDANCE |
|---|---|
| Dato' Larry Gan Nyap Liou @ Gan Nyap Liow *(Chairman)* | 1/1 |
| Mr. Mathew Thomas A/L Vargis Mathews | 1/1 |
| Encik Shaifubahrim bin Mohd. Saleh | 1/1 |
| Mr. Tan Gee Sooi *(appointed w.e.f. September 21, 2007 and resigned w.e.f. July 22, 2008)* | 1/1 |
| Mr. Cheang Kwan Chow *(appointed w.e.f. July 29, 2008)* | N/A |

**Directors' Training**

The Board, through the Nomination Committee, ensures that it recruits to the Board only individuals of sufficient calibre, knowledge, and experience to appropriately perform the duties of director. As at the end of the financial year under review, all directors have successfully completed the Mandatory Accreditation Programme ("MAP") except for Dato' Suriah Abd Rahman and Mr. Lau Bik Soon who are newly appointed on 13 August 2008 and 3 September 2008 respectively and they will attend the MAP by end of this year.

During the financial year under review, the Directors have attended and participated in various programmes and forums which they have individually or collectively considered as relevant and useful in contributing to the effective discharge of their duties as Directors. The programmes and forums attended by them individually or collectively included areas of leadership, strategic management, tax and regulatory updates.

## B. DIRECTORS' REMUNERATION

**Remuneration Committee**

The Remuneration Committee comprised the following members in the financial year under review and their attendance at meetings is as follows:

| MEMBERS | ATTENDANCE |
|---|---|
| Dato' Larry Gan Nyap Liou @ Gan Nyap Liow *(Chairman)* | 1/1 |
| Mr. Mathew Thomas A/L Vargis Mathews | 1/1 |
| Encik Shaifubahrim bin Mohd. Saleh | 1/1 |
| Mr. Tan Gee Sooi *(appointed w.e.f. September 21, 2007 and resigned w.e.f. July 22, 2008)* | 1/1 |
| Mr. Cheang Kwan Chow *(appointed w.e.f. July 29, 2008)* | N/A |

The Committee is responsible for recommending the remuneration framework for directors and senior management staff. In formulating the recommended framework and levels of remuneration, the Committee has considered information prepared by management and independent consultants and survey data on the remuneration practices of comparable companies.

## B. DIRECTORS' REMUNERATION (CONT'D)

**Remuneration Committee (Cont'd)**

The Board, as a whole, determines the remuneration of non-executive directors, with each director concerned abstaining from any decision as regards his remuneration. Taking into account the performance of the Group and the responsibilities and performance of the directors, directors' fees are set in accordance with a remuneration framework comprising responsibility fees and attendance fees. The Company pays its directors an annual fee which is approved annually by shareholders. Details of the nature and amount of each major element of the remuneration of directors of the Company, during the financial year, are as follows:

| Remuneration (RM) | Executive Directors | Non-Executive Directors |
|---|---|---|
| Salaries | 632,624 | – |
| Benefits-in-Kind | 34,793 | – |
| Fees | – | 132,000 |

The number of directors whose remuneration fell within the respective bands is as follows:

| Range of Remuneration (RM) | Executive Directors | Non-Executive Directors |
|---|---|---|
| 50,000 and below | 1 | 2 |
| 50,001 to 100,000 | – | 1 |
| 100,001 to 150,000 | – | – |
| 150,001 to 300,000 | 1 | – |
| 300,001 and above | 1 | – |

## C. SHAREHOLDERS AND INVESTORS

**Communication**

The Company recognizes the importance of communicating with its shareholders and other stakeholders and does this through the Annual Reports, Annual General Meetings (AGM) and the various disclosures and announcements made to Bursa Malaysia Securities Berhad ("Bursa Malaysia"). At the AGM, the shareholders are encouraged to ask questions both about the resolutions being proposed or about the Group's operations in general.

In addition, the Company makes various announcements through Bursa Malaysia, in particular, the timely release of the quarterly results within two (2) months from the close of a particular quarter. Members of the public can also obtain the full financial results and Company announcements from the Bursa Malaysia website.

**Investor Relations**

Along with good corporate governance practices, the Company has embarked on appropriate corporate policies to provide greater disclosure and transparency through all its communications with its shareholders, investors and the general public. The Company strives to promote and encourage bilateral communications with its shareholders through participation at its general meetings and also ensures timely dissemination of any information to investors, analysts and the general public.

The Group maintains the following website that allows all shareholders and investors access to information about the Group: www.redtone.com.

## D. ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board aims to provide a balanced and meaningful assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly announcements of results to shareholders and the Chairman's and Group Managing Director's Statement in the Annual Report. The Board is assisted by the Audit Committee in overseeing the Group's financial reporting processes and the quality of its financial reporting.

### Internal Control

The Board has overall responsibility for maintaining a system of internal control and risk management that provides a reasonable assurance of effective and efficient operations and compliance with laws and regulations, as well as with internal procedures and guidelines.

The Statement on Internal Control furnished on pages 29 to 31 of this Annual Report provides an overview of the internal control framework within the Group during the financial year under review.

### Relationship with the Auditors

The Company has established a transparent arrangement with the Auditors to meet their professional requirement. Key features underlying the relationship of the Audit Committee with the Internal and External Auditors are included in the Audit Committee Report on pages 23 to 28 of this Annual Report.

A summary of the activities of the Audit Committee during the financial year under review, including an evaluation of the independent audit process is also set out in the Audit Committee Report.

### Internal Audit

In the pursuit of greater independence in the internal audit function, the Internal Audit activity was outsourced during the financial year under review to Messrs Stanco & Ruche Consulting, a company specialising in the provision of internal audit services.

A summary of the activities of the Audit Committee and the Internal Auditors during the financial year under review is set out in the Audit Committee Report.

## E. CORPORATE SOCIAL RESPONSIBILITY

The Company has a broad perspective of our social responsibility agenda and are committed to responsible practices pertaining to the development and improvement of our employees, the environment and the general community. In the current year, emphasis was placed on helping the disaster victims by donating funds to Sichuan Earthquake Relief and Myanmar Children's Cyclone. Another emphasis was placed on saving the environment with the Group's effort to organise an environment talk on 22 April 2008 which was held in conjunction with Earth Day for all tenants within our office building to bring awareness on global warming and recycling. Following that a recycling program was launched within our organisation to encourage the staff to recycle and reuse paper. Old and unused PCs were also being recycled and donated to underpriviledged schools in the Klang Valley.

# Additional Compliance Information

**Options, Warrants or Convertible Securities**

During the financial year ended 31 May 2008, a total of 5,510,000 options were exercised pursuant to the Company's Employees' Share Option Scheme. The Company did not issue any warrants or convertible securities during the financial year ended 31 May 2008.

**Non Audit Fees**

The amount of non-audit fees paid to the external auditors by the Company for the financial year was RM11, 950 (2007: RM 51,320)

**Recurrent Related Party Transactions ("RRPT")**

The aggregate value of recurrent related party transactions of revenue nature conducted during the financial year ended 31 May 2008 in accordance with the shareholders' mandate were as follows:

| COMPANY | TRANSACTING PARTY | NATURE OF RELATIONSHIP | 1.6.2007 TO 31.5.2008 RM'000 | NATURE OF TRANSACTION |
|---|---|---|---|---|
| REDtone Marketing Sdn Bhd ("RMSB") | REDtone Mytel Sdn Bhd ("RMT") | RMSB is a wholly owned subsidiary of REDtone International Berhad ("RIB").<br><br>REDtone Technology Sdn Bhd ("RT"), a wholly owned subsidiary of RIB.<br><br>RT holds 60% in RMT while Lai Kim Choy, Subtantial Shareholder of RMT, holds 40% equity interest in RMT. | 7,353 | RMSB sells call bandwidth to RMT |
| REDtone Telecommunications Sdn Bhd ("RTC") | Endless Revenue Sdn Bhd ("ERSB") | RTC is a wholly owned subsidiary of RIB.<br><br>Wei Chuan Beng is the Director and shareholder of RIB. Wei Chuan Beng's spouse, namely Choo Yeh Fung is the Director and substantial shareholder of ERSB. | 106 | RTC entered into a Tenancy Agreement with ERSB on 1 January 2006 for renting of office space.<br><br><u>Location:</u><br>Suite 25-26, 4th Floor, Suite 22-23, 5th Floor, IOI Business Park, 47100 Puchong, Selangor<br><br><u>Measurement:</u><br>5,523 sq ft<br><br><u>Monthly Rental:</u><br>RM8,836.80 (from November 2007 to December 2007)<br>RM9,941.40 (from January 2008 to December 2008)<br><br><u>Tenure:</u><br>Two (2) years (1 January 2006 to 31 December 2007 and renewed for one year from 1 January to 31 December 2008) |

# Additional Compliance Information

| COMPANY | TRANSACTING PARTY | NATURE OF RELATIONSHIP | 1.6.2007 TO 31.5.2008 RM'000 | NATURE OF TRANSACTION |
|---|---|---|---|---|
| RTC | ERSB | RTC is a wholly owned subsidiary of RIB.<br><br>Wei Chuan Beng is the Director and shareholder of RIB. Wei Chuan Beng's spouse, namely Choo Yeh Fung is the Director and substantial shareholder of ERSB. | 44 | RTC entered into a Tenancy Agreement with ERSB on 3 January 2006 for renting of office space.<br><br>Location:<br>E3A-15, 4th Floor, Block E, Phileo Damansara 1, 9, Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya<br><br>Measurement:<br>2,167 sq ft<br><br>Monthly rental:<br>RM3,700.00<br><br>Tenure:<br>3 January 2007 to 2 January 2008 and renewed for 6 months until June 2008 |

**Revaluation of Landed Property**

The Group has properties that falls within the definition of investment property. The Group adopts the fair value approach for this investment property and valuations are done annually.

**Share Buy-Backs**

During the financial year under review, the Company did not enter into any share buy-back transactions.

**Sanctions and/or Penalties**

In the financial year ended May 31, 2008 the company was subject to two reprimands for breaches of the listing requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market.

The first was a private reprimand for breach of Rule 9.16(1) (a) for not taking into account the adjustments as stated in the Company's announcement dated October 11, 2007 in the Company's Unaudited Results for the financial year ended 31st May, 2007.

The second was a public reprimand for breach of Rule 9.24(b) for late submission of the audited financial statements for the financial year ended May 31, 2007. A penalty of RM9,000 was imposed for the second reprimand.

**Profit Estimates, Forecasts or Projections**

There were no significant variances noted between the reported results and the unaudited results announced. The Company did not make any release on the profit estimates, forecasts or projections for the financial year.

# Additional Compliance Information

**Profit Guarantees**

There were no profit guarantees given by the Company during the financial year.

**Material Contract Involving Directors and Substantial Shareholders**

The Company and its subsidiary companies have not entered into any material contracts outside the ordinary course of business, involving directors and substantial shareholders since the end of the previous financial year.

**Statement Of Compliance**

The Group has complied throughout the financial year ended 31 May 2008 with all the Best Practices of Corporate Governance set out in Part 2 of the Code.

**Family Relationship**

None of the Directors has any family relationship with other Directors and/or substantial shareholder.

**Conflict of Interest**

The Company subsdiary has entered into recurrent related party transaction of a revenue or trading nature with Endless Revenue Sdn Bhd ("ERSB") in which the spouse of one of the Directors of the Company, Wei Chuan Beng, is the director and major shareholder of ERSB. The details are disclosed in pages 20 and 21 of the Annual Report.

Save for the above, none of the Directors have any conflict of interest with the Company.

**Securities Holdings in the Company and Its Subsidiaries**

The interest of Directos are set out in page 32 of the Annual Report. Save as disclosed, none of the Directors hold any shares in the Company and its subsidiaries.

**Conviction for Offences**

None of the Directors has been convicted for any offences within the past ten years.

# Audit Committee Report

## CHANGES TO THE MALAYSIAN CODE OF CORPORATE GOVERNANCE

As released by the Securities Commission in October 2007, the Malaysian Code of Corporate Governance ("the Code") has been revised in line with developments in the domestic and international capital markets, to further improve corporate governance standards and strengthen investor confidence. The key amendments to the Code are aimed at strengthening Board of Directors and Audit Committees, and ensuring their roles and responsibilities are discharged effectively.

The Board will ensure that the changes are adequately reflected and updated in the Terms of Reference of the Audit Committee and the Board endeavours to adequately reflect all other changes by the requirement deadline in 2009.

## TERMS OF REFERENCE

The Audit Committee was established to act as a Committee of the Board of Directors to fulfill its fiduciary responsibilities. The Audit Committee shall assist the Board of Directors to review the adequacy and integrity of the Group's financial administration and reporting, internal control and risk management systems including the management information systems and systems for compliance with applicable laws, regulations, rules, directives and guidelines.

**1.0 COMPOSITION**

1.1 The Committee shall fulfill the following requirements:-

a. The Committee must be composed of no fewer than 3 members;

b. All members of the Audit Committee shall be non-executive directors and financially literate, a majority of the Committee must be independent directors; and

c. At least one (1) member of the Committee:-
i. must be a member of the Malaysian Institute of Accountants; or
ii. if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) year's working experience and :-
aa. he must have passed the examination specified in Part 1 of the First Schedule of the Accountants Act, 1967; or
bb. he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act, 1967; or
iii. Be a holder of a degree/ masters/ doctorate in accounting or finance and has at least 3 years' post qualification experience in accounting or finance; or
iv. Have at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation; or
v. Fulfils such other requirement as prescribed by the Exchange.

1.2 Members of the Committee shall elect from among them a Chairman who shall be an independent non-executive director.

1.3 No alternate director should be appointed as a member of the Committee.

1.4 In the event of any vacancy in the Committee resulting in the non-compliance of the Listing Requirements pertaining to composition of audit committee, the Board of Directors shall within three months of that event fill the vacancy.

1.5 The terms of office and performance of the Committee and each of its members must be reviewed by the Board of Directors at least once every 3 years to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.

# Audit Committee Report

## 2.0 MEMBERSHIP

### 2.1 The present members of the Committee comprise of the following Directors:

| DIRECTOR | ROLE |
|---|---|
| Mathew Thomas A/L Vargis Mathews | Chairman |
| Zainal Amanshah bin Zainal Arshad *(resigned w.e.f. 25/8/2008)* | Member |
| Shaifubahrim Bin Mohd Saleh | Member |
| Cheang Kwan Chow *(appointed w.e.f. 25/8/2008)* | Member |

## 3.0 MEETINGS

### 3.1 Frequency

3.1.1 Meeting shall be held at least four (4) times annually, or more frequently if circumstances so require the Committee to do so.

3.1.2 Upon the request of the external auditor, the Chairman of the Committee shall convene a meeting of the Committee to consider any matter the external auditor believes should be brought to the attention of the Directors or shareholders.

### 3.2 Quorum

3.2.1 A quorum shall consist of a majority of independent directors. In the absence of the Chairman, the members present shall elect a Chairman for the meeting from amongst the members present.

### 3.3 Secretary

3.3.1 The Company Secretary shall be the Secretary of the Committee or in his absence, another person authorized by the Chairman of the Committee. The Secretary in conjunction with the Chairman shall draw up an agenda which shall be circulated at least one (1) week before each meeting to members of the Committee.

### 3.4 Attendance

3.4.1 The Head of the Finance Department and the Internal Auditors shall normally attend meetings.

3.4.2 Other Directors, employees and a representative of the external auditor may attend any particular meeting only at the Committee's invitation, specific to the relevant meeting.

### 3.5 Reporting Procedure

3.5.1 The Minutes of each meeting shall be circulated to all members of the Board.

### 3.6 Meeting Procedure

The Committee shall regulate its own procedure, in particular:-

(a) The calling of meetings;
(b) The notice to be given of such meetings;
(c) The voting and proceedings of such meetings;
(d) The keeping of minutes; and
(e) The custody, production and inspection of such minutes.

# Audit Committee Report

## 4.0 RIGHTS

The Committee shall:

(a) Have authority to investigate any matter within its terms of reference;
(b) Have the resources which it needs to perform its duties;
(c) Have full and unrestricted access to any information pertaining to the Company and Group;
(d) Have unrestricted access to the senior management of the Company and Group;
(e) Have direct communication channels with the external auditor and person(s) carrying out the internal audit function or activity;
(f) Be able to obtain independent professional or other advice in the performance of its duties;
(g) Be able to convene meetings with external auditors, internal auditors or both, excluding the attendance of the other directors and employees whenever deemed necessary; and
(h) Be able to invite outsiders with relevant experience to attend its meeting, whenever deemed necessary.

## 5.0 FUNCTIONS

The Committee shall, amongst other, discharge the following functions:

5.1 To review

(a) The quarterly result and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
  (i) the going concern assumption;
  (ii) changes in or implementation of major accounting policy changes;
  (iii) significant and unusual events; and
  (iv) compliance with accounting standards and other legal requirements.
(b) Any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity.
(c) With the external auditor:
  (i) the audit plan;
  (ii) the evaluation of the system of internal controls;
  (iii) th audit report;
  (iv) th management letter and management's response; and
  (v) the assistance given by the Company's employees to the external auditor;

5.2 To review the effectiveness of the internal control, management information system and management's risk management practices and procedures.

5.3 In respect of the appointment of external auditors:

(a) To review whether there is reason (supported by grounds) to believe that the external auditor is not suitable for reappointment;
(b) To consider the nomination of a person or persons as external auditors and the audit fee; and
(c) To consider any questions of resignation or dismissal of external auditors.

# Audit Committee Report

## 5.0 FUNCTIONS (CONT'D)

5.4 In respect of the internal audit function:

(a) To review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
(b) To review the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
(c) To review any appraisal or assessment of the performance of members of the internal audit function;
(d) To approve any appointment or termination of senior staff members of the internal audit function; and
(e) To inform itself of any resignation of internal audit staff member and provide the resignation staff member an opportunity to submit his reasons for resigning.

5.5 To promptly report such matter to Bursa Malaysia if the Committee is of the view that the matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

5.6 To carry out such other function as may be agreed to by the Committee and the Board of Directors

## THE AUDIT COMMITTEE REPORT IN RESPECT OF THE YEAR UNDER REVIEW

**Membership**

The Directors who served as members of the Audit Committee during the financial year under review and as at the date of this report are:

| MEMBERS | STATUS |
|---|---|
| Mathew Thomas A/L Vargis Mathews *(Chairman)* | Independent Non Executive Director |
| Zainal Amanshah bin Zainal Arshad *(resigned w.e.f. 25/8/2008)* | Non Independent Executive Director |
| Shaifubahrim Bin Mohd Saleh | Independent Non Executive Director |
| Cheang Kwan Chow *(appointed w.e.f. 25/8/2008)* | Non Independent Non Executive Director |

**Meetings**

The Audit Committee convened a total of five (5) meetings and recorded an attendance of its members during the financial year as follows:

| MEMBERS | ATTENDANCE |
|---|---|
| Mathew Thomas A/L Vargis Mathews *(Chairman)* | 5/5 |
| Zainal Amanshah bin Zainal Arshad *(resigned w.e.f. 25/8/2008)* | 4/5 |
| Shaifubahrim Bin Mohd Saleh | 5/5 |
| Cheang Kwan Chow *(appointed w.e.f. 25/8/2008)* | N/A |

The Company Secretary was present at all meetings.

The five Audit Committee meetings were held on the following dates:

**2007** - 26 July, 27 September and 25 October
**2008** - 24 January and 25 April

# Audit Committee Report

## THE AUDIT COMMITTEE REPORT IN RESPECT OF THE YEAR UNDER REVIEW (CONT'D)

**Meetings (Cont'd)**

Also attended, when required, by invitation were representatives from Corporate Planning and Finance with the General Managers of these departments representing their respective department. The Managing Partner of Stanco & Ruche Consulting represented the Internal Auditors also by invitation, when required.

Where appropriate, the External Auditors were invited to attend and brief the Audit Committee and to provide responses to queries raised by the Audit Committee in respect of the Company's Financial Statements and reporting requirements.

## SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE DURING THE FINANCIAL YEAR UNDER REVIEW

1. Reviewed the unaudited quarterly financial results of the Group before recommending to the Board of Directors for their approval and release of the Group's financial results to Bursa Malaysia.

2. Reviewed the Audit Planning Memorandum of the Group for the financial period ended 31 May 2008 with the External Auditors and deliberated on the appointment and fee payable to the External Auditors before recommending to the Board of Directors for approval.

3. Together with the External Auditors, reviewed the audited financial statements of the Group, the issues arising from the audit, their resolution and the audit report prior to recommending to the Board of Directors for approval.

   Without the presence of Management, reviewed the extent of cooperation of Management in providing required information, explanation and clarification and whether this was done timely and if there had been any problems impinging on their independence and objectivity in the course of their audit.

4. Reviewed with the Internal Auditor the internal audit findings and recommendations presented and the manner in which the issues raised by the internal auditor was subsequently responded to and resolved by management.

5. Reviewed the role and management of the internal audit function and the option to outsource the internal audit function for the ensuing year.

6. Reviewed other pertinent issues of the Group, which has significant impact on the results of the Group and the statutory audits.

## INTERNAL AUDIT FUNCTION

It is the responsibility of the internal audit department to provide the Audit Committee with independent and objective reports on the state of internal control of the various operating units within the Group and the extent of compliance of the units with the Group's established policies and procedures.

The Board of Directors and the Audit Committee have also in the interest of continuity and greater independence in the internal audit function, taken the decision to outsource the internal audit function to Messrs Stanco & Ruche Consulting, a firm specialising in the provision of outsourced internal audit services.

The appointment of Messrs Stanco & Ruche takes effect from July 3, 2007.

# Audit Committee Report

## INTERNAL AUDIT FUNCTION (CONT'D)

The functions of the internal auditors are to:

1. Perform audit work in accordance with the pre-approved internal audit plan;
2. Carry out reviews on the systems of internal control of the Group;
3. Review and comment on the effectiveness and adequacy of the existing control policies and procedures;
4. Provide recommendations, if any, for the improvement of the control policies and procedures.

In the financial year ended May 31, 2008, the internal auditors undertook three operational reviews and with the adoption of the recommendations made by the internal auditors, the reviews were found to be satisfactory. The operational reviews undertaken were as follows:

- Human Resource & Payroll Management
- Procurement & Payables Management
- Fixed Assets Management

## STATEMENT ON EXECUTIVE SHARE OPTION SCHEME BY THE COMMITTEE

The Audit Committee confirms that the allocation of options offered by the Company to the eligible employees of the Group complies with the By-Laws of the Company's ESOS.

# Statement of Internal Control

## 1. INTRODUCTION

The Malaysian Code of Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and Group assets.

The Bursa Malaysia Listing Requirements Paragraph 15.27(b) requires Directors of listed companies to include a statement in their annual report on the state of their internal controls.

The Board of Directors of REDtone International Berhad, in recognition of its responsibility, hereby issues the following statement which is prepared in accordance with these requirements and the Statement of Internal Control: Guidance for Directors of Public Listed Companies.

## 2. BOARD RESPONSIBILITY

The Board of Directors acknowledges that it is their responsibility to maintain a sound system of internal controls to cover all aspects of the Group's business. This responsibility requires Directors to establish procedures, controls and policies and to seek continuous assurance that the system is operating satisfactorily.

The Directors are also aware that a sound internal control system provides reasonable and not absolute assurance that the Company will not be hindered in achieving its business objectives in the ordinary course of business.

The Board maintains full control over strategic, financial, organisational and compliance issues and has put in place an organization with formal lines of responsibility and delegation of authority. The Board has delegated to the executive management the implementation of the system of internal controls within an established framework throughout the Group.

The Board also acknowledges the need to establish an ongoing process for identifying, evaluating and managing significant risks faced by the Group and to regularly review this process with the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

## 3. CONTROL STRUCTURE & RISK MANAGEMENT FRAMEWORK

Day to day operations is monitored by the Managing Director & Executive Directors. This control is exercised through Senior Management in respect of commercial, financial and operational aspects of the Company. The Managing Director, Executive Director and Senior Management meet regularly in respect of such matters.

The Board fully supports the contents of the Internal Control Guidance and through the Audit Committee continually reviews the adequacy and effectiveness of the risk management processes in place within the various operating units with the aim of strengthening the risk management functions across the Group.

Management is responsible for the management of risks, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so in accordance with the policies adopted by the Board. Further assurance is provided by the Internal Audit function which operates across the Group with emphasis on key operating units within the Group.

The Board of Directors and Management recognise that the development of an effective internal control system is an ongoing process and to this end maintains a continuous commitment to strengthen the existing internal control environment of the Group.

## 4. INTERNAL AUDIT FUNCTION

In a desire to maintain total independence in the internal control environment and remain in compliance with the Bursa Malaysia Listing Requirements, the Company has appointed Messrs Stanco & Ruche Consulting to manage the Company's Internal Audit function on an outsourced basis with effect from July 3, 2007. Prior to the appointment of Messrs Stanco & Ruche Consulting, the Internal Audit function was managed by a chief internal auditor of the Group.

The Internal Audit function independently reviews the risk identification procedures and control processes implemented by Management and reports to the Audit Committee periodically. It also reviews the internal controls in the key activities of the Group's business based on the risk profiles of the business units in the Group. In addition, the Internal Auditors carry out periodic assignments to ensure the policies and procedures established by the Board are complied with by Management.

The Internal Audit activity adopts a risk based approach together with an audit plan that is agreed with the Audit Committee covering a three year period. Following the appointment of Messrs Stanco & Ruche Consulting as Internal Auditors in the year under review, the Internal Auditors undertook three assignments covering the following areas as indicated in the Audit Committee Report:

- Human Resource & Payroll Management
- Procurement & Payables Management
- Fixed Assets Management

## 5. OTHER KEY INTERNAL CONTROL ELEMENTS

- Clearly defined terms of reference, authorities and responsibilities of the various committees which include Audit Committee, Nomination Committee and Remuneration Committee.

- Well defined organisational structure with clear lines of accountability and delegation of responsibilities to senior management and the respective division heads including appropriate authority limits to ensure accountability and approval responsibility.

- Budgets are prepared annually for the Business/Operating units and approved by the Board. The budgets include operational, financial and capital expenditure requirements and performance monitored on a monthly basis and the business objectives and plans are reviewed in the monthly management meetings attended by division and business unit heads. The Managing Director & Executive Directors meet regularly with Senior Management to consider the Group's financial performance, business initiatives and other management and corporate issues.

- There are regular Board meetings and Board papers are distributed to members and Board members are entitled to receive and access all necessary and relevant information and decisions of the Board are only made after the required information is made available and deliberated on by the Board. The Board maintains complete and effective control over the strategies and direction of the Group.

- The Audit Committee reviews the effectiveness of the Group's system of internal control on behalf of the Board. The Audit Committee comprises of non-executive members of the Board, the majority of who are independent directors. The Audit Committee is not restricted in any way in the conduct of its duties and has unrestricted access to the internal and external auditors of the company and to all employees of the Group.

- Review by the Audit Committee of internal control issues identified by the External and Internal Auditors and action taken by management in respect of the findings arising there from. The Internal Audit function reports directly to the Audit Committee. Findings are communicated to Management and the Audit Committee with recommendations for improvements and follow up to confirm all agreed recommendations are implemented. The Internal Audit plan is structured on a risk based approach and is reviewed and approved by the Audit Committee.

5. **OTHER KEY INTERNAL CONTROL ELEMENTS (CONT'D)**

- Review of all proposals for material capital and investment opportunities by the management committee and approval for the same by the Board prior to expenditure being committed.

- There are sufficient reports generated in respect of the business and operating units to enable proper review of the operational, financial and regulatory environment. Management Accounts are prepared timely and on a monthly basis and is reviewed by the Managing Director, Executive Directors and Senior Management.

- The decision of the Board of Directors to the appointment of Messrs Stanco & Ruche Consulting, a firm specialising in the provision of Internal Audit services, to manage the Internal Audit function of the company on an outsourced basis for greater independence and accountability in the Internal Audit function.

6. **WEAKNESSES IN INTERNAL CONTROL RESULTING IN MATERIAL LOSS**

The Board of Directors is of the opinion that there is no significant weakness in the system of internal control, contingencies or uncertainties that could result in material loss and adversely affect the Group. The Group continues to take necessary measures to strengthen its internal control structure and the management of risks.

# Statement of Directors' Interests
**in the Company and related corporation as at 26 September 2008**

| Name of Director | Direct No. of Ordinary Shares | Direct % | Indirect No. of Ordinary Shares | Indirect % |
|---|---|---|---|---|
| **The Company** | | | | |
| Dato' Larry Gan Nyap Liou @ Gan Nyap Liow | – | – | – | – |
| Wei Chuan Beng | 11,664,850 | 4.53 | [1]6,865,984 | 2.66 |
| Zainal Amanshah bin Zainal Arshad | 2,975,179 | 1.15 | [2]150,000 | 0.06 |
| Lau Bik Soon | 150,067 | 0.06 | – | – |
| Cheang Kwan Chow | – | – | – | – |
| Mathew Thomas A/L Vargis Mathews | – | – | – | – |
| Shaifubahrim bin Mohd Saleh | – | – | – | – |
| Dato' Suriah Abd Rahman | – | – | – | – |
| **Subsidiary** | | | | |
| REDtone Network Sdn Bhd | | | | |
| Zainal Amanshah bin Zainal Arshad | 450,000 | 30.00 | – | – |

Note:

1. *Deemed interested by virtue of the direct shareholding of his wife, Choo Yeh Fung*
2. *Deemed interested by virtue of the direct shareholding of his wife, Suryani Binti Ahmad Sarji*

# Statement on Directors' Responsibility

The Companies Act 1965 (the Act) requires the Directors to present financial statements of REDtone International Berhad and its subsidiaries which give a true and fair view of the Group and the Company at the end of the financial year. As required by the Act and the Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with the Companies Act 1965 and the Approved Accounting Standards in Malaysia. The financial statements include the consolidated balance sheet, cash flows and income statements and are made out in accordance with relevant provisions of the Act and applicable accounting standards.

The Directors have placed reliance on the system of internal control within the Company and the Group to form a basis of reasonable grounds that accounting systems and records maintained by the Company and the Group provide a true and fair view of the current state of affairs of the Company and the Group, a true and fair view of the financial year results and that it sufficiently explains the transactions and financial position of the Company and the Group. The Directors also have a general responsibility in taking steps to preserve the interests of stakeholders and to safeguard the assets of the Company and the Group.

The Directors have further responsibility of ensuring that reasonably proper, accurate, timely and reliable accounting records are kept. The annual audited financial statements have been prepared based on relevant and appropriate accounting policies and with usage of reasonable and prudent judgment and estimates.

The Directors have also a general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

In compliance with the several responsibilities of the Directors, the Directors present the financial statements of the Company and the Group for the financial year ended 31 May 2008 as set out on pages 41 to 110 of this annual report.

# Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 May 2008.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services to the subsidiaries. The principal activities of the subsidiaries are as disclosed under Note 13 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year except for the discontinuance arising from the proposed disposal of data communication services business in Peninsular Malaysia, the proposed disposal of a subsidiary involved in research and development, manufacturing and marketing of telecommunication and multimedia solutions and the discontinuance arising from disposal of an oversea subsidiary involved in provision of computer telephony systems and services as disclosed in Note 9 to the financial statements.

## RESULTS

| | Group RM | Company RM |
|---|---|---|
| Loss after tax from continuing operations | (9,543,375) | (824,574) |
| Profit for the year from discontinued operations | 2,538,068 | – |
| Loss for the year | (7,005,307) | (824,574) |
| Attributable to: | | |
| Equity holders of the Company | (6,798,619) | (824,574) |
| Minority interests | (206,688) | – |
| | (7,005,307) | (824,574) |

There were no material transfers to or from reserves or provisions during the financial year, other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

## DIVIDEND

No dividend were declared and paid during the financial year. The directors do not recommend the payment of any dividend for the current financial year.

# Directors' Report

## DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

| | |
|---|---|
| Dato' Gan Nyap Liou @ Gan Nyap Liow | |
| Wei Chuan Beng | |
| Mathew Thomas A/L Vargis Mathews | |
| Shaifubahrim Bin Mohd Saleh | |
| Zainal Amanshah bin Zainal Arshad | |
| Cheang Kwan Chow | (appointed on 22 July 2008) |
| Lau Bik Soon | (appointed on 13 August 2008) |
| Dato' Suriah binti Abd Rahman | (appointed on 3 September 2008) |
| Peter Yeow Heng Ho | (resigned on 23 November 2007) |
| Tan Gee Sooi | (resigned on 22 July 2008) |

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Employees' Share Options Scheme ("ESOS").

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors of the fixed salary of a full-time employee of the Company as shown in Note 6 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 30 to the financial statements.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Company and its related corporations during the financial year were as follows:

| | Number of ordinary shares of RM0.10 each | | | |
|---|---|---|---|---|
| | **1 June 2007** | **Acquired** | **Sold** | **31 May 2008** |
| **The Company** | | | | |
| **Direct interest:** | | | | |
| Dato' Gan Nyap Liou @ Gan Nyap Liow | 310,000 | – | 310,000 | – |
| Wei Chuan Beng | 17,134,850 | 4,500,000 | 9,970,000 | 11,664,850 |
| Zainal Amanshah bin Zainal Arshad | 3,096,179 | – | 121,000 | 2,975,179 |
| **Deemed Interest:** | | | | |
| Wei Chuan Beng* | 8,865,984 | – | 2,000,000 | 6,865,984 |
| Zainal Amanshah bin Zainal Arshad** | 200,000 | - | 50,000 | 150,000 |
| **Subsidiary - REDtone Network Sdn. Bhd.** | | | | |
| **Direct interest** | | | | |
| Zainal Amanshah bin Zainal Arshad | 450,000 | – | – | 450,000 |

* Deemed interested by virtue of the direct shareholding of his wife, Choo Yeh Fung.

** Deemed interested by virtue of the direct shareholding of his wife, Suryani Binti Ahmad Sarji.

## DIRECTORS' INTERESTS (CONT'D)

| | Number of options over ordinary shares of RM0.10 Each | | | | |
|---|---|---|---|---|---|
| | 1 June 2007 | Granted | Exercised | Forfeited | 31 May 2008 |
| **The Company - REDtone International Berhad** | | | | | |
| Wei Chuan Beng | 5,000,000 | – | 4,500,000 | – | 500,000 |
| Zainal Amanshah bin Zainal Arshad | 1,200,000 | – | – | – | 1,200,000 |
| Mathew Thomas A/L Vargis Mathews | 150,000 | – | – | – | 150,000 |
| Shaifubahrim bin Mohd Saleh | 90,000 | – | – | – | 90,000 |

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM25,213,500 to RM25,764,500 by way of the issuance of 5,510,000 ordinary shares of RM0.10 each for cash pursuant to the Company's ESOS.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company.

## EMPLOYEE SHARE OPTIONS SCHEME OF THE HOLDING COMPANY ("ESOS")

The Company's Employees' Share Options Scheme ("ESOS") is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 10 February 2006. The ESOS was implemented on 15 February 2006 and is to be in force for a period of 4 years from the date of implementation. The Board of Directors and Options Committee may as deemed fit, extend the ESOS for another 6 years.

The salient features and other terms of the ESOS are disclosed in Note 28 to the financial statements.

There was no share option granted during the financial year.

Details of options granted to directors are disclosed in the section on Directors' Interest in this report.

## OTHER STATUTORY INFORMATION

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts in the financial statements of the Group. The directors also satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary in the financial statements of the Company; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group inadequate to any substantial extent nor are they aware of any circumstances which would render it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent in respect of the financial statements of the Company; and

### OTHER STATUTORY INFORMATION (CONT'D)

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

### SIGNIFICANT EVENTS

Details of the significant events are disclosed in Note 33 to the financial statements.

### SUBSEQUENT EVENT

Details of the subsequent event are disclosed in Note 34 to the financial statements.

### AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 September 2008.

**WEI CHUAN BENG** **ZAINAL AMANSHAH BIN ZAINAL ARSHAD**

Kuala Lumpur, Malaysia

# Statement by Directors

**Pursuant to Section 169(15) of the Companies Act, 1965**

We, Wei Chuan Beng and Zainal Amanshah Bin Zainal Arshad, being two of the directors of Redtone International Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 41 to 110 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 May 2008 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 30 September 2008.

**WEI CHUAN BENG** **ZAINAL AMANSHAH BIN ZAINAL ARSHAD**

Kuala Lumpur, Malaysia

# Statutory Declaration

**Pursuant to Section 169(16) of the Companies Act, 1965**

I, Noraesyah Yvonne binti Abdullah, being the officer primarily responsible for the financial management of Redtone International Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 41 to 110 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Noraesyah Yvonne binti Abdullah at Puchong in the Selangor on 30 September 2008.

**NORAESYAH YVONNE BINTI ABDULLAH**

Before me,

# Independent Auditors' Report
**to the members of Redtone International Berhad**

We have audited the financial statements of REDtone International Berhad, which comprise the balance sheets as at 31 May 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 41 to 110.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 May 2008 and of their financial performance and cash flows for the year then ended.

**Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the accounts and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.

(c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

(d) The auditors' reports on the accounts of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

**Other matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**ERNST & YOUNG**
AF : 0039
Chartered Accountants

**ABRAHAM VERGHESE A/L T.V. ABRAHAM**
No. 1664/10/08(J)
Chartered Accountant

Kuala Lumpur, Malaysia
30 September 2008

# Income Statements
For the year ended 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **Continuing Operations** | | | | | |
| Revenue | 3 | 109,999,193 | 100,530,075 | – | – |
| Other income | 4 | 2,476,873 | 776,570 | 19,664 | 108,684 |
| Call bandwidth cost | | (72,199,616) | (45,418,553) | – | – |
| Changes in inventories of trading goods | | (195,260) | (599,960) | – | – |
| Depreciation of property, plant and equipment | | (3,244,103) | (2,742,212) | (91) | (91) |
| Employee benefits expense | 5 | (14,924,197) | (14,482,594) | (210,631) | – |
| Gain on disposal of a subsidiary | 9(b) | 273,632 | – | – | – |
| Materials and consumables used | | (4,332,969) | (6,301,797) | – | – |
| Sales commissions and incentives | | (6,777,569) | (8,836,466) | – | – |
| Universal Service Provision fund contribution | | (1,444,204) | (2,357,856) | – | – |
| Other expenses | | (18,343,732) | (17,188,640) | (633,516) | (622,804) |
| Operating (loss)/profit | | (8,711,952) | 3,378,567 | (824,574) | (514,211) |
| Share of profit/(loss) of associate | | 141,258 | (875,668) | – | – |
| Share of loss of jointly controlled entity | | (1,551) | (6,201) | – | – |
| (Loss)/profit before tax | 7 | (8,572,245) | 2,496,698 | (824,574) | (514,211) |
| Income tax (expense)/benefit | 8 | (971,130) | 2,330,179 | – | – |
| (Loss)/profit for the year from continuing operations | | (9,543,375) | 4,826,877 | (824,574) | (514,211) |
| **Discontinued Operations** | | | | | |
| Profit after tax for the year from discontinued operations | 9 | 2,538,068 | 87,985 | – | – |
| (Loss)/profit for the year | | (7,005,307) | 4,914,862 | (824,574) | (514,211) |
| Attributable to: | | | | | |
| Equity holders of the Company | | (6,798,619) | 5,561,828 | (824,574) | (514,211) |
| Minority interests | | (206,688) | (646,966) | – | – |
| | | (7,005,307) | 4,914,862 | (824,574) | (514,211) |
| Earnings per share attributable to equity holders of the Company (sen): | | | | | |
| Basic, for the (loss)/profit for the year | 10 | (2.7) | 2.2 | – | – |
| Diluted, for the (loss)/profit for the year | 10 | (2.6) | 2.2 | – | – |

The accompanying notes form an integral part of the financial statements

# Balance Sheets
as at 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 | 22,575,371 | 23,637,960 | 561 | 652 |
| Investments in subsidiaries | 13 | – | – | 5,227,966 | 4,188,146 |
| Investments in associates | 14 | 1,316,610 | 202,125 | – | – |
| Investment in a jointly controlled entity | 15 | 1,492,248 | 1,493,799 | – | – |
| Investment property | 16 | 790,000 | 790,000 | – | – |
| Intangible assets | 17 | 13,213,535 | 5,188,969 | – | – |
| Deferred tax assets | 18 | 3,833,705 | 4,103,813 | – | – |
| Other receivables | 20 | 457,016 | 322,680 | – | – |
| Other investments | 22 | – | 600,000 | – | – |
| | | 43,678,485 | 36,339,346 | 5,228,527 | 4,188,798 |
| **Current assets** | | | | | |
| Inventories | 19 | 1,567,419 | 1,937,491 | – | – |
| Trade and other receivables | 20 | 38,531,145 | 34,258,829 | 39,331,237 | 37,926,196 |
| Tax recoverable | | 1,115,065 | 662,843 | – | 652 |
| Marketable securities | 21 | – | 1,266,329 | – | – |
| Other investments | 22 | 724,031 | 88,455 | 112,037 | 53,312 |
| Cash and bank balances | 23 | 20,763,607 | 25,257,938 | 108 | 8 |
| | | 62,701,267 | 63,471,885 | 39,443,382 | 37,980,168 |
| Assets of disposal group classified as held for sale | 9 | 4,525,292 | – | – | – |
| | | 67,226,559 | 63,471,885 | 39,443,382 | 37,980,168 |
| **TOTAL ASSETS** | | 110,905,044 | 99,811,231 | 44,671,909 | 42,168,966 |

# Balance Sheets (Cont'd)
as at 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity attributable to equity holders of the Company** | | | | | |
| Share capital | 26 | 25,764,500 | 25,213,500 | 25,764,500 | 25,213,500 |
| Share premium | 26 | 19,278,304 | 16,492,448 | 19,278,304 | 16,492,448 |
| Other reserves | 27 | 1,955,654 | 1,063,500 | 739,915 | 767,651 |
| Retained earnings/ (accumulated losses) | | 18,286,062 | 25,084,681 | (1,154,883) | (330,309) |
| | | 65,284,520 | 67,854,129 | 44,627,836 | 42,143,290 |
| Minority interests | | 5,741,445 | 2,529,538 | – | – |
| **Total equity** | | 71,025,965 | 70,383,667 | 44,627,836 | 42,143,290 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 18 | 2,496 | 14,695 | – | – |
| **Current liabilities** | | | | | |
| Deferred income | 24 | 8,821,077 | 2,484,737 | – | – |
| Trade and other payables | 25 | 29,807,567 | 26,525,590 | 44,073 | 25,676 |
| Current tax payable | | 429,348 | 402,542 | – | – |
| | | 39,057,992 | 29,412,869 | 44,073 | 25,676 |
| Liabilities directly associated with assets classified as held for sale | 9 | 818,591 | – | – | – |
| | | 39,876,583 | 29,412,869 | 44,073 | 25,676 |
| **Total liabilities** | | 39,879,079 | 29,427,564 | 44,073 | 25,676 |
| **TOTAL EQUITY AND LIABILITIES** | | 110,905,044 | 99,811,231 | 44,671,909 | 42,168,966 |

The accompanying notes form an integral part of the financial statements

# Statements of Changes In Equity
**For the year ended 31 May 2008**

| GROUP | Note | Share capital (Note 26) RM | Share premium (Note 26) RM | Other reserves (Note 27) RM | Retained earnings RM | Total RM | Minority interests RM | Total equity RM |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to Equity Holders of the Company | | | | | | |
| | | | Non-distributable | | Distributable | | | |
| **At 1 June 2006** | | | | | | | | |
| As previously stated | | 25,200,000 | 16,420,897 | (369,803) | 22,345,617 | 63,596,711 | 3,564,712 | 67,161,423 |
| Effects of adopting FRS 121 | | – | – | (274,231) | (344,441) | (618,672) | – | (618,672) |
| **At 1 June 2006 (Restated)** | | 25,200,000 | 16,420,897 | (644,034) | 22,001,176 | 62,978,039 | 3,564,712 | 66,542,751 |
| Effects of adopting FRS 3 | | – | – | – | 7,601,677 | 7,601,677 | – | 7,601,677 |
| | | 25,200,000 | 16,420,897 | (644,034) | 29,602,853 | 70,579,716 | 3,564,712 | 74,144,428 |
| Foreign currency translation, representing net income recognised directly in equity | | – | – | 939,883 | – | 939,883 | – | 939,883 |
| Profit for the year | | – | – | – | 5,561,828 | 5,561,828 | (646,966) | 4,914,862 |
| **Total recognised income and expense for the year** | | – | – | 939,883 | 5,561,828 | 6,501,711 | (646,966) | 5,854,745 |
| Acquisition of subsidiary | | – | – | – | – | – | 74,161 | 74,161 |
| Contribution to share capital of subsidiaries by minority interests | | – | – | – | – | – | 450,000 | 450,000 |
| Dividend | 11 | – | – | – | (10,080,000) | (10,080,000) | – | (10,080,000) |
| Dividend paid to a minority shareholder of a subsidiary | | – | – | – | – | – | (912,369) | (912,369) |
| Issue of ordinary shares, pursuant to ESOS | | 13,500 | 71,551 | – | – | 85,051 | – | 85,051 |
| Share options vested under ESOS | | – | – | 767,651 | – | 767,651 | – | 767,651 |
| **At 31 May 2007** | | 25,213,500 | 16,492,448 | 1,063,500 | 25,084,681 | 67,854,129 | 2,529,538 | 70,383,667 |

# Statements of Changes In Equity (Cont'd)

For the year ended 31 May 2008

| | Note | Share capital (Note 26) RM | Share premium (Note 26) RM | Other reserves (Note 27) RM | Retained earnings RM | Total RM | Minority interests RM | Total equity RM |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to Equity Holders of the Company | | | | | | |
| | | | Non-distributable | | Distributable | | | |
| **At 1 June 2007** | | 25,213,500 | 16,492,448 | 1,063,500 | 25,084,681 | 67,854,129 | 2,529,538 | 70,383,667 |
| Foreign currency translation, representing net income recognised directly in equity | | – | – | 919,890 | – | 919,890 | – | 919,890 |
| Loss for the year | | – | – | – | (6,798,619) | (6,798,619) | (206,688) | (7,005,307) |
| **Total recognised income and expense for the year** | | – | – | 919,890 | (6,798,619) | (5,878,729) | (206,688) | (6,085,417) |
| Acquisition of remaining equity in a subsidiary from minority interest | | – | – | – | – | – | 131,559 | 131,559 |
| Contribution to share capital of subsidiaries by minority interests | | – | – | – | – | – | 3,287,036 | 3,287,036 |
| Issue of ordinary shares, pursuant to ESOS | | 551,000 | 1,818,300 | – | – | 2,369,300 | – | 2,369,300 |
| Share options vested under ESOS | | – | – | 939,820 | – | 939,820 | – | 939,820 |
| Exercise of share options | | – | 967,556 | (967,556) | – | – | – | – |
| **At 31 May 2008** | | 25,764,500 | 19,278,304 | 1,955,654 | 18,286,062 | 65,284,520 | 5,741,445 | 71,025,965 |

# Statements of Changes In Equity (Cont'd)

**For the year ended 31 May 2008**

| | Note | Share capital (Note 26) RM | Non-distributable Share premium (Note 26) RM | Other reserves (Note 27) RM | Retained earnings/ (accumulated losses) RM | Total equity RM |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **At 1 June 2006** | | 25,200,000 | 16,420,897 | – | 10,263,902 | 51,884,799 |
| Loss for the year, representing total recognised income and expense for the year | | – | – | – | (514,211) | (514,211) |
| Issue of ordinary shares, pursuant to ESOS | | 13,500 | 71,551 | – | – | 85,051 |
| Share options vested under ESOS included in investments in subsidiaries | | – | – | 767,651 | – | 767,651 |
| Dividend | 11 | – | – | – | (10,080,000) | (10,080,000) |
| **At 31 May 2007** | | 25,213,500 | 16,492,448 | 767,651 | (330,309) | 42,143,290 |
| **At 1 June 2007** | | 25,213,500 | 16,492,448 | 767,651 | (330,309) | 42,143,290 |
| Loss for the year, representing total recognised income and expense for the year | | – | – | – | (824,574) | (824,574) |
| Issue of ordinary shares, pursuant to ESOS | | 551,000 | 2,785,856 | – | – | 3,336,856 |
| Share options vested under ESOS included in investments in subsidiaries | | – | – | 939,820 | – | 939,820 |
| Exercise of share options | | – | – | (967,556) | – | (967,556) |
| **At 31 May 2008** | | 25,764,500 | 19,278,304 | 739,915 | (1,154,883) | 44,627,836 |

The accompanying notes form an integral part of the financial statements

# Cash Flow Statements
For the year ended 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| (Loss)/profit before tax from: | | | | | |
| Continuing operations | | (8,572,245) | 2,496,698 | (824,574) | (514,211) |
| Discontinued operations | | 2,576,714 | 87,985 | – | – |
| Adjustments for: | | | | | |
| Amortisation of intangible assets | 7 | 273,523 | 191,427 | – | – |
| Bad debts written off | 7 | 135,067 | – | – | – |
| Depreciation of property, plant and equipment | 12 | 3,486,677 | 2,799,098 | 91 | 91 |
| Fair value adjustment for investment property | 7 | – | (26,811) | – | – |
| Gain on disposal of a subsidiary | 7 | (273,632) | – | – | – |
| (Gain)/loss on disposal of property, plant and equipment | 7 | (5,139) | 15,724 | – | – |
| Impairment of goodwill | 7 | 179,397 | – | – | – |
| Impairment of investment in associates | 7 | 3,687,778 | – | – | – |
| Impairment of property, plant and equipment | 7 | 57,197 | – | – | – |
| Intangible assets written off | 16 | – | 21,789 | – | – |
| Interest income | | (451,678) | (750,779) | (19,664) | (108,684) |
| Loss recognised on the remeasurement of assets of disposal group | 7 | 32,308 | – | – | – |
| Negative goodwill recognised in profit and loss | 4 | (61,759) | – | – | – |
| Property, plant and equipment written off | 7 | 268,424 | 120,497 | – | – |
| Impairment of investment in marketable securities | 7 | – | 1,231,298 | – | – |
| Provision for/(reversal of) doubtful debts, net | 7 | 569,225 | (417,580) | – | – |
| Share of (loss)/profit from associate | | (141,258) | 875,668 | – | – |
| Share of profit from joint venture | | 1,551 | 6,201 | – | – |
| Share option vested under ESOS | 5 | 939,820 | 767,651 | – | – |
| Operating profit/(loss) before working capital changes carried forward | | 2,701,970 | 7,418,866 | (844,147) | (622,804) |

# Cash Flow Statements (Cont'd)
For the year ended 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **Cash flows from operating activities (cont'd)** | | | | | |
| Operating profit/(loss) before working capital changes brought forward | | 2,701,970 | 7,418,866 | (844,147) | (622,804) |
| Short term accumulating compensation absences | 5 | 52,126 | (25,177) | – | – |
| Unrealised foreign exchange loss | | 2,416,008 | 4,125,611 | – | – |
| Operating profit/(loss) before working capital changes | | 5,170,104 | 11,519,300 | (844,147) | (622,804) |
| Decrease in inventories | | 204,147 | 291,967 | – | – |
| (Increase)/decrease in trade and other receivables | | (50,399,459) | 995,802 | (1,404,389) | 11,751,871 |
| Increase/(decrease) in trade and other payables | | 51,989,407 | (7,317,115) | 18,397 | (187,810) |
| Cash generated from/(used in) operations | | 6,964,199 | 5,489,954 | (2,230,139) | 10,941,257 |
| Taxes paid | | (1,193,283) | (433,069) | – | – |
| Net cash generated from/(used in) operating activities | | 5,770,916 | 5,056,885 | (2,230,139) | 10,941,257 |
| **Cash flows from investing activities** | | | | | |
| Additional investments in subsidiaries | | (1) | – | – | (1,049,900) |
| Interest income received | | 451,678 | 750,779 | 19,664 | 108,684 |
| Investment in associates | | (3,394,676) | (1,077,793) | – | – |
| Investment in joint venture | | – | (1,500,000) | – | – |
| Acquisition of subsidiaries | | (64,683) | (271,094) | (100,000) | – |
| Dividend paid to minority interest | | – | (912,369) | – | – |
| Proceeds from disposal of property, plant and equipment | | 145,613 | 273,911 | – | – |
| Net proceeds from disposal of a subsidiary | 9 | 280,840 | – | – | – |
| Purchase of marketable securities | | – | (605,814) | | – |
| Purchase of property, plant and equipment | | (5,705,502) | (7,846,241) | – | – |
| Expenditure of intangible assets | | (9,162,154) | (1,534,736) | – | – |
| Purchase of other investment | | – | (600,000) | – | – |
| Net cash used in investing activities | | (17,448,885) | (13,323,357) | (80,336) | (941,216) |

# Cash Flow Statements (Cont'd)

For the year ended 31 May 2008

| | Note | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|---|
| **Cash flows from financing activities** | | | | | |
| Cash received from minority interest | | 3,287,036 | 450,000 | – | – |
| Dividend paid | | – | (10,080,000) | – | (10,080,000) |
| Proceeds from issuance of ordinary shares | | 2,369,300 | 85,051 | 2,369,300 | 85,051 |
| Net cash generated from/ (used in) financing activities | | 5,656,336 | (9,544,949) | 2,369,300 | (9,994,949) |
| **Net (decrease)/increase in cash and cash equivalents** | | (6,021,633) | (17,811,421) | 58,825 | 5,092 |
| **Effects of exchange rate changes** | | 1,736,645 | 1,729,990 | – | – |
| **Cash and cash equivalents at beginning of year** | | 25,346,393 | 41,427,824 | 53,320 | 48,228 |
| **Cash and cash equivalents at end of year** | | 21,061,405 | 25,346,393 | 112,145 | 53,320 |

Cash and cash equivalents comprise:

| | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|
| Short-term investments (Note 22) | 124,031 | 88,455 | 112,037 | 53,312 |
| Cash on hand and at bank (Note 23) | 16,257,671 | 17,574,867 | 108 | 8 |
| Deposits with licensed banks (Note 23) | 4,679,703 | 7,683,071 | – | – |
| | 21,061,405 | 25,346,393 | 112,145 | 53,320 |

The accompanying notes form an integral part of the financial statements

## 1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the MESDAQ Market of Bursa Malaysia Securities Berhad. The principal place of business of the Company is located at Suite 22-30, 5th Floor, IOI Business Park, 47100 Puchong, Selangor.

The principal activities of the Company are investment holding and the provision of management services. The principal activities of the subsidiaries are as disclosed under Note 13. There have been no significant changes in the nature of the principal activities during the year ended.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 September 2008 .

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2007.

The financial statements of the Group and the Company have also been prepared on a historical basis, except for investment property that has been measured at fair value.

The financial statements are presented in Ringgit Malaysia ("RM").

### 2.2 Summary of significant accounting policies

#### (a) Subsidiaries and basis of consolidation

##### *(i) Subsidiaries*

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in profit or loss.

##### *(ii) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and event in similar circumstances.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (a) Subsidiaries and basis of consolidation (cont'd)

##### *(ii) Basis of consolidation (cont'd)*

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

#### (b) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise and additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (b) Associates (cont'd)

The most recent available audited and management financial statements of the associates are used by the Group in applying the equity method. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amount is included in profit or loss.

#### (c) Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.2 (b).

In the Company's separate financial statements, investments in jointly controlled entities are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

#### (d) Intangible assets

##### *(i) Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### *(ii) Other intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (d) Intangible assets (cont'd)

##### *(ii) Other intangible assets (cont'd)*

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

##### *(iii) Research and development costs*

All research costs are recognised in the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditures which do not meet these criteria are expensed when incurred.

Development costs, considered to have finite useful lives, are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

#### (e) Property, plant and equipment, and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Asset in progress is not depreciated. 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 annual rates:

| | |
|---|---|
| Freehold office lots | 2% |
| Computers and software | 10% |
| Furniture and fittings | 10% |
| Office equipment | 10% |
| Equipment | 10% - 20% |
| Plant and machinery | 10% |
| Renovation | 10% |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (e) Property, plant and equipment, and depreciation (cont'd)

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

#### (f) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

#### (g) Impairment of non-financial assets

The carrying amounts of assets, other than investment properties, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

**(g) Impairment of non-financial assets (cont'd)**

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of any goodwill allocated to those units or groups of units and then to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the profit or loss.

**(h) Inventories**

Inventories which consist of trading goods are stated at lower of cost and net realisable value. Cost is determined using the first in, first out method.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(i) Financial instruments**

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and 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 recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

***(i) Cash and cash equivalents***

For the purposes of the cash flow statement, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (i) Financial instruments (cont'd)

***(ii) Other non-current investments***

Non-current investments other than investments in subsidiaries, associates, jointly controlled entities and investment properties are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceed and its carrying amount is recognised in profit or loss.

***(iii) Marketable securities***

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in profit or loss. On disposal of marketable securities, the differences between net disposal proceeds and the carrying amount is recognised in profit or loss.

***(iv) Trade receivables***

Trade 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.

***(v) Trade payables***

Trade payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

***(vi) Equity instrument***

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

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

***(vii) Derivative financial instruments***

Derivative financial instruments are not recognised in the financial statements.

#### (j) Leases

***(i) Classification***

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (j) Leases (cont'd)

##### *(ii) Operating leases - the Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

##### *(iii) Operating leases - the Group as lessor*

Assets leased out under operating leases are presented on the balance sheets according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease (Note 2.2(o)(iv)). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### (k) Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. 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.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither 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 as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

#### (l) Provisions

Provisions are recognised when the Group has 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, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (m) 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. 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. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### *(ii) Defined contributions*

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF"). Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes.

##### *(iii) Share-based compensation*

The Company's Employee Share Options Scheme ("ESOS"), an equity-settled share-based compensation plan, allows the Group's employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (n) Foreign currencies

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

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

***(ii) Foreign currency transactions***

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in a foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in a foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in a foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investments in a foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (n) Foreign currencies (cont'd)

***(iii) Foreign operations***

The results and financial position of foreign operations that have a functional currency different from the presentation currency ("RM") of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 June 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and are translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 June 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

#### (o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.The following specific recognition criteria must also be met before revenue is recognised:

***(i) Sale of call bandwidth***

Revenue from sale of mobile telephony, fixed services, interconnection revenue and other network based services are recognised based on actual traffic volume net of rebates/discounts.

***(ii) Sale of telecommunication software and goods***

Revenue relating to sale of telecommunication software and goods are recognised net of services tax and discounts upon the transfer of risks and rewards.

***(iii) Commission income***

Revenue from technical support services and commission from distribution of IP call services are recognised when services have been rendered.

***(iv) Rental income***

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Summary of significant accounting policies (cont'd)

#### (o) Revenue recognition (cont'd)

***(v) Interest income***

Interest income is recognised on an accrual basis using the effective interest method.

***(vi) Maintenance income***

Revenue from maintenance income is recognised when the outcome can be reliably estimated.

***(vii) Dividend income***

Dividend income is recognised when the Group's right to receive payment is established.

### 2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs

On 1 June 2007, the Group and the Company adopted the following new and revised FRSs:

FRS 117: Leases
FRS 124: Related Party Disclosures

The MASB has also issued FRS 6: Exploration for and Evaluation of Mineral Resources and Amendment to FRS $119_{2004}$: Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures which are effective for financial periods beginning on or after 1 January 2007. These FRSs are, however, not applicable to the Group or the Company.

The adoption of the revised FRS 124 give rise to additional disclosures but did not result in significant changes in accounting policies of the Group and of the Company. The adoption of the revised FRS 117 did not result in significant changes in accounting policies of the Group and of the Company.

### 2.4 Standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following new and revised FRSs, amendment to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

| FRSs, Amendment to FRS and Interpretations | Effective for financial periods beginning on or after |
|---|---|
| FRS 107: Cash Flow Statements | 1 July 2007 |
| FRS 111: Construction Contracts | 1 July 2007 |
| FRS 112: Income Taxes | 1 July 2007 |
| FRS 118: Revenue | 1 July 2007 |
| FRS 120: Accounting for Government Grants and Disclosure of Government Assistance | 1 July 2007 |
| FRS 134: Interim Financial Reporting | 1 July 2007 |
| FRS 137: Provisions, Contingent Liabilities and Contingent Assets | 1 July 2007 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.4 Standards and interpretations issued but not yet effective (cont'd)

| FRSs, Amendment to FRS and Interpretations (cont'd) | Effective for financial periods beginning on or after |
|---|---|
| FRS 139: Financial Instruments: Recognition and Measurement | Deferred |
| Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates- Net Investment in a Foreign Operation | 1 July 2007 |
| IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities | 1 July 2007 |
| IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments | 1 July 2007 |
| IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 1 July 2007 |
| IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | 1 July 2007 |
| IC Interpretation 7: Applying the Restatement Approach under FRS 1292004 - Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| IC Interpretation 8: Scope of FRS 2 | 1 July 2007 |

The above new and revised FRSs, amendment to FRS and Interpretations are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application.

The Group and the Company is exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

### 2.5 Changes in estimates

The revised FRS 116: Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the estimated useful lives of computers and software and gateway equipment from three years to ten years and auto dialer equipment from 4 years to 5 years with effect from 1 June 2006. The revisions were accounted for prospectively as a change in accounting estimates. There were no revisions made this financial year.

### 2.6 Significant accounting estimates and judgements

#### (a) Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

***(i) Classification between investment property and property, plant and equipment***

The Group has developed certain criteria based on FRS 140 in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 Significant accounting estimates and judgements (cont'd)

#### (a) Critical judgements made in applying accounting policies (cont'd)

***(i) Classification between investment property and property, plant and equipment (cont'd)***

The Group will classify the property as investment properties if the intention of the Group is to hold this property in the long-term for capital appreciation or rental income. Judgement is made on an individual property basis to determine whether the intention to hold the property in the long term or short term for capital appreciation or rental income.

During the financial year, the Group has rented out its property to a third party, and the Group's intention is to hold this property in the long term for capital appreciation or rental income. Accordingly, the entire property is reclassified to investment property.

***(ii) Operating lease commitments – the Group as lessor***

The Group has entered into commercial property leases on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of the property which are leased out on operating leases.

#### (b) Key Sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

***(i) Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash generating units ("CGU") to which goodwill are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill as at 31 May 2008 are RM1,129,400. Further details are disclosed in Note 17.

***(ii) Depreciation of equipment, computers and software***

The cost of equipment, computers and software is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these equipment, computers and software to be within 10 years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 Significant accounting estimates and judgements (cont'd)

**(b) Key sources of estimation uncertainty (cont'd)**

***(iii) Impairment of property, plant and equipment, intangible assets (other than goodwill) and investments***

The Group assesses impairment of the assets mentioned above whenever the events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable i.e. the carrying amount of the asset is more than the recoverable amount. Recoverable amount is measured at the higher of the fair value less cost to sell for the asset and its value-in-use. The value-in-use is the net present value of the projected future cash flow derived from the asset discounted at an appropriate discount rate.

Projected future cash flows are based on Group's estimates calculated based on historical, sector and industry trends, general market and economic conditions, changes in technology and other available information.

***(iv) Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of recognised tax losses and capital allowances of the Group was RM8,323,000 (2007: RM11,484,000) and the unrecognised tax losses and capital allowances of the Group was RM8,447,000 (2007: RM7,239,000).

***(v) Provision for doubtful debts***

The Group assesses at each balance sheet date whether there is objective evidence that trade receivables have been impaired. Provisions are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.

## 3. REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Sale of call bandwidth | 83,178,019 | 91,130,753 | – | – |
| Sale of telecommunication software and goods | 1,539,383 | 9,118,715 | – | – |
| Commission income | 25,109,699 | – | – | – |
| Rental income | 172,092 | 280,607 | – | – |
| | 109,999,193 | 100,530,075 | – | – |

## 4. OTHER INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Interest income from deposits | 445,699 | 723,691 | 19,664 | 108,684 |
| Rental income receivable | | | | |
| - investment property | 86,523 | 30,000 | – | – |
| - other than those relating to investment property | 32,916 | 19,202 | – | – |
| Foreign exchange gains | 1,299,569 | – | – | – |
| Negative goodwill recognised in profit and loss | 61,759 | – | – | – |
| Miscellaneous | 550,407 | 3,677 | – | – |
| | 2,476,873 | 776,570 | 19,664 | 108,684 |

## 5. EMPLOYEE BENEFITS EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Wages and salaries | 10,644,185 | 10,426,951 | 188,063 | – |
| Social security contributions | 114,363 | 97,666 | – | – |
| Contributions to defined contribution plan | 858,563 | 871,257 | 22,568 | – |
| Share options vested under ESOS | 939,820 | 767,651 | – | – |
| Short term accumulating compensated absences | 33,890 | (32,122) | – | – |
| Other benefits | 2,333,376 | 2,351,191 | – | – |
| | 14,924,197 | 14,482,594 | 210,631 | – |

Included in employee benefits expense of the Group are executive directors' remuneration amounting to RM2,102,473 (2007: RM1,972,095) as further disclosed in Note 6.

## 6. DIRECTORS' REMUNERATION

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Directors of the Company: | | | | |
| Executive directors' remuneration: | | | | |
| Salaries and bonus | 593,000 | 693,000 | – | – |
| Contributions to defined contribution plan | 39,624 | 46,224 | – | – |
| Others | 34,793 | 34,721 | | |
| | 667,417 | 773,945 | – | – |

## 6. DIRECTORS' REMUNERATION (CONT'D)

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Non-executive directors' remuneration: | | | | |
| Fees | 132,000 | 132,000 | 132,000 | 132,000 |
| | 799,417 | 905,945 | 132,000 | 132,000 |
| Employees who are directors of the subsidiaries: | | | | |
| Salaries | 1,390,415 | 1,148,303 | – | – |
| Contributions to defined contribution plan | 44,641 | 49,847 | – | – |
| | 1,435,056 | 1,198,150 | – | – |
| Total | 2,234,473 | 2,104,095 | 132,000 | 132,000 |
| Analysis excluding benefits-in-kind: | | | | |
| Total executive directors' remuneration excluding benefits-in-kind (Note 5) | 2,102,473 | 1,972,095 | – | – |
| Total non-executive directors' remuneration (Note 6) | 132,000 | 132,000 | 132,000 | 132,000 |
| Total directors' remuneration excluding benefits-in-kind | 2,234,473 | 2,104,095 | 132,000 | 132,000 |

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

| | Number of Directors | |
|---|---|---|
| | 2008 RM | 2007 RM |
| Executive directors: | | |
| Below RM50,000 | 1 | – |
| RM100,001 - RM150,000 | – | 1 |
| RM250,001 - RM300,000 | 1 | 1 |
| RM350,001 - RM400,000 | 1 | 1 |
| Non-executive directors: | | |
| Below RM50,000 | 2 | 2 |
| RM50,001 - RM100,000 | 1 | 1 |

## 6. DIRECTORS' REMUNERATION (CONT'D)

Executive directors of the Company have been granted the following number of options under Employees' Share Options Scheme ("ESOS").

**Group and Company**

| | 2008 RM | 2007 RM |
|---|---|---|
| At 1 June | 7,600,000 | 1,500,000 |
| Granted | – | 6,100,000 |
| Exercised | (5,400,000) | – |
| Forfeited | (500,000) | – |
| Expired | – | – |
| At 31 May | 1,700,000 | 7,600,000 |

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 29).

## 7. (LOSS)/PROFIT BEFORE TAX

The following amounts have been included in arriving at (loss)/profit before tax:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Amortisation of intangible assets (Note 17) | 273,523 | 191,427 | – | – |
| Auditors' remuneration | | | | |
| - statutory audits | 291,108 | 242,330 | 27,250 | 20,000 |
| - other services | 108,289 | – | – | – |
| - underprovision in prior year | 63,268 | – | – | – |
| Bad debts written off | 135,067 | – | – | – |
| Direct operating expenses of investment property: | | | | |
| - revenue generating during the year | – | 10,084 | – | – |
| (Gain)/loss on disposal of property, plant and equipment | (5,139) | 15,724 | – | – |
| Impairment of: | | | | |
| - goodwill (Note 17) | 179,397 | – | – | – |
| - investment in associates | 3,687,778 | – | – | – |
| - investment in marketable securities | – | 1,231,298 | – | – |
| - property, plant and equipment | 57,197 | – | – | – |

## 7. (LOSS)/PROFIT BEFORE TAX (CONT'D)

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Intangible assets written off | – | 21,789 | – | – |
| Fair value adjustment of investment property (Note 16) | – | (26,811) | – | – |
| Lease payments of land and building | 1,030,076 | 1,260,970 | – | – |
| Loss recognised on the remeasurement of assets of disposal group | 32,308 | – | – | – |
| Management fees | 261,133 | – | – | – |
| Net foreign exchange loss | 2,585,527 | 4,111,236 | – | – |
| Non-executive directors' fees (Note 6) | 132,000 | 132,000 | 132,000 | 132,000 |
| Property, plant and equipment written off | 268,424 | 120,497 | – | – |
| Provision for/(reversal of) doubtful debts, net | 569,225 | (417,580) | – | – |

## 8. INCOME TAX EXPENSE/(BENEFIT)

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| **Continuing operations** | | | | |
| Income tax: | | | | |
| Tax expense for the year | 626,057 | 590,207 | – | – |
| Under provision in prior year | 87,164 | 41,067 | – | – |
| | 713,221 | 631,274 | – | – |
| Deferred tax (Note 18): | | | | |
| Relating to origination and reversal of temporary differences | 25,884 | (1,560,986) | – | – |
| Relating to changes in tax rates | 149,967 | 285,028 | – | – |
| Under/(over) provision in prior year | 82,058 | (1,685,495) | – | – |
| | 257,909 | (2,961,453) | – | – |
| Total income tax expense/(benefit) from continuing operations | 971,130 | (2,330,179) | – | – |
| **Discontinued operations** | | | | |
| Income tax: | | | | |
| Tax expense for the year | 38,646 | – | – | – |
| Total income tax expense/(benefit) | 1,009,776 | (2,330,179) | – | – |

## 8. INCOME TAX EXPENSE/(BENEFIT) (CONT'D)

Domestic current income tax is calculated at the statutory tax rate of 26% (2007: 27%) of the estimated assessable profit/(loss) for the year. The domestic statutory tax rate will be reduced to 25% from the current year's rate of 26%, effective year of assessment 2009. The computation of deferred tax as at 31 May 2008 has reflected these changes.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Four of the subsidiaries have been granted Multimedia Super Corridor status. This status exempts 100% income of the statutory business from income tax. The exemption expires on 11 September 2007, 19 January 2010, 5 September 2010, and 18 September 2012 respectively.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and the Company is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2008<br>RM | 2007<br>RM | 2008<br>RM | 2007<br>RM |
| (Loss)/profit before tax from: | | | | |
| Continuing operations | (8,572,245) | 2,496,698 | (824,574) | (514,211) |
| Discontinued operations | 2,576,714 | 87,985 | – | – |
| | (5,995,531) | 2,584,683 | (824,574) | (514,211) |

| | Group | | Company | |
|---|---|---|---|---|
| | 2008<br>RM | 2007<br>RM | 2008<br>RM | 2007<br>RM |
| Taxation at Malaysian statutory tax rate of 26% (2007: 27%) | (1,558,838) | 697,864 | (214,389) | (138,837) |
| Effect of different tax rates in other countries | 1,044,826 | 504,444 | – | – |
| Effect of prefential tax rate of 20% | (30,273) | (138,973) | – | – |
| Effect of changes in tax rates on opening balance of deferred tax | 110,373 | 156,717 | – | – |
| Deferred tax recognised at different tax rates | 42,180 | 149,330 | – | – |
| Expenses not deductible for tax purposes | 1,351,902 | 1,043,573 | 219,502 | 168,182 |
| Income not subject to tax | (692,535) | (4,197,028) | (5,113) | (29,345) |
| Utilisation of previously unrecognised tax losses and unabsorbed capital allowances | (295,563) | (585,540) | – | – |
| Deferred tax assets not recognised during the year | 996,668 | 1,683,862 | – | – |
| Deferred tax assets recognised on previously unrecognised tax losses and unabsorbed capital allowances | (128,186) | – | – | – |
| Under/(over) provision of deferred tax in prior year | 82,058 | (1,685,495) | – | – |
| Underprovision of tax expense in prior year | 87,164 | 41,067 | – | – |
| Tax (benefit)/expense for the year | 1,009,776 | (2,330,179) | – | – |

## 8. INCOME TAX EXPENSE/(BENEFIT) (CONT'D)

Tax savings during the financial year arising from:

| | Group 2008 RM | 2007 RM |
|---|---|---|
| Utilisation of previously unrecognised tax losses | – | 535,000 |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY

The summarised results of the discontinued operations are as follows:

| | Note | Group 2008 RM | 2007 RM |
|---|---|---|---|
| Profit/(loss) after tax for the year from: | | | |
| - Data communication services business | 9(a)(i) | 199,974 | 450,465 |
| - Redtone Sdn. Bhd. | 9(a)(ii) | (32,132) | (109,958) |
| - VMS Technology Limited | 9(b) | 2,370,226 | (252,522) |
| | | 2,538,068 | 87,985 |

The summarised assets and liabilities of disposal groups classified as held for sale are as follows:

| | Note | Carrying amounts as at 31.05.2008 RM |
|---|---|---|
| **Assets:** | | |
| - Data communication services business | 9(a)(i) | 4,092,920 |
| - Redtone Sdn. Bhd. | 9(a)(ii) | 432,372 |
| | | 4,525,292 |
| **Liabilities** | | |
| - Data communication services business | 9(a)(i) | 586,230 |
| - Redtone Sdn. Bhd. | 9(a)(ii) | 232,361 |
| | | 818,591 |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY (CONT'D)

### (a) Discontinued operations classified as assets held for sale

#### (i) Disposal of data segment to eB Capital Bhd.

On 28 April 2008, the Group has entered into a business acquisition agreement with eB Capital Berhad ("eB Cap") and its wholly owned subsidiary, eB Technologies (M) Sdn Bhd ("eBTech") (as purchasers) for the disposal of data communication services business in Peninsular Malaysia ("Data Business") for a disposal consideration of RM20,000,000 to be satisfied by way of issuance of the following securities: -

(i) 130,000,000 eBCap Shares at an issue price of RM0.10 per share; and

(ii) RM7,000,000 nominal value of irredeemable convertible unsecured loan stocks of eBCap.

As at 31 May 2008, the assets and liabilities of the Data Business have been presented on the balance sheet as a disposal group held for sale and results from this Data Business is presented separately on the income statement as discontinued operation.

| | 2008 RM | 2007 RM |
|---|---|---|
| Revenue | 4,987,428 | 721,496 |
| Expenses | (4,787,454) | (271,031) |
| Profit after tax for the year from Data Business | 199,974 | 450,465 |

An analysis of the result of Data Business is as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Depreciation of plant and equipment | 240,177 | 53,295 |
| Plant and equipment written off | 126,798 | – |
| Provision for doubtful debts | 22,193 | – |
| Rental expenses | 10,304 | 4,293 |
| Short term accumulating compensated absences | 15,666 | 7,834 |

The cash flow attributable to the Data Business are as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Operating cash flows | (672,608) | 403,325 |
| Investing cash flows | (715,288) | (1,871,680) |
| Total cash flows | (1,387,896) | (1,468,355) |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY (CONT'D)

### (a) Discontinued operations classified as assets held for sale (cont'd)

#### (i) Disposal of data segment to eB Capital Bhd. (cont'd)

The major classes of assets and liabilities of the Data Business classified as held for sale on the balance sheet as at 31 May 2008 are as follows:

| | Carrying amounts as at 31.05.2008 RM |
|---|---|
| **Assets** | |
| Plant and equipment | 2,166,696 |
| Trade receivables | 1,926,224 |
| Assets of disposal group classified as held for sale | 4,092,920 |
| **Liabilities** | |
| Other payables, representing liabilities directly associated with assets classified as held for sale | 586,230 |

#### (ii) Disposal of REDtone Sdn. Bhd.

On 5 May 2008, the Company has entered into negotiation with Yong Kok Leong ("YKL"), a minority interest for REDtone Sdn Bhd ("RSB"), to dispose the Group entire shareholding of 75% in RSB to YKL.

On 26 September 2008, the Company announced that its wholly owned subsidiary, REDtone Technology Sdn. Bhd., has entered into a share sales agreement with Yong Kok Leong ("YKL") for the disposal of 75% of shareholding in REDtone Sdn. Bhd. ("RSB") for a cash consideration of RM 1.

As at 31 May 2008, the assets and liabilities of RSB have been presented on the balance sheet as a disposal group held for sale and results from this subsidiary is presented separately on the income statement as discontinued operation.

| | 2008 RM | 2007 RM |
|---|---|---|
| Revenue | 1,102,897 | 1,142,440 |
| Expenses | (1,067,721) | (1,252,398) |
| Profit/(loss) before tax of discontinued operation | 35,176 | (109,958) |
| Income tax expense | (35,000) | – |
| Profit/(loss) for the year from discontinued operation | 176 | (109,958) |
| After tax loss recognised on the remeasurement of assets of disposal group | (32,308) | – |
| Loss after tax for the year from RSB | (32,132) | (109,958) |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY (CONT'D)

### (a) Discontinued operations classified as assets held for sale (cont'd)

#### (ii) Disposal of REDtone Sdn. Bhd. (cont'd)

An analysis of the result of RSB is as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Directors' remuneration: | | |
| - fees | 62,000 | 40,320 |
| - other emoluments | 150,000 | 150,000 |
| Auditors' remuneration: | 7,300 | 5,000 |
| Operating leases: | | |
| - minimum lease payments for land and buildings | (657) | 6,733 |
| Depreciation of property, plant and equipment | (481) | 260 |
| Reversal of provision for doubtful debts | (53,297) | (37,055) |
| Short term accumulating compensated absences | 776 | (889) |

The cash flow attributable to RSB are as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Operating cash flows, representing total cash flows | (124,630) | (63,753) |

The major classes of assets and liabilities of RSB classified as held for sale on the balance sheet as at 31 May 2008 are as follows:

| | Carrying amounts immediately before classification RM | Allocation of remeasurement RM | Carrying amounts as at 31.05.2008 RM |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 1,687 | – | 1,687 |
| Inventory | 1,233 | – | 1,233 |
| Trade receivables | 269,886 | (32,308) | 237,578 |
| Other receivables | 2,107 | – | 2,107 |
| Tax recoverable | 16,000 | – | 16,000 |
| Cash and bank balances | 173,767 | – | 173,767 |
| Assets of disposal group classified as held for sale | 464,680 | (32,308) | 432,372 |
| **Liabilities** | | | |
| Trade payable | 42,461 | – | 42,461 |
| Other payable | 107,138 | – | 107,138 |
| Deferred income | 82,762 | – | 82,762 |
| Liabilities directly associated with assets classified as held for sale | 232,361 | – | 232,361 |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY (CONT'D)

### (b) Discontinued operation - disposal of subsidiary

On 30 May 2008, the Group has disposed its entire 100% equity interest in VMS Technology Limited ("VMS") to Hotgate Holding Limited ("HHL"). Sales proceed is satisfied by issuance of 30,000,000 new ordinary shares of USD0.01 each in Hotgate Holdings Limited.

Results from VMS Technology Limited is presented separately on the income statement as discontinued operation.

| | 2008<br>RM | 2007<br>RM |
|---|---|---|
| Revenue | 4,710,499 | 3,489,571 |
| Expenses | (2,336,627) | (3,742,093) |
| Profit/(loss) before tax of discontinued operation | 2,373,872 | (252,522) |
| Income tax expense | (3,646) | – |
| Profit/(loss) after tax for the year from VMS | 2,370,226 | (252,522) |

An analysis of the result of VMS is as follows:

| | 2008<br>RM | 2007<br>RM |
|---|---|---|
| Directors' remuneration: | | |
| - fees | 303,951 | 276,300 |
| - other emoluments | 70,739 | 75,448 |
| Auditors' remuneration: | 23,546 | 23,025 |
| Operating leases: | | |
| - minimum lease payments for land and buildings | 91,398 | 88,530 |
| Depreciation of property, plant and equipment | 2,878 | 3,331 |
| Interest income from deposits | 25,892 | 27,088 |
| Short term accumulating compensated absences | 1,794 | – |

The disposals had the following effects on the financial position of the Group as at the end of the year:-

| | 2008<br>RM |
|---|---|
| Property, plant and equipment | 208,279 |
| Inventories | 164,692 |
| Trade and other receivables | 22,646,275 |
| Cash and bank balances | 692,387 |
| Trade and other payables | (23,493,731) |
| Net assets disposed | 217,902 |
| Attributable goodwill | 584,990 |
| Transfer from foreign exchange reserve | (103,297) |
| | 699,595 |
| Total disposal proceeds | (973,227) |
| Gain on disposal to the Group | (273,632) |

## 9. DISCONTINUED OPERATIONS, DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARY (CONT'D)

### (b) Discontinued operation - disposal of subsidiary (cont'd)

The disposals had the following effects on the financial position of the Group as at the end of the year (cont'd):-

| | 2008 RM |
|---|---|
| Disposal proceeds settled by: | |
| 30,000,000 new ordinary shares of USD0.01 each in Hotgate Holdings Ltd | 973,227 |
| Cash consideration | – |
| Cash and cash equivalents of subsidiaries disposed | (692,387) |
| Net cash outflow of the Group | (692,387) |

The cash flow attributable to VMS are as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Operating cash flows | 587,470 | 540,398 |
| Investing cash flows | (1,955,701) | 742,677 |
| Total cash flows | (1,368,231) | 1,283,075 |

## 10. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| (Loss)/profit attributable to ordinary equity holders of the Company | (6,798,619) | 5,561,828 |
| Total weighted average number of ordinary shares in issue | 255,349,973 | 252,031,452 |
| Basic earnings per share (sen) | (2.7) | 2.2 |

## 10. EARNINGS PER SHARE (CONT'D)

### (b) Diluted

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company and the adjusted weighted average number of ordinary shares in issue and issuable during the financial year. The only issuable shares during the financial year are those arising from the conversion of the share options from the Employees' Share Options Scheme.

| | Group | |
|---|---|---|
| | **2008** | **2007** |
| | **RM** | **RM** |
| (Loss)/profit for the year | (6,798,619) | 5,561,828 |
| Total weighted average number of ordinary shares in issue | 255,349,973 | 252,031,452 |
| Adjustment for assumed exercise of share options | 1,265,469 | 1,451,851 |
| | 256,615,442 | 253,483,303 |
| Diluted earnings per share (sen) | (2.6) | 2.2 |

## 11. DIVIDEND

| | Dividends in respect of Year | | Dividends Recognised in Year | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **RM** | **RM** | **RM** | **RM** |
| **Recognised during the year:** | | | | |
| Interim tax exempt dividend for 2006: 40% on 252,000,000 ordinary shares (4 sen per ordinary share) | – | 10,080,000 | – | 10,080,000 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold office lots RM | Computers and software RM | Furniture, fittings and office equipment RM | *Equipment, plant and machinery RM | **Other assets RM | Total RM |
|---|---|---|---|---|---|---|
| **2008** | | | | | | |
| **Cost** | | | | | | |
| At 1 June 2007 | 4,238,849 | 7,297,121 | 2,535,307 | 24,902,913 | 1,234,856 | 40,209,046 |
| Additions | – | 638,603 | 343,121 | 4,115,645 | 608,133 | 5,705,502 |
| Disposals | – | (8,877) | (146,913) | – | (19,907) | (175,697) |
| Write-offs | – | (8,461) | (4,158) | (2,403,552) | (33,664) | (2,449,835) |
| Transfers | – | 17,825 | – | – | (17,825) | – |
| Acquisition of subsidiaries | – | 30,477 | 3,683 | – | – | 34,160 |
| Disposal of subsidiaries | – | (258,703) | (67,770) | – | – | (326,473) |
| Reclassified as held for sale | – | (1,937) | (670) | (2,444,307) | – | (2,446,914) |
| Exchange differences | – | (72,392) | (79,702) | (584,815) | 7,950 | (728,959) |
| At 31 May 2008 | 4,238,849 | 7,633,656 | 2,582,898 | 23,585,884 | 1,779,543 | 39,820,830 |
| **Accumulated depreciation** | | | | | | |
| At 1 June 2007 | 315,920 | 2,711,379 | 960,846 | 12,183,658 | 399,283 | 16,571,086 |
| Charge for the year | 84,778 | 551,065 | 233,455 | 2,471,521 | 145,858 | 3,486,677 |
| Disposals | – | (4,952) | (26,203) | – | (4,068) | (35,223) |
| Write-offs | – | (1,232) | (883) | (2,172,312) | (6,984) | (2,181,411) |
| Impairment loss recognised | – | 27,576 | 10,779 | – | 18,842 | 57,197 |
| Disposal of a subsidiary | – | (59,683) | (58,511) | – | – | (118,194) |
| Reclassified as held for sale | – | (704) | (215) | (277,612) | – | (278,531) |
| Exchange differences | – | (27,781) | (25,881) | (205,145) | 2,665 | (256,142) |
| At 31 May 2008 | 400,698 | 3,195,668 | 1,093,387 | 12,000,110 | 555,596 | 17,245,459 |
| **Net carrying amount** | | | | | | |
| At 31 May 2008 | 3,838,151 | 4,437,988 | 1,489,511 | 11,585,774 | 1,223,947 | 22,575,371 |

## 12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| 2007 | Freehold office lots RM | Computers and software RM | Furniture, fittings and office equipment RM | *Equipment, plant and machinery RM | **Other assets RM | Total RM |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 June 2006 | 4,238,849 | 3,634,601 | 2,460,938 | 22,015,909 | 1,309,188 | 33,659,485 |
| Additions | – | 3,816,974 | 137,732 | 3,720,415 | 171,120 | 7,846,241 |
| Acquisition of a subsidiary | – | 48,231 | 20,371 | – | 69,046 | 137,648 |
| Disposals | – | (44,101) | (36,557) | (265,308) | – | (345,966) |
| Write-offs | – | (123,082) | – | – | (24,043) | (147,125) |
| Transfer in/(out) | – | – | – | 327,011 | (327,011) | – |
| Exchange differences | – | (35,502) | (47,177) | (895,114) | 36,556 | (941,237) |
| | 4,238,849 | 7,297,121 | 2,535,307 | 24,902,913 | 1,234,856 | 40,209,046 |
| **Accumulated depreciation** | | | | | | |
| At 1 June 2006 | 231,143 | 2,422,420 | 768,423 | 10,439,490 | 273,843 | 14,135,319 |
| Charge for the year | 84,777 | 335,552 | 207,485 | 2,040,589 | 130,695 | 2,799,098 |
| Disposals | – | (8,462) | (865) | (47,004) | – | (56,331) |
| Write-offs | – | (22,758) | – | – | (3,870) | (26,628) |
| Exchange differences | – | (15,373) | (14,197) | (249,417) | (1,385) | (280,372) |
| At 31 May 2007 | 315,920 | 2,711,379 | 960,846 | 12,183,658 | 399,283 | 16,571,086 |
| **Net carrying amount** | | | | | | |
| At 31 May 2007 | 3,922,929 | 4,585,742 | 1,574,461 | 12,719,255 | 835,573 | 23,637,960 |

* Equipment consists of laboratory equipment, autodialer, gateway equipment, travelfon and REDtone payphone.

** Other assets consist of renovation, molding and tooling equipment, motor vehicle and assets in progress.

## 12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Furniture and fittings RM |
|---|---|
| **Company** | |
| **2008** | |
| **Cost** | |
| At 1 June 2007 and 31 May 2008 | 910 |
| **Accumulated depreciation** | |
| At 1 June 2007 | 258 |
| Charge for the year | 91 |
| At 31 May 2008 | 349 |
| **Net carrying amount** | |
| At 31 May 2008 | 561 |
| **2007** | |
| **Cost** | |
| At 1 June 2006 and 31 May 2007 | 910 |
| **Accumulated depreciation** | |
| At 1 June 2006 | 167 |
| Charge for the year | 91 |
| At 31 May 2007 | 258 |
| **Net carrying amount** | |
| At 31 May 2007 | 652 |

## 13. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2008 RM** | **2007 RM** |
| Unquoted shares, at cost | 5,227,966 | 4,188,146 |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (i) Details of the subsidiaries are as follows:

| Name of Subsidiaries | Country of incorporation | Equity interest held (%) 2008 | 2007 | Principal activities |
|---|---|---|---|---|
| REDtone Telecommunications Sdn. Bhd. ("RTC") | Malaysia | 100 | 100 | Research, development, manufacturing and marketing of computer-telephony integration products, provisioning of communication services and investment holding |
| REDtone Technology Sdn. Bhd. ("RTT") | Malaysia | 100 | 100 | Provider of total solutions in business communication and telecommunication services provisioning and investment holding |
| REDtone Network Sdn. Bhd. | Malaysia | 70 | 70 | Research and development and marketing of communication application |
| REDtone Marketing Sdn. Bhd. | Malaysia | 100 | 100 | Research and development, manufacturing and marketing of telecommunication and multimedia solutions |
| REDtone Multimedia Sdn. Bhd. (Formerly known as Endoz (Malaysia) Sdn. Bhd.) | Malaysia | 100 | 100 | Investment holding |
| CNX Software Sdn. Bhd. | Malaysia | 100 | – | Research, design, develop and commercialise of the VOIP Customer Premise Equipment |
| **Held through RTC** | | | | |
| VMS Technology Limited # * | Hong Kong, SAR | – | 100 | Provider of computer telephony systems and services |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (i) Details of the subsidiaries are as follows (cont'd):

| Name of Subsidiaries | Country of incorporation | Equity interest held (%) 2008 | 2007 | Principal activities |
|---|---|---|---|---|
| **Held through RTT** | | | | |
| Commpulse Sdn. Bhd. * (Formerly known as REDtone Sdn. Bhd.) | Malaysia | 75 | 75 | Research and development, manufacturing and marketing of technology-based products |
| REDtone Mytel Sdn. Bhd. | Malaysia | 60 | 60 | Provisioning of telecommunication services |
| REDtone Mobile Services Sdn. Bhd. (Formerly known as Jupitel Sdn. Bhd.) | Malaysia | 100 | 60 | Research, design, develop and commercialise VOIP customer premise equipment |
| REDtone Telecommunications Pakistan (Private) Limited ## | Pakistan | 100 | 100 | Provisioning of telecommunication services |
| REDtone Technology Pte. Ltd. # ("RTPLS") | Singapore | 100 | 100 | Provisioning of telecommunication related products and services |
| REDtone Telecommunications (China) Limited ("RTCC") # | Hong Kong, SAR | 75 | 75 | Investment holding |
| **Held through RTCC** | | | | |
| REDtone Telecommunications (Shanghai) Ltd. # | PRC | 75 | 75 | Research and development of telecommunication and network technology and marketing of telecommunication technical services |
| Shanghai Hongsheng Net Communication Company Ltd. # ^ | PRC | 75 | - | Marketing and distribution of discounted call services on consumer market |
| Shanghai Huitong Telecommunication Company Ltd. # ^ | PRC | 75 | - | Marketing and distribution of IP call and discounted call services |
| Shanghai Jia Mao e-Commerce Company Ltd. # ^ | PRC | 75 | - | Marketing and distribution of products on the internet |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (i) Details of the subsidiaries are as follows (cont'd):

| Name of Subsidiaries | Country of incorporation | Equity interest held (%) 2008 | 2007 | Principal activities |
|---|---|---|---|---|
| Held through RTPLS | | | | |
| VMS Telecommunications (S) Pte Ltd ^^ | Singapore | 100 | – | Dormant |

\# Audited by firm of auditors other than Ernst & Young

\## Audited by member firm of Ernst & Young Global

* As disclosed in Note 9, the results of these subsidiaries have been classified as discontinued operation during current financial period

^ Being nominee companies which are controlled by RTCC through controlling agreement as RTCC provide funding for the shareholders of the nominee companies.

^^ Exempted from audit under the Singapore Companies Act, Cap, 50.

### (ii) Acquisition of subsidiaries

**(a) 40% of equity in REDtone Mobiles Services Sdn. Bhd.**

On 19 November 2007, the Company acquired the remaining 40% equity interest in REDtone Mobile Services Sdn Bhd (formerly known as Jupitel Sdn. Bhd) for a cash consideration of RM1.

The acquired subsidiary has contributed the following results to the Group.

| | 2008 RM |
|---|---|
| Revenue | 228,539 |
| Loss for the year | (14,139) |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (ii) Acquisition of subsidiaries (cont'd)

#### (a) 40% of equity in REDtone Mobiles Services Sdn. Bhd. (cont'd)

The assets and liabilities arising from the acquisition are as follows:

| | Fair value recognised on acquisition RM | Acquiree's carrying amount RM |
|---|---|---|
| Property, plant and equipment | 31,497 | 31,497 |
| Inventories | 76 | 76 |
| Trade and other receivables | 19,543 | 19,543 |
| Cash and bank balances | 10,151 | 10,151 |
| | 61,267 | 61,267 |
| Trade and other payables | 390,163 | 390,163 |
| Fair values of net assets | (328,896) | |
| Less: 60% equity acquired on 7 July 2006 | 197,337 | |
| Group's share of net assets | (131,559) | |
| Goodwill on acquisition | 131,560 | |
| Total cost of acquisition | 1 | |

The cash outflow on acquisition is as follows:

| | 2008 RM |
|---|---|
| Purchase consideration satisfied by cash | 1 |

#### (b) CNX Software Sdn. Bhd.

On 17 January 2008, the Company acquired a 100% equity interest in CNX Software Sdn Bhd for a cash consideration of RM100,000.

The acquired subsidiary has contributed the following results to the Group.

| | 2008 RM |
|---|---|
| Revenue | – |
| Loss for the year | (49,494) |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (ii) Acquisition of subsidiaries (cont'd)

#### (b) CNX Software Sdn. Bhd. (cont'd)

The assets and liabilities arising from the acquisition are as follows:

| | Fair value recognised on acquisition RM | Acquiree's carrying amount RM |
|---|---|---|
| Property, plant and equipment | 11,899 | 11,899 |
| Trade and other receivables | 70,056 | 70,056 |
| Cash and bank balances | 13,064 | 13,064 |
| | 95,019 | 95,019 |
| Trade and other payables | 4,422 | 4,422 |
| Fair values of net assets | 90,597 | |
| Goodwill on acquisition | 9,403 | |
| Total cost of acquisition | 100,000 | |

The cash outflow on acquisition is as follows:

| | 2008 RM |
|---|---|
| Purchase consideration satisfied by cash | 100,000 |
| Cash and cash equivalents of subsidiary acquired | (13,064) |
| Net cash outflow of the Group | 86,936 |

#### (c) VMS Telecommunications (S) Pte. Ltd.

On 28 March 2008, one of the Company subsidiary, RTPLS has incorporated a wholly owned subsidiary, VMS Telecommunications (S) Pte. Ltd. ("VMSS") VMSS was incorporated in Singapore under the Companies Act, Cap. 50 as a private company limited by shares. The issued and fully paid-up share capital of VMSS is two (2) ordinary shares of SGD1.00 each.

#### (d) Shanghai Hongsheng Net Communications Co. Ltd. ("SHS") Shanghai Huitong Telecommunications Co. Ltd. ("SHT") Shanghai Jiamao E-Commerce Co. Ltd. ("SJM")

REDtone Telecommunications (China) Co. Ltd. ("RTCC") had on 30 November 2006, among others entered into loan agreements with Mr. Huang Bin ("HB") and Mr. Mao Hong ("MH") for the establishment of SHS. On 30 November 2006, an equity pledge agreement was entered into which provides that HB and MH will pledge all their equities in SHS to RTCC and Redtone Telecommunications (Shanghai) Co Ltd ("RTS"). A proxy agreeement of shareholder voting right was also executed which provides that control of SHS by RTCC shall take effect from 1 June 2007.

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (ii) Acquisition of subsidiaries (cont'd)

**(d) Shanghai Hongsheng Net Communications Co. Ltd. ("SHS") (cont'd)
Shanghai Huitong Telecommunications Co. Ltd. ("SHT") (cont'd)
Shanghai Jiamao E-Commerce Co. Ltd. ("SJM") (cont'd)**

On 30 April 2007, RTCC had among others entered into loan agreements with Mr. Mao Junbao ("MJ") and MH for the establishment of SHT. On 30 April 2007, an equity pledge agreement which provides that MJ and MH will pledge all their equities in SHT to RTCC and RTS. A proxy agreeement of shareholder voting right was also executed which provides that control of SHT by RTCC shall take effect from 1 June 2007.

In addition, RTCC obtained a legal opinion dated 29 October 2007 which states that RTCC can recognize and receive the benefit from the operation of SHS and SHT even though RTCC does not have any ownership stake in SHS and SHT.

On 21 March 2008, SHS incorporated a wholly-owned subsidiary, SJM, for the provision of e-commerce business.

The acquired subsidiaries has contributed the following results to the Group.

| | 2008 RM |
|---|---|
| Revenue | 25,054,217 |
| Loss for the year | (840,306) |

The assets and liabilities arising from the acquisition of SHS are as follows:

| | Fair value recognised on acquisition RM | Acquiree's carrying amount RM |
|---|---|---|
| Property, plant and equipment | 22,261 | 22,261 |
| Trade and other receivables | 2,056,481 | 2,056,481 |
| Cash and bank balances | 89,048 | 89,048 |
| | 2,167,790 | 2,167,790 |
| Trade and other payables | 2,039,236 | 2,039,236 |
| Fair values of net assets | 128,554 | |
| Negative goodwill on acquisition (Note 4) | (61,759) | |
| Total cost of acquisition | 66,795 | |

## 13. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### (ii) Acquisition of subsidiaries (cont'd)

#### (d) Shanghai Hongsheng Net Communications Co. Ltd. ("SHS") (cont'd) Shanghai Huitong Telecommunications Co. Ltd. ("SHT") (cont'd) Shanghai Jiamao E-Commerce Co. Ltd. ("SJM") (cont'd)

The cash inflow on acquisition of SHS is as follows:

| | 2008 RM |
|---|---|
| Purchase consideration satisfied by cash | 66,795 |
| Cash and cash equivalents of subsidiary acquired | (89,048) |
| Net cash inflow of the RTCC Group | (22,253) |

### (iii) Disposal of a subsidiary

Information relating to the disposal of VMS Technology Limited is set out in Note 9.

## 14. INVESTMENTS IN ASSOCIATES

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| Unquoted shares at cost | 1,175,352 | 1,077,793 |
| Share of post-acquisition reserves | 141,258 | (875,668) |
| | 1,316,610 | 202,125 |
| Quoted shares at cost | 4,919,076 | – |
| Provision for diminution in investment | (4,919,076) | – |
| | 1,316,610 | 202,125 |

| Name of Associates | Country of incorporation | Equity interest held (%) 2008 | Equity interest held (%) 2007 | Principal activities |
|---|---|---|---|---|
| (a) REDtone CNX Broadband Sdn. Bhd. | Malaysia | 54.5 | 54.5 | Provision of broadband and internet related services |

The Group's effective equity interest of 54.5% in REDtone CNX Broadband Sdn. Bhd., is through direct equity interest of 29% held through REDtone Technology Sdn. Bhd. ('RTT') and 25.5% held through Meridianotch Sdn. Bhd., a jointly controlled entity.

The financial statements of the associate are coterminous with those of the Group.

## 14. INVESTMENTS IN ASSOCIATES (CONT'D)

The summarised financial information of the associate is as follows:

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| **Assets and liabilities** | | |
| Non-current assets | 3,300,465 | 1,652,026 |
| Current assets | 1,353,474 | 754,442 |
| Total assets | 4,653,939 | 2,406,468 |
| Non-current liabilities | – | 12,044 |
| Current liabilities | 4,829,593 | 2,829,266 |
| | 4,829,593 | 2,841,310 |
| **Results** | | |
| Revenue | 3,860,175 | 1,801,634 |
| Profit/(Loss) for the period | 165,115 | (1,606,730) |

The goodwill included within the Group's carrying amount of investment in an associate as at 31 May 2008 is RM438,114 (2007: RM1,189,114).

| Name of Associates | Country of incorporation | Equity interest held (%) 2008 | Equity interest held (%) 2007 | Principal activities |
|---|---|---|---|---|
| (b) eB Capital Berhad | Malaysia | 23 | 11 | Investment holding and the provision of management services |

The Group's effective equity interest of 23% in eB Capital Berhad, is a direct equity interest held through REDtone Technology Sdn Bhd.

The summarised financial information of the associate is as follows:

| | Group 2008 RM |
|---|---|
| **Assets and liabilities** | |
| Non-current assets | 2,069,582 |
| Current assets | 10,354,755 |
| Total assets | 12,424,337 |
| Non-current liabilities | 4,807,323 |
| Current liabilities | 19,365,419 |
| | 24,172,742 |
| **Results** | |
| Revenue | 1,745,826 |
| Loss for the period | (11,508,432) |

## 14. INVESTMENTS IN ASSOCIATES (CONT'D)

The goodwill included within the Group's carrying amount of investment in an associate as at 31 May 2008 has been fully impaired.

For the purpose of applying the equity method of accounting, the management financial statements of the associate for the 11 months period ended 31 May 2008 have been used.

| Name of Associates | Country of incorporation | Equity interest held (%) 2008 | 2007 | Principal activities |
|---|---|---|---|---|
| (c) Hotgate Holdings Limited | British Virgin Island | 30% | – | Investment holding |

The Group's effective equity interest of 30% in Hotgate Holdings Ltd., is a direct equity interest held through REDtone Telecommunications Sdn Bhd.

The summarised financial information of the associate is as follows:

| | Group 2008 RM |
|---|---|
| **Assets and liabilities** | |
| Non-current assets | 286,759 |
| Current assets | 23,603,316 |
| Total assets | 23,890,075 |
| Non-current liabilities | – |
| Current liabilities | 23,623,837 |
| | 23,623,837 |
| **Results** | |
| Revenue | – |
| Loss for the period | (246,799) |

The goodwill included within the Group's carrying amount of investment in an associate as at 31 May 2008 is RM893,355 (2007: Nil).

For the purpose of applying the equity method of accounting, the management financial statements of the associate for period ended 31 May 2008 have been used.

## 15. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| Unquoted shares at cost | 1,493,799 | 1,500,000 |
| Share of post-acquisition reserves | (1,551) | (6,201) |
| | 1,492,248 | 1,493,799 |

## 15. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONT'D)

| Name of jointly controlled entity | Country of incorporation | Proportion of ownership interest (%) 2008 | 2007 | Principal activities |
|---|---|---|---|---|
| Meridianotch Sdn. Bhd. | Malaysia | 50 | 50 | Investment holding |

The Group's aggregate share of the non-current assets, current assets, non-current liabilities, current liabilities, income and expenses of the jointly controlled entity is as follows:

| | Group 2008 RM | 2007 RM |
|---|---|---|
| **Assets and liabilities** | | |
| Non-current assets | 2,051,401 | 826,013 |
| Current assets | 677,207 | 377,728 |
| Total assets | 2,728,608 | 1,203,741 |
| Non-current liabilities | – | 6,022 |
| Current liabilities | 2,423,022 | 1,421,345 |
| | 2,423,022 | 1,427,367 |
| **Results** | | |
| Revenue | 1,930,088 | 900,817 |
| Loss for the period | 72,303 | (803,108) |

## 16. INVESTMENT PROPERTY

| | Group 2008 RM | 2007 RM |
|---|---|---|
| Carrying amount: | | |
| At 1 June | 790,000 | 763,189 |
| Fair value adjustment (Note 7) | – | 26,811 |
| At 31 May | 790,000 | 790,000 |

## 17. INTANGIBLE ASSETS

| Group | Goodwill RM | Patents and trademarks RM | License and software RM | Development cost RM | Total RM |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 June 2006 | 1,564,064 | 157,025 | 4,249,934 | – | 5,971,023 |
| Addition | – | – | 35,000 | 1,499,736 | 1,534,736 |
| Write off | – | – | (22,319) | – | (22,319) |
| Acquisition of a subsidiary | 188,760 | – | – | – | 188,760 |
| Exchange differences | – | – | (167,693) | – | (167,693) |
| At 31 May 2007 and 1 June 2007 | 1,752,824 | 157,025 | 4,094,922 | 1,499,736 | 7,504,507 |
| Addition | – | 2,769 | 7,165,050 | 1,994,335 | 9,162,154 |
| Acquisition of subsidiaries | 140,963 | – | – | – | 140,963 |
| Derecognised on disposal of subsidiary | (584,990) | – | – | – | (584,990) |
| Exchange differences | – | – | (303,711) | – | (303,711) |
| At 31 May 2008 | 1,308,797 | 159,794 | 10,956,261 | 3,494,071 | 15,918,923 |
| **Accumulated amortisation** | | | | | |
| At 1 June 2006 | – | 123,876 | 2,027,617 | – | 2,151,493 |
| Charge for the year (Note 7) | – | 31,374 | 130,369 | 29,684 | 191,427 |
| Write off | – | – | (530) | – | (530) |
| Exchange differences | – | – | (26,852) | – | (26,852) |
| At 31 May 2007 and 1 June 2007 | – | 155,250 | 2,130,604 | 29,684 | 2,315,538 |
| Charge for the year (Note 7) | – | 2,033 | 122,064 | 149,426 | 273,523 |
| Impairment loss recognised in profit or loss (Note 7) | 179,397 | – | – | – | 179,397 |
| Exchange differences | – | – | (63,070) | – | (63,070) |
| At 31 May 2008 | 179,397 | 157,283 | 2,189,598 | 179,110 | 2,705,388 |
| **Net carrying amount** | | | | | |
| At 31 May 2008 | 1,129,400 | 2,511 | 8,766,663 | 3,314,961 | 13,213,535 |
| At 31 May 2007 | 1,752,824 | 1,775 | 1,964,318 | 1,470,052 | 5,188,969 |

## 17. INTANGIBLE ASSETS (CONT'D)

**Impairment test for goodwill**

**(i) Allocation of goodwill**

Goodwill has been allocated to the Group's cash generating unit ("CGU") identified according to country of operations as follows:

| | 2008 RM | 2007 RM |
|---|---|---|
| Malaysia | 1,129,400 | 1,167,834 |
| Hong Kong, SAR | – | 584,990 |
| | 1,129,400 | 1,752,824 |

**(ii) Key assumptions used in value-in-use calculations**

The recoverable amount of the CGU is determined based on value-in-use calculations using cash flow projections based on financial forecasts approved by management covering a 5-year period. The discount rate applied to cash flow projections is the Group's effective weighted average borrowing rate and cash flows beyond the 5-year period are extrapolated assuming zero growth rate.

Key assumptions and management's approach to determine the values assigned to each key assumption are as follows:

| | Malaysia | China |
|---|---|---|
| Financial budget period | 2009 - 2013 | 2009 - 2013 |
| Average budgeted EBITDA margin | 8.75% | 15.41% |
| Growth rate | 331.78% | 38.00% |
| Discount rate | 8.95% | 8.75% |

The key assumptions represent management's assessment of future trends in the regional mobile industry and are based on both external sources and internal sources.

Management has determined budgeted EBITDA margin based on past performance and its expectations of market development. The weighted average growth rates are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

**(iii) Sensitivity to changes in assumptions**

With regard to the assessment of value-in-use of the CGU, management believes that no reasonable change in any of the above key assumptions would cause the carrying value of the units to materially exceed their recoverable amounts.

## 18. DEFERRED TAX

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| At 1 June | 4,089,118 | 1,127,665 |
| Recognised in the income statement (Note 8) | (257,909) | 2,961,453 |
| At 31 May | 3,831,209 | 4,089,118 |

Presented after appropriate offsetting as follows:

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| Deferred tax assets | 3,833,705 | 4,103,813 |
| Deferred tax liabilities | (2,496) | (14,695) |
| | 3,831,209 | 4,089,118 |

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

**Deferred tax (assets)/liabilities of the Group:**

| | Unused tax losses and unabsorbed capital allowances RM | Provisions RM | Property, plant and equipment RM | Others RM | Total RM |
|---|---|---|---|---|---|
| At 1 June 2007 | (2,985,731) | (2,156,739) | 1,975,896 | (922,544) | (4,089,118) |
| Recognised in income statement | 904,864 | (108,753) | (942,505) | 404,303 | 257,909 |
| At 31 May 2008 | (2,080,867) | (2,265,492) | 1,033,391 | (518,241) | (3,831,209) |
| At 1 June 2006 | (1,142,360) | – | 14,695 | – | (1,127,665) |
| Recognised in income statement | (1,843,371) | (2,156,739) | 1,961,201 | (922,544) | (2,961,453) |
| At 31 May 2007 | (2,985,731) | (2,156,739) | 1,975,896 | (922,544) | (4,089,118) |

## 18. DEFERRED TAX (CONT'D)

Deferred tax assets have not been recognised in respect of the following items:

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| Other deductible temporary differences | 448,000 | 2,030,000 |
| Unutilised tax losses | 8,301,000 | 7,114,000 |
| Unabsorbed capital allowances | 146,000 | 125,000 |
| | 8,895,000 | 9,269,000 |

The unutilised tax losses and unabsorbed capital allowances of the Group are available for offsetting against future taxable profits subject to no substantial change in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

## 19. INVENTORIES

| | Group 2008 RM | Group 2007 RM |
|---|---|---|
| At cost: | | |
| Trading goods | 1,567,419 | 1,937,491 |

## 20. TRADE AND OTHER RECEIVABLES

| | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|
| **Current** | | | | |
| **Trade receivables** | | | | |
| Third parties | 18,700,389 | 26,206,784 | – | – |
| Associates | 9,235,147 | 1,842,602 | | |
| Less: Provision for doubtful debts | (2,788,761) | (2,582,092) | – | – |
| Trade receivables, net | 25,146,775 | 25,467,294 | – | – |
| **Other receivables** | | | | |
| Associates | 3,927,636 | – | – | – |
| Amounts due from subsidiaries | – | – | 39,325,310 | 37,925,196 |
| | 3,927,636 | – | 39,325,310 | 37,925,196 |
| Deposits | 1,334,251 | 1,120,517 | 1,000 | 1,000 |
| Prepayments | 586,550 | 1,407,437 | 4,927 | – |
| Sundry receivables | 7,706,008 | 6,823,277 | – | – |
| | 13,554,445 | 9,351,231 | 39,331,237 | 37,926,196 |
| Less: Provision for doubtful debts | (170,075) | (559,696) | – | – |
| | 13,384,370 | 8,791,535 | 39,331,237 | 37,926,196 |
| | 38,531,145 | 34,258,829 | 39,331,237 | 37,926,196 |

## 20. TRADE AND OTHER RECEIVABLES (CONT'D.)

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| **Non-current** | | | | |
| Security deposits | 457,016 | 322,680 | – | – |

### (a) Credit risk

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit and the credit period given is generally for a period of one month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

### (b) Amounts due from related parties

Amount due from all related parties are non-interest bearing and are repayable on demand. All related parties receivable are unsecured and are to be settled in cash.

### (c) Sundry receivables

Included in sundry receivables is RM 176,381 (2007: RM 2,350,943) paid to a third party as part of advances for purchases.

### (d) Long term security deposits

These represent security deposits placed in accordance with the requirements of agreement with a telecommunication company.

## 21. MARKETABLE SECURITIES

| | Group | |
|---|---|---|
| | 2008 RM | 2007 RM |
| Shares quoted in Malaysia, at cost | – | 2,497,627 |
| Less: Provision for impairment in value (Note 7) | – | (1,231,298) |
| | – | 1,266,329 |
| Market value of quoted shares | – | 1,266,329 |

During the year, the Group has acquired additional shares of 12% of the marketable securities, which resulted to the total shareholding of 23% as disclosed in note 14 (b).

## 22. OTHER INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| **Non-current** | | | | |
| HSBC Structured Investment | – | 600,000 | – | – |
| **Current** | | | | |
| AmCash Management | 123,501 | 86,113 | 112,037 | 53,312 |
| AmIncome | – | 1,831 | – | – |
| AmAl-Amin | – | – | – | – |
| Avenue IncomeEXTRA Fund | 530 | 511 | – | – |
| HSBC Structured Investment | 600,000 | – | – | – |
| | 724,031 | 88,455 | 112,037 | 53,312 |
| Total | 724,031 | 688,455 | 112,037 | 53,312 |
| Market value of investment/unit trust funds: | | | | |
| HSBC Structured Investment | 748,560 | 655,000 | – | – |
| AmCash Management | 123,501 | 86,113 | 112,037 | 53,312 |
| AmIncome | – | 1,831 | – | – |
| Avenue IncomeEXTRA Fund | 530 | 511 | – | – |
| Total | 872,591 | 743,455 | 112,037 | 53,312 |

(i) HSBC Structured Investment is a MYR denominated floor asian structured investment linked to a basket of the Hang Seng Index, the Hang Seng Index China Enterprise Index and the Nikke 225 Index entered by the Group with Hong Kong Shanghai Bank Corporation ('HSBC'). The maturity date of the investment is on 10 July 2008. The investor shall not be entitled to cancel all or part of the investment except as set out in the agreement without the bank's prior consent. The investment is non-assignable and non-chargeable, except to the bank, nor can or shall any type of third party rights arise in respect thereof, in each case in whole or in part.

(ii) AmCash Management is a short-term money market fund designed to provide investors with a stream of income. It is managed with the aim of maintaining the Fund's unit price at RM1. The redemption proceeds for investments in AmCash Management will normally be collected by the next business day.

(iii) AmIncome is a short to medium-term money market fund that aims to provide investors with a stream of income. The withdrawal proceeds will be received in the following manner:

- the first RM2 million and below not later than the 7th day of receipt of repurchase notice; and

- any amount above RM2 million withdrawn, not later than the 30th day of receipt of repurchase notice.

## 22. OTHER INVESTMENTS (CONT'D)

(iv) AmAl-Amin is a short to medium-term money market fund that aims to provide investors with a stream of the income under the Islamic principles. The withdrawal proceeds will be received in the following manner:

- the first RM1 million and below not later than the 10th day of receipt of the repurchase notice;
- the next RM4 million withdrawn, not later than the 30th day of receipt of the repurchase notice; and
- any amount above RM5 million withdrawn, not later than the 45th day of receipt of the repurchase notice.

(v) Avenue IncomeEXTRA Fund is an open-ended unit trust fund investing primarily in short term money market instruments. It aims to provide investors capital preservation with regular income over the short to medium term period. The minimum redemption of units is 2,000 units for each request on any business day and payments are generally made within 10 days upon the receiving of the redemption request.

(vi) HLG Institutional Bond Fund is a bond fund which aims to offer a stable stream of income that is higher than the prevailing fixed deposit rate and at the same time stability in capital. The minimum redemption/repurchase of units is 200,000 units for each request on any business day and payments are generally made within 10 calendar days upon the receiving of the redemption request.

The fixed income of the instruments is from 2.28 % to 12.92 % (2007: 2.65% to 11.00%) per annum.

## 23. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 RM** | **2007 RM** | **2008 RM** | **2007 RM** |
| Cash on hand and at banks | 16,083,904 | 17,574,867 | 108 | 8 |
| Deposits with licensed banks | 4,679,703 | 7,683,071 | – | – |
| | 20,763,607 | 25,257,938 | 108 | 8 |

Deposits with licensed banks for the Group amounting to RM 4,679,703 (2007: RM 4,087,336) are pledged to the banks as securities for bankers' guarantee granted.

For the purpose of the cash flow statements, cash and cash equivalents comprise the following as at balance sheet date:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 RM** | **2007 RM** | **2008 RM** | **2007 RM** |
| Cash and bank balances | 20,763,607 | 25,257,938 | 108 | 8 |
| Cash and bank balances classified as held for sale (Note 9) | 173,767 | – | – | – |
| | 20,937,374 | 25,257,938 | 108 | 8 |

## 24. DEFERRED INCOME

| | Short term RM | Long term RM | Total RM |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| At 1 June 2006 | 3,027,781 | 3,119,197 | 6,146,978 |
| Addition | 929,510 | – | 929,510 |
| Utilisation | (1,472,554) | – | (1,472,554) |
| At 31 May 2007 and 1 June 2007 | 2,484,737 | 3,119,197 | 5,603,934 |
| Addition | 4,915,809 | – | 4,915,809 |
| Utilisation | 2,515,401 | – | 2,515,401 |
| Reclassified as held for sale | (194,409) | – | (194,409) |
| Disposal of subsidiary | (900,461) | – | (900,461) |
| At 31 May 2008 | 8,821,077 | 3,119,197 | 11,940,274 |
| **Accumulated amortisation** | | | |
| At 1 June 2007/2006 and 31 May 2008/2007 | – | 3,119,197 | 3,119,197 |
| **Carrying amount** | | | |
| At 31 May 2008 | 8,821,077 | – | 8,821,077 |
| At 31 May 2007 | 2,484,737 | – | 2,484,737 |

Deferred income (short term) consists of prepaid products sold to customers which are yet to be utilised.

Deferred income (long term) refers to grant received from a government agency to assist the Group in funding the various research and development projects.

## 25. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| **Trade payables** | | | | |
| Third parties | 13,762,991 | 10,625,121 | – | – |
| Amount due to associates | 117,469 | – | – | – |
| | 13,880,460 | 10,625,121 | – | – |
| **Other payables** | | | | |
| Amount due to associates | 4,898,675 | – | – | – |
| USOF contribution | 4,330,311 | 3,896,952 | – | – |
| Accruals | 2,749,581 | 3,490,240 | 28,526 | 22,088 |
| Sundry payables | 3,948,540 | 8,513,277 | 15,547 | 3,588 |
| | 15,927,107 | 15,900,469 | 44,073 | 25,676 |
| | 29,807,567 | 26,525,590 | 44,073 | 25,676 |

## 25. TRADE AND OTHER PAYABLES (CONT'D)

**Trade payables**

Trade payables are non-interest bearing and the normal trade credit terms granted to the Group is one month.

## 26. SHARE CAPITAL

| | Number of ordinary shares of RM0.10 each | Share capital (issued and fully paid) RM | Share premium RM | Total share capital and share premium RM |
|---|---|---|---|---|
| **Group and Company** | | | | |
| At 1 June 2006 | 252,000,000 | 25,200,000 | 16,420,897 | 41,620,897 |
| Ordinary shares issued pursuant to ESOS | 135,000 | 13,500 | 71,551 | 85,051 |
| At 31 May 2007 and 1 June 2007 | 252,135,000 | 25,213,500 | 16,492,448 | 41,705,948 |
| Ordinary shares issued pursuant to ESOS | 5,510,000 | 551,000 | 2,785,856 | 3,336,856 |
| At 31 May 2008 | 257,645,000 | 25,764,500 | 19,278,304 | 45,042,804 |

| | Number of ordinary shares of RM0.10 each | | | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 RM | 2007 RM |
| **Authorised share capital** | | | | |
| As 1 June 2007/2006 and 31 May 2008/2007 | 300,000,000 | 300,000,000 | 30,000,000 | 30,000,000 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 27. OTHER RESERVES

| Group | Foreign currency translation reserve RM | Share option reserve RM | Total RM |
|---|---|---|---|
| At 1 June 2006 | | | |
| As previously stated | (369,803) | – | (369,803) |
| Effects of adopting FRS 121 | (274,231) | – | (274,231) |
| At 1 June 2006 (restated) | (644,034) | – | (644,034) |
| Foreign currency translation | 939,883 | – | 939,883 |
| Share options vested under ESOS | – | 767,651 | 767,651 |
| At 31 May 2007 | 295,849 | 767,651 | 1,063,500 |
| At 1 June 2007 | 295,849 | 767,651 | 1,063,500 |
| Foreign currency translation | 919,890 | – | 919,890 |
| Share options vested under ESOS | – | 939,820 | 939,820 |
| Share options exercised | – | (967,556) | (967,556) |
| At 31 May 2008 | 1,215,739 | 739,915 | 1,955,654 |
| **Company** | | | |
| At 1 June 2006 | – | – | – |
| Share options vested under ESOS | – | 767,651 | 767,651 |
| At 31 May 2007 | – | 767,651 | 767,651 |
| At 1 June 2007 | – | 767,651 | 767,651 |
| Share options vested under ESOS | – | 939,820 | 939,820 |
| Share options exercised | – | (967,556) | (967,556) |
| At 31 May 2008 | – | 739,915 | 739,915 |

**(a) Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

**(b) Share option reserve**

The share option reserve represents the equity-settled share options granted to employees. This reserve is made up of the cumulative value of services received from employees recorded on grant of share options.

## 28. EMPLOYEE SHARE OPTIONS SCHEME ("ESOS")

(a) The Company's Employee Share Options Scheme ("ESOS") is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 10 February 2006. The duration of ESOS was from 15 February 2006 and is to be in force for a period of 4 years from the date of implementation. The Board of Directors and Option Committee may as deemed fit, extend the ESOS for another 6 years.

The salient features of the ESOS are as follows:

(i) The Option Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM0.10 each in the Company.

(ii) Subject to the discretion of the Option Committee, any employee whose employment has been confirmed and any executive director holding office in a full-time executive capacity of the Group, shall be eligible to participate in the ESOS.

(iii) The total number of shares to be issued under the ESOS shall not exceed in aggregate 10% of the issued share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of the Company.

(iv) The option price for each share shall be the weighted average of the market price as quoted in the Daily Official List issued by Bursa Malaysia Securities Berhad for the 5 market days immediately preceding the date on which the option is granted less, if the Options Committee shall so determine at their discretion from time to time, a discount of not more than 10% or the par value of the shares of the Company of RM0.10.

(v) All new ordinary shares issued upon exercise of the options granted under the ESOS will rank pari passu in all respects with the existing ordinary shares of the Company other than as may be specified in a resolution approving the distribution of dividends prior to their exercise dates.

## 28. EMPLOYEE SHARE OPTIONS SCHEME ("ESOS") (CONT'D)

The terms of share options outstanding as at the end of the financial year are as follows:

| Grant date | Expiry date | Outstanding as at 1 June 2007 '000 | Exercise price RM | Granted '000 | Exercised '000 | Forfeited '000 | At 31 May 2008 '000 |
|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | |
| 5/31/2005 | 2/15/2010 | 6,540 | 0.63 | – | – | (724) | 5,816 |
| 10/19/2006 | 2/15/2010 | 6,938 | 0.43 | – | (5,510) | – | 1,428 |
| 11/1/2006 | 2/15/2010 | 2,000 | 0.44 | – | – | – | 2,000 |
| | | 15,478 | | – | (5,510) | (724) | 9,244 |
| **2007** | | | | | | | |
| 5/31/2005 | 2/15/2010 | 7,785 | 0.63 | – | (135) | (1,110) | 6,540 |
| 10/19/2006 | 2/15/2010 | – | 0.43 | 6,938 | – | – | 6,938 |
| 11/1/2006 | 2/15/2010 | – | 0.44 | 2,000 | – | – | 2,000 |
| | | 7,785 | | 8,938 | (135) | (1,110) | 15,478 |

Number of share options vested:

| | 2008 '000 | 2007 '000 |
|---|---|---|
| At 31 May | 4,460 | 3,063 |

**(b) Share options exercised during the year**

Options exercised during the financial year resulted in issuance of 5,510,000 (2007:135,000) ordinary shares at an average price of RM0.43 (2007: 0.63) each.

## 29. OPERATING LEASE AGREEMENTS

**The Group as lessee**

The Group has entered into non-cancellable operating lease agreements for the use of land and buildings. These leases have an average life of between 1 and 3 years with no renewal or purchase option included in the contracts. These contracts include fixed rentals for an average of between 1 to 3 years. There are no restrictions placed upon the Group by entering into these leases.

## 29. OPERATING LEASE AGREEMENTS (CONT'D)

The future aggregate minimum lease payments under non-cancellable operating lease contracted for as at the balance sheet date but not recognised as liabilities, are as follows:

| | Group | |
|---|---|---|
| | 2008 RM | 2007 RM |
| Future minimum rentals payments: | | |
| Not later than 1 year | 381,982 | 276,666 |
| Later than 1 year and not later than 5 years | 303,410 | 1,161,330 |
| | 685,392 | 1,437,996 |

The lease payments recognised in profit or loss during the financial year are disclosed in Note 7.

## 30. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

| | 2008 RM | 2007 RM |
|---|---|---|
| **Group** | | |
| Rental expenses paid to Endless Revenue Sdn. Bhd., a company in which the spouse of a director, Wei Chuan Beng, is the director and major shareholder | 150,300 | 119,710 |
| Sales of shares in a subsidiary, REDtone Network Sdn Bhd to a director, Zainal Amanshah bin Zainal Arshad | – | 450,000 |

| | 2008 RM | 2007 RM |
|---|---|---|
| **Company** | | |
| Sales of shares in a subsidiary, REDtone Network Sdn Bhd to a director, Zainal Amanshah bin Zainal Arshad | – | 450,000 |

The directors are of the opinion that the above transactions have been entered into in the normal course of business and the amount charged is comparable to market prices.

## 30. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

### (b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|
| Short-term employee benefits | 3,085,821 | 2,945,027 | 132,000 | – |
| Defined contribution plans | 182,328 | 195,359 | – | – |
| Others | 34,793 | 34,721 | – | – |
| | 3,302,942 | 3,175,107 | 132,000 | – |

Included in the total key management personnel are:

| | Group 2008 RM | Group 2007 RM | Company 2008 RM | Company 2007 RM |
|---|---|---|---|---|
| Directors' remuneration (Note 6) | 2,234,473 | 2,104,095 | 132,000 | 132,000 |

Executive directors of the Group and the Company and other members of key management have been granted the following number of options under Employees' Share Options Scheme ("ESOS").

**Group and Company**

| | 2008 RM | 2007 RM |
|---|---|---|
| At 1 June | 11,608,000 | 3,240,000 |
| Granted | – | 8,448,000 |
| Exercised | (5,500,000) | (80,000) |
| Forfeited | (500,000) | – |
| At 31 May | 5,608,000 | 11,608,000 |

The share options were granted on the same terms and conditions as those offered to other employees of the Group (Note 29).

## 31. FINANCIAL INSTRUMENTS

### (a) Financial Risk Management Objectives and 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 their interest rate, foreign exchange, liquidity and credit 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.

## 31. FINANCIAL INSTRUMENTS (CONT'D)

### (b) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing financial assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-bearing financial assets are mainly short term in nature and have been mostly placed in fixed deposits or occasionally, in short term commercial papers.

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings at floating rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

The following tables set out the carrying amount, interest rates as at balance sheet date and the remaining maturities of the Group's financial instruments that are exposed to interest rate risk:

| | Notes | Interest rate % | Within 1 Year RM | 1 - 2 Years RM | Total RM |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **At 31 May 2008** | | | | | |
| **Fixed rate:** | | | | | |
| Other investments | 22 | 2.39 - 3.21 | 124,031 | – | 124,031 |
| Deposits with licensed banks | 23 | 3.00 - 3.40 | 4,679,703 | – | 4,679,703 |
| **Floating rate:** | | | | | |
| Other investments | 22 | 12.92 | – | 600,000 | 600,000 |
| **At 31 May 2007** | | | | | |
| **Fixed rate:** | | | | | |
| Other investments | 22 | 2.41 - 3.21 | 88,455 | – | 88,455 |
| Deposits with licensed banks | 23 | 2.80 - 3.00 | 7,683,071 | – | 7,683,071 |
| **Floating rate:** | | | | | |
| Other investments | 22 | 11.00 | – | 600,000 | 600,000 |
| **Company** | | | | | |
| **At 31 May 2008** | | | | | |
| **Fixed rate:** | | | | | |
| Other investments | 22 | 2.41-3.21 | 112,037 | – | 112,037 |
| **At 31 May 2007** | | | | | |
| **Fixed rate:** | | | | | |
| Other investments | 22 | 2.70 | 53,312 | – | 53,312 |

## 31. FINANCIAL INSTRUMENTS (CONT'D)

### (c) Foreign exchange risk

The Group is exposed to various currencies, mainly United States Dollar, Singapore Dollar, Pakistan Rupees, Sterling Pound and Hong Kong Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

The net unhedged financial assets and financial liabilities of the Group companies that are not denominated in their functional currencies are as follows:

| Functional Currency of Group Companies | Net financial assets/(liabilities) held in Non-functional currencies | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sterling Pound RM | Pakistan Rupees RM | Thai Baht RM | Hong Kong Dollar RM | United States Dollar RM | Singapore Dollar RM | Ringgit Malaysia RM | Total RM |
| **At 31 May 2008** | | | | | | | | |
| Renminbi | – | – | – | 2,579,351 | 1,289,899 | – | – | 3,869,250 |
| Pakistan Rupees | – | – | – | – | 309,237 | – | – | 309,237 |
| Ringgit Malaysia | (2,165) | (587,955) | 13,497 | (914,595) | 18,658,682 | (27,880) | – | 17,139,584 |
| | (2,165) | (587,955) | 13,497 | 1,664,756 | 20,257,818 | (27,880) | – | 21,318,071 |
| **At 31 May 2007** | | | | | | | | |
| Singapore Dollar | – | – | – | – | (893,214) | (12,770) | – | (905,984) |
| Ringgit Malaysia | – | – | – | – | – | – | 17,633 | 17,633 |
| | – | – | – | – | (893,214) | (12,770) | 17,633 | (888,351) |

### (d) Liquidity risk

The Group manages their 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 their overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet their working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to their overall debt position. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short-term funding so as to achieve overall cost effectiveness.

### (e) Credit risk

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

As at 31 May 2008, the Group and the Company have no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

## 31. FINANCIAL INSTRUMENTS (CONT'D)

### (e) Credit risk (cont'd)

The aggregate fair values of financial assets and financial liabilities which are not carried at fair value on the balance sheets of the Group as at the end of the financial year are represented as follows:

| | Notes | Group Carrying amount RM | Group Fair value RM |
|---|---|---|---|
| **Financial Assets** | | | |
| **At 31 May 2008** | | | |
| Other investments | 22 | 600,000 | 748,560 |
| **At 31 May 2007** | | | |
| Marketable securities | 21 | 1,266,329 | 1,266,329 |
| Other investments | 22 | 600,000 | 655,000 |

The method and assumptions used by management to determine fair values of financial instruments other than those whose carrying amounts reasonably approximate their fair values are as follow:

(i) Other investments

The fair value of other investments is determined by reference to the bank's offer prices for redemption at the close of the business on the balance sheet date.

(ii) Marketable securities

The fair value of quoted shares is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

## 32. CONTINGENT LIABILITIES (UNSECURED)

| | 2008 RM | 2007 RM |
|---|---|---|
| **Group** | | |
| Corporate guarantee given to suppliers for supply of services to subsidiaries | 7,651,181 | 1,249,648 |

## 33. SIGNIFICANT EVENTS

(1) On 31 July 2007, the Company announced the following proposals:

(a) a bonus issue of up to 138,600,000 new ordinary shares of RM0.10 each in REDtone International Berhad ("REDtone Shares") on the basis of 1 new REDtone Share for every 2 existing REDtone Shares held on an entitlement date to be determined later ("Proposed Bonus I");

(b) a special issue of up to 172,550,000 new REDtone Shares upon completion of the Proposed Bonus I, to Bumiputera investors to be approved by the Ministry of International Trade and Industry at an issue price to be determined later upon completion of the Proposed Bonus I ("Proposed Special Issue");

### 33. SIGNIFICANT EVENTS (CONT'D)

(c) a bonus issue of up to 235,340,000 new REDtone Shares on the basis of 2 new REDtone Shares for every 5 existing REDtone Shares held on an entitlement date to be determined later upon completion of the Proposed Special Issue;

(d) increase in the authorised share capital of the Company from RM30,000,000 comprising 300,000,000 million the REDtone Shares to RM100,000,000 comprising 1 billion the REDtone Shares by the creation of an additional 700,000,000 new the REDtone Shares prior to the implementation of the Proposed Bonus I;

(e) amendments to the Memorandum and Articles of Association of the Company: and

(f) transfer of the listing of and quotation for the entire issued and paid-up share capital of the Company upon completion of the Proposed Bonus II from the MESDAQ Market to the Main Board of Bursa Malaysia Securities Berhad.

On 31 October 2007, the Board of Directors of the Company announced that the Proposed Transfer Listing will be postponed until such time that the Group is able to meet the relevant profit requirements. On 7 August 2008, the Company announced that the Securities Commission has approved the Proposed Special Issue on 6 August 2008.

(2) REDtone Mobile Services Sdn Bhd (previously known as Jupitel Sdn Bhd) ("RMSSB") partnered Celcom (Malaysia) Bhd in a deal that will see RMSSB assuming the role of a mobile virtual network operator (MVNO) for enterprise customers in the postpaid segment.

(3) On 25 March 2008, the Company announced that the Company had ventured into hotel information and communications technology ("ICT") solutions in China. VMS Technology Limited ("VMS") and REDtone Telecommunications Sdn Bhd ("RTC"), wholly-owned subsidiaries of the Company had on 25 March 2008 entered into the following agreements:

(a) Business Agreement between VMS, Hotgate Holdings Ltd ("HHL"), Michael Yang Chee Hong ("MY"), Hotgate Technology (M) Sdn Bhd ("HTM"), Beijing Sino Zhaotong Public Information Network Development Co. Ltd ("CCPI"), Beijing Chenghuaitang Advertising Art Co Ltd, Ma Xiaotian, Hoon Heh, Song Lianyu and Suzhou Kangyu Communication Equipment Co. Ltd. (collectively known as "CCPI's Shareholders");

(b) BTB Agreement between VMS, CCPI and HTM; and

(c) Shareholders Agreement between HHL, MY, RTC, Pang Wee Tak, Alvin James and CCPI's Shareholders (collectively known as "Agreements")

In these Agreements, HHL shall acquire the entire issued and fully paid-up share capital of VMS from RTC for a total purchase consideration of USD300,000 satisfied by the issuance of 30,000,000 new ordinary shares of USD0.01 each in HHL. Thus, VMS shall cease to be a subsidiary of RIB.

(4) On 25 May 2008, the Company's wholly-owned subsidiary, REDtone Multimedia Sdn Bhd ("RMSB") entered into the Shareholders Agreement with Club Excellence (M) Sdn. Bhd. in respect of DE Multimedia Holding Sdn Bhd ("DMH") ("SA DMH"). Consequently, DMH entered into a shareholder agreement with Zhong Nan Enterprise Sdn. Bhd. in respect of DE Multimedia Sdn. Bhd. to jointly invest into DM for the purpose of venturing into the business of providing internet protocol television and internet protocol related business activities in Malaysia, Singapore, Indonesia, Thailand, Myanmar, Philippines, Cambodia, Vietnam and Taiwan.

(5) On 11 August 2008, the Company announced the completion of the reverse takeover of Hotgate Technology Inc. (formerly known as RNS Software Inc) ("HTI"), an Over the Counter Bulletin Board company in the United States by Hotgate Holding Limited. With the completion of the reverse takeover, REDtone Telecommunications Sdn Bhd, a wholly owned subsidiary of the Company now holds 19.5% shareholdings in HTI.

## 34. SUBSEQUENT EVENT

On 26 September 2008, the Company announced that its wholly owned subsidiary, REDtone Technology Sdn. Bhd., has entered into a share sales agreement with Yong Kok Leong ("YKL") for the disposal of 75% of shareholding in REDtone Sdn. Bhd. ("RSB") for a cash consideration of RM1.

## 35. COMPARATIVES

The presentation and classification of items in the current year financial statements have been consistent with the previous year except that certain comparative amount have been reclassified to conform with the current's year presentation.

## 36. SEGMENTAL INFORMATION

### (a) Reporting format

The primary segment reporting format is determined to be geographical segments as the Group's risks and rates of return are affected predominantly by differences in countries operated.

### (b) Business segments

As the Group operates primarily in the telecommunication business segment, no segmental information is prepared in respect of business segment.

### Geographical segment

| | ← Continuing operations → | | | | | | ← Discontinued operations → | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Malaysia RM | Singapore RM | People's Republic of China RM | Pakistan RM | Eliminations RM | Total RM | Malaysia RM | Hong Kong RM | Total RM | Total operations RM |
| **31 May 2008** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Sales to external customers | 79,192,850 | 622,920 | 25,109,699 | 5,073,724 | – | 109,999,193 | 6,067,088 | 4,681,184 | 10,748,272 | 120,747,465 |
| Inter-segment sales | 71,568,134 | 2,877,306 | – | 5,670,794 | (80,116,234) | – | – | – | – | – |
| Total revenue | 150,760,984 | 3,500,226 | 25,109,699 | 10,744,518 | (80,116,234) | 109,999,193 | 6,067,088 | 4,681,184 | 10,748,272 | 120,747,465 |
| **Results** | | | | | | | | | | |
| Segment results | (4,811,844) | (170,148) | 155,638 | (4,324,286) | 438,688 | (8,711,952) | 202,843 | 2,373,871 | 2,576,714 | (6,135,238) |
| Share of profit of associates | 141,258 | – | – | – | – | 141,258 | – | – | – | 141,258 |
| Share of loss of jointly controlled entities | (1,551) | – | – | – | – | (1,551) | – | – | – | (1,551) |
| (Loss)/profit before tax | | | | | | (8,572,245) | | | 2,576,714 | (5,995,531) |
| Income tax expense | | | | | | (971,130) | | | (38,646) | (1,009,776) |
| Net (loss)/profit for the year | | | | | | (9,543,375) | | | 2,538,068 | (7,005,307) |

## 36. SEGMENTAL INFORMATION (CONT'D)

### Geographical segment (cont'd)

| | Continuing operations | | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Malaysia RM | Singapore RM | People's Republic of China RM | Pakistan RM | Eliminations RM | Total RM | Malaysia RM | Hong Kong RM | Total RM | Total operations RM |
| **31 May 2008** | | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Segment assets | 238,075,267 | 13,884,885 | 31,889,884 | 12,192,140 | (192,471,282) | 103,570,894 | 4,525,292 | – | 4,525,292 | 108,096,186 |
| Investments in associates | 1,316,610 | – | – | – | – | 1,316,610 | – | – | – | 1,316,610 |
| Investments in jointly controlled entities | 1,492,248 | – | – | – | – | 1,492,248 | – | – | – | 1,492,248 |
| Total Assets | 240,884,125 | 13,884,885 | 31,889,884 | 12,192,140 | (192,471,282) | 106,379,752 | 4,525,292 | – | 4,525,292 | 110,905,044 |
| **Liabilities** | 145,714,316 | 15,689,938 | 11,587,111 | 23,092,562 | (157,023,439) | 39,060,488 | 818,591 | – | 818,591 | 39,879,079 |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure | 3,585,554 | 137,752 | 10,137,341 | 91,272 | – | 13,951,919 | 715,289 | 200,448 | 915,737 | 14,867,656 |
| Depreciation | 2,016,274 | 32,508 | 1,234,575 | 894,337 | (933,591) | 3,244,103 | 239,696 | 2,878 | 242,574 | 3,486,677 |
| Amortisation | 154,959 | – | – | 118,564 | – | 273,523 | – | – | – | 273,523 |
| Impairment losses recognised in profit or loss | 3,867,175 | 57,197 | – | – | – | 3,924,372 | – | – | – | 3,924,372 |

| | Continuing operations | | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Malaysia RM | Singapore RM | People's Republic of China RM | Pakistan RM | Eliminations RM | Total RM | Malaysia RM | Hong Kong RM | Total RM | Total operations RM |
| **31 May 2007** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Sales to external customers | 94,817,840 | 1,014,752 | 520,367 | 4,177,116 | – | 100,530,075 | 1,836,138 | 3,462,483 | 5,298,621 | 105,828,696 |
| Inter-segment sales | 46,679,247 | 3,613,458 | – | 6,862,094 | (57,154,799) | – | – | – | – | – |
| Total revenue | 141,497,087 | 4,628,210 | 520,367 | 11,039,210 | (57,154,799) | 100,530,075 | 1,836,138 | 3,462,483 | 5,298,621 | 105,828,696 |
| **Results** | | | | | | | | | | |
| Segment results | 9,801,078 | (810,141) | (2,569,579) | (1,220,223) | (1,822,568) | 3,378,567 | 340,507 | (252,522) | 87,985 | 3,466,552 |
| Share of loss of associates | (875,668) | – | – | – | – | (875,668) | – | – | – | (875,668) |
| Share of loss of jointly controlled entities | (6,201) | – | – | – | – | (6,201) | – | – | – | (6,201) |
| (Loss)/profit before tax | | | | | | 2,496,698 | | | 87,985 | 2,584,683 |
| Income tax benefit | | | | | | 2,330,179 | | | – | 2,330,179 |
| Net (loss)/profit for the year | | | | | | 4,826,877 | | | 87,985 | 4,914,862 |

## 36. SEGMENTAL INFORMATION (CONT'D)

### Geographical segment (cont'd)

| 31 May 2007 | Continuing operations Malaysia RM | Singapore RM | People's Republic of China RM | Pakistan RM | Eliminations RM | Total RM | Discontinued operations Malaysia RM | Hong Kong RM | Total RM | Total operations RM |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Segment assets | 239,991,762 | 17,236,883 | 29,975,730 | 12,509,197 | (201,598,265) | 98,115,307 | – | – | – | 98,115,307 |
| Investments in associates | 202,125 | – | – | – | – | 202,125 | – | – | – | 202,125 |
| Investments in jointly controlled entities | 1,493,799 | – | – | – | – | 1,493,799 | – | – | – | 1,493,799 |
| Total Assets | 241,687,686 | 17,236,883 | 29,975,730 | 12,509,197 | (201,598,265) | 99,811,231 | – | – | – | 99,811,231 |
| **Liabilities** | 144,346,239 | 18,761,790 | 22,945,386 | 20,502,289 | (177,128,140) | 29,427,564 | | | – | 29,427,564 |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure | 8,883,391 | 34,462 | 294,288 | 168,836 | – | 9,380,977 | – | – | – | 9,380,977 |
| Depreciation | 1,673,179 | 7,308 | 1,034,427 | 971,687 | (944,389) | 2,742,212 | 53,555 | 3,331 | 56,886 | 2,799,098 |
| Amortisation | 63,100 | – | – | 128,327 | – | 191,427 | – | – | – | 191,427 |
| Impairment losses recognised in profit or loss | 1,231,298 | – | – | – | – | 1,231,298 | – | – | – | 1,231,298 |

# List of Properties

| Beneficial owner/ Location | Description/ Existing Use | Land/ Built-Up Area (sq. meters) | Tenure Leasehold/ Freehold | Approx. Age of Building (Yrs) | Fair Value as at 31 May 2008 | Date of Valuation/ Effective Year of Purchase |
|---|---|---|---|---|---|---|
| RTC/ Unit No: T18/6F/BC6A (12), 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor | Office/ Occupied | N/A/ 89.37 square meters | Leasehold 99 years expiring on 22.11.2094 | 8 | RM120,998.98 | N/A/ 10 Feb 1999 |
| RTC/ Unit No: T19/6F/BC6B (13), 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor | Office/ Occupied | N/A/ 93.92 square meters | Leasehold 99 years expiring on 22.11.2094 | 8 | RM127,162.01 | N/A/ 10 Feb 1999 |
| RTC/ Unit No: T27/6F/BC6C (14), 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor | Office/ Occupied | N/A/ 113.90 square meters | Leasehold 99 years expiring on 22.11.2094 | 8 | RM154,207.78 | N/A/ 10 Feb 1999 |
| RTC/ Unit No: T32/6F/BC7A (16), 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor | Office/ Occupied | N/A/ 116.78 square meters | Leasehold 99 years expiring on 22.11.2094 | 8 | RM156,721.24 | N/A/ 10 Feb 1999 |
| RTC/ Unit No: 24, 25, 26, 27, 28, 29 & 30 5th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan | Office/ Occupied | N/A/ 1,143 square meters | Freehold | 9 | RM2,130,767.82 | N/A/ 1 Mar 2004 |
| RTC/ Unit No: 26 & 27 2nd, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan | Office/ Occupied | N/A/ 457.73 square meters | Freehold | 9 | RM1,099,706.60 | N/A/ 1 Mar 2005 |
| RTC/ Unit No: 23 4th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan | Office/ Occupied | N/A/ 119.66 square meters | Freehold | 9 | RM238,335.24 | N/A/ 28 Mar 2005 |

| Beneficial owner/ Location | Description/ Existing Use | Land/ Built-Up Area (sq. meters) | Tenure Leasehold/ Freehold | Approx. Age of Building (Yrs) | Fair Value as at 31 May 2008 | Date of Valuation/ Effective Year of Purchase |
|---|---|---|---|---|---|---|
| RTC/ Unit No: 24 4th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan | Office/ Occupied | N/A/ 145.49 square meters | Freehold | 9 | RM299,766.00 | N/A/ 21 June 2005 |
| RTC/ Unit No: 28 6th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan | Office/ Occupied | N/A/ 142.14 square meters | Freehold | 9 | RM300,485.83 | N/A/ 7 July 2005 |

# Analysis of Shareholdings
as at 26 September 2008

| | | |
|---|---|---|
| Authorised share capital | : | RM30,000,000 |
| Issued and paid-up share capital | : | RM25,764,500 |
| Class of Shares | : | Ordinary shares of RM0.10 each |
| Voting rights | : | One (1) vote per ordinary share |

| **Size of holdings** | **No. of Shareholders** | **% of Total Shareholders** | **No. of Shares Held** | **% of Issued Capital** |
|---|---|---|---|---|
| 1 – 99 shares | 52 | 1.20 | 2,412 | 0.00 |
| 100 – 1000 shares | 496 | 11.38 | 444,400 | 0.17 |
| 1,001 – 10,000 shares | 2,733 | 62.73 | 14,376,254 | 5.58 |
| 10,001 – 100,000 shares | 943 | 21.64 | 30,156,155 | 11.71 |
| 100,001 – 12,606,749 shares | 130 | 2.98 | 143,143,989 | 55.56 |
| 12,606,750 and above shares | 3 | 0.07 | 69,521,790 | 26.98 |
| TOTAL | 4,357 | 100.00 | 257,645,000 | 100.00 |

## THIRTY (30) LARGEST SHAREHOLDERS

| **No.** | **Name** | **No. of Shares Held** | **% of Issued Capital** |
|---|---|---|---|
| 1. | OSK Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Warisan Jutamas Sdn. Bhd.* | 25,200,000 | 9.78 |
| 2. | Lee Eng Sia | 22,624,221 | 8.78 |
| 3. | Hexarich Sdn Bhd | 21,697,569 | 8.42 |
| 4. | Selat Makmur Sdn Bhd | 12,800,000 | 4.97 |
| 5. | Kuok Brothers Sdn Bhd | 12,066,192 | 4.68 |
| 6. | Berjaya Sompo Insurance Bhd | 11,658,100 | 4.53 |
| 7. | John Chee Yong Tung | 11,365,485 | 4.41 |
| 8. | Delima Seraya Sdn Bhd | 9,562,700 | 3.71 |
| 9. | Choo Yeh Fung | 6,865,984 | 2.66 |
| 10. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>*CIMB Bank for Wei Chuan Beng (Retail Banking)* | 6,400,000 | 2.48 |
| 11. | Irene Chee Ai Lin | 5,831,500 | 2.26 |
| 12. | Wei Chuan Beng | 4,742,850 | 1.84 |
| 13. | Peter Yeow Heng Ho | 4,654,016 | 1.81 |
| 14. | Amanah Raya Nominees (Tempatan) Sdn Bhd<br>*Amanah Saham Wawasan 2020* | 3,903,200 | 1.52 |
| 15. | Permodalan Nasional Berhad | 3,312,900 | 1.29 |
| 16. | Zainal Amanshah Bin Zainal Arsahd | 2,975,179 | 1.15 |
| 17. | How Beik Tin | 2,761,000 | 1.07 |
| 18. | Juara Sejati Sdn Bhd | 2,550,000 | 0.99 |
| 19. | HSBC Nominees (Asing) Sdn Bhd<br>*Exempt An For Credit Suisse (SG BR-TST-ASING)* | 2,367,700 | 0.92 |
| 20. | Jason Tai Chen Hiung | 2,224,741 | 0.86 |
| 21. | Prime Credit Leasing Sdn Bhd | 2,000,000 | 0.78 |
| 22. | JF Apex Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Tiew Ming Ching (STA2)* | 1,950,894 | 0.76 |
| 23. | Sim Hock Meng (Shen Fuming) | 1,801,179 | 0.70 |
| 24. | Peter Yeow Heng Ho | 1,568,000 | 0.61 |
| 25. | Lee Eng Hock & Co. Sdn Bhd | 1,400,000 | 0.54 |
| 26. | Gaintique Sdn Bhd | 1,382,800 | 0.54 |
| 27. | Berjaya Sompo Insurance Bhd | 1,159,100 | 0.45 |
| 28. | Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd<br>*Pledged Securities Account for Fabulous Channel Sdn Bhd (AF0010)* | 1,000,000 | 0.39 |
| 29. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>*CIMB Bank for Lee Tuck Fook (MY0432)* | 900,000 | 0.35 |
| 30. | Jason Tai Chen Hiung | 815,000 | 0.32 |
| | **Total** | **189,540,310** | **73.57** |

# Analysis of Shareholdings
as at 26 September 2008

## SUBSTANTIAL SHAREHOLDERS

| No | Name | Direct Interest No. of Shares | Direct Interest % | Indirect Interest No. of Shares | Indirect Interest % |
|---|---|---|---|---|---|
| 1 | OSK Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Warisan Jutamas Sdn Bhd | 25,200,000 | 9.78 | – | – |
| 2 | Lee Eng Sia | 22,624,221 | 8.78 | – | – |
| 3 | Hexarich Sdn Bhd | 21,697,569 | 8.42 | – | – |
| 4 | Mohamed Shah bin Kadir | – | – | (1)25,200,000 | 9.78 |
| 5 | Abdul Karim bin Abdul Kadir | – | – | (1)25,200,000 | 9.78 |
| 6 | PPB Group Berhad | – | – | (2)21,697,569 | 8.42 |
| 7 | Kuok Brother Sdn Bhd | 12,066,192 | 4.68 | (3)23,300,369 | 9.04 |
| 8 | Wei Chuan Beng | 11,664,850 | 4.53 | (4)6,865,984 | 2.66 |
| 9 | Juara Sejati Sdn Bhd | 2,550,000 | 0.99 | (5)27,617,200 | 10.72 |
| 10 | Berjaya Capital Berhad | – | – | (6)14,817,200 | 5.75 |
| 11 | Bizurai Bijak (M) Sdn Bhd | – | – | (7)14,817,200 | 5.75 |
| 12 | Berjaya Group Berhad | – | – | (8)30,167,200 | 11.71 |
| 13 | Berjaya Corporation Berhad | – | – | (9)30,167,200 | 11.71 |
| 14 | Hotel Resort Enterprise Sdn Bhd | – | – | (10)30,167,200 | 11.71 |
| 15 | Tan Sri Dato' Seri Vincent Tan Chee Yioun | – | – | (10)30,167,200 | 11.71 |

***Notes:***

1 *Deemed interested by virtue of their interest in Warisan Jutamas Sdn Bhd pursuant to Section 6A of the Act.*
2 *Deemed interested by virtue of its interest in Hexarich Sdn Bhd pursuant to Secion 6A of the Act.*
3 *Deemed interested by virtue of its interest in Gaintique Sdn Bhd, Hexarich Sdn Bhd and Jerneh Asia Capital Sdn Bhd pursuant to Section 6A of the Act.*
4 *Deemed interested by virtue of the direct shareholdings of his spouse.*
5 *Deemed interested by virtue of its (i) deemed interest in Berjaya Capital Berhad, the holding company of Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd; and (ii) interest in Berjaya Land Berhad, the holding company of Selat Makmur Sdn Bhd.*
6 *Deemed interested by virtue of its interest in Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd.*
7 *Deemed interested by virtue of its deemed interest in Berjaya Capital Berhad, the holding company of Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd.*
8 *Deemed interested by virtue of its interest in Juara Sejati Sdn Bhd.*
9 *Deemed interested by virtue of its interest in Berjaya Group Berhad.*
10 *Deemed interested by virtue of their interests in Berjaya Corporation Berhad.*

## DIRECTORS' SHAREHOLDING

| Name | Direct No. of shares | Direct Percentage of share capital % | Indirect No. of shares | Indirect Percentage of share capital % |
|---|---|---|---|---|
| Dato' Larry Gan Nyap Liou | – | – | – | – |
| Wei Chuan Beng | 11,664,850 | 4.53 | (1)6,865,984 | 2.66 |
| Zainal Amanshah bin Zainah Arshad | 2,975,179 | 1.15 | (2)150,000 | 0.06 |
| Lau Bik Soon | 150,067 | 0.06 | – | – |
| Cheang Kwan Chow | – | – | – | – |
| Mathew Thomas A/L Vargis Mathews | – | – | – | – |
| Shaifubahrim bin Mohd Saleh | – | – | – | – |
| Dato' Suriah Abd Rahman | – | – | – | – |

***Notes:***

1 *Deemed interest by virtue of the direct shareholding of his wife, Choo Yeh Fung.*
2 *Deemed interest by virtue of the direct shareholding of his wife, Suryani Binti Ahmad Sarji.*

Changing Rules, Better Alternatives

**REDTONE INTERNATIONAL BERHAD**
(Company No. 596364-U)
(Incorporated in Malaysia)

## FORM OF PROXY
(before completing this Form of Proxy, please refer to the notes below)

I/We .............................................................................................................................................
(FULL NAME IN BLOCK LETTERS)

of .............................................................................................................................................
(FULL ADDRESS)

being a member of **REDtone International Berhad** ("the Company"), hereby appoint ................................................

.............................................................................................................................................
(FULL NAME IN BLOCK LETTERS)

of .............................................................................................................................................
(FULL ADDRESS)

or failing him/her .............................................................................................................................................
(FULL NAME IN BLOCK LETTERS)

of .............................................................................................................................................
(FULL ADDRESS)

as my/our proxy to attend and vote for me/us on my/our behalf at the Sixth Annual General Meeting of the Company to be held at The Ballroom, Mezzanine Level, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on **Monday, 10 November 2008 at 10.00 a.m.** and at any adjournment thereof and to vote as indicated below:

| NO | RESOLUTION | FOR | AGAINST |
|---|---|---|---|
| 1. | Adoption of Statutory Financial Statements for the financial year ended 31 May 2008 together with the Reports of the Directors and Auditors. | | |
| 2. | Approval of payment of the Directors' fees amounting to RM132,000 in respect of the financial year ended 31 May 2008. | | |
| 3. | Re-election of Mr. Mathew Thomas a/l Vargis Mathews, Director retiring in accordance with Article 85 of the Company's Articles of Association. | | |
| 4. | Re-election of En. Shaifubahrim bin Mohd Saleh, Director retiring in accordance with Article 85 of the Company's Articles of Association. | | |
| 5. | Re-election of Mr. Cheang Kwan Chow, Director retiring in accordance with Article 92 of the Company's Articles of Association. | | |
| 6. | Re-election of Mr. Lau Bik Soon, Director retiring in accordance with Article 92 of the Company's Articles of Association. | | |
| 7. | Re-election of Dato' Suriah Abd Rahman, Director retiring in accordance with Article 92 of the Company's Articles of Association. | | |
| 8. | Re-appointment of Messrs Ernst & Young as Auditors of the Company and fixing their remuneration. | | |
| 9. | Allotment of Share Pursuant to Section 132D of the Companies Act, 1965. | | |
| 10. | Proposed Issue of Options to Dato' Suriah Abd Rahman | | |

Please indicate with "X" how you wish your vote to be cast. Unless voting instructions are indicated in the space above, the proxy will vote or abstain from voting as he/she thinks fit.

Dated this....................day of......................... 2008

Number of shares held

............................................................
Signature of member/Common Seal

***Notes:***

1. *A member of the Company entitled to attend and vote at the above meeting is entitled to appoint not more than two (2) proxies to attend and vote at the same meeting and the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
2. *A proxy may but need not be a Member or a qualified legal practitioner or an approved company auditor or a person approved by the Registrar.*
3. *The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney authorized in writing or, if the appointer is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorized.*
4. *Where a member is an authorized nominee as defined under the Central Depositories Act, it may appoint one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.*
5. *The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a duly notarised certified copy of that power or authority, shall be deposited at the Registered Office of the Company at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in the instrument proposes to vote, and in the case of a poll, not less than forty-eight (48) hours before the time appointed for the taking of the poll, and in default, the instrument of proxy shall not be treated as valid.*

***Explanatory Notes on Special Business***

1. *Section 132D of the Companies Act, 1965*

   *In accordance with the Companies Act, 1965, the Directors would have to call a general meeting to approve the issue of new shares even though the number of shares involved is less than 10% of the issued capital. In order to avoid any delay and cost involved in convening such a general meeting, it is considered appropriate to seek the shareholders' approval for the Directors to issue shares in the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.*
2. *Proposed Issue of Option to Dato' Suriah Abd Rahman*

   *In accordance with the Listing Requirements of Bursa Malaysia Securities Bhd for the Mesdaq Market, to seek the shareholders' approval to enable Dato' Suriah Abd Rahman, an Independent Non-Executive Director to participate in the Employees' Share Option Scheme of the Company.*

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Stamp

**Company Secretary**
**REDtone International Berhad** (596364-U)
Level 18, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

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