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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the **Eighth Annual General Meeting** of the Company will be held at **The Ballroom, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur** on **Tuesday, 30 November 2010 at 9:30 a.m.** for the following purposes:

AGENDA

1. To receive the Statutory Financial Statements for the financial year ended 31 May 2010 together with the Reports of the Directors and Auditors thereon. **Resolution 1**
2. To approve the payment of Directors' fees amounting to RM244,500 in respect of the financial year ended 31 May 2010 (2009: RM154,500.00) **Resolution 2**
3. To re-elect the following Directors pursuant to Article 85 of the Company's Articles of Association and, being eligible, offered themselves for re-election:-
(i) Encik Zainal Amanshah Bin Zainal Arshad **Resolution 3**
(ii) Mr. Mathew Thomas A/L Vargis Mathews **Resolution 4**
4. To re-elect the following Directors pursuant to Article 92 of the Company's Articles of Association and, being eligible, offered themselves for re-election:-
(i) Dato' Ibrahim Bin Che Mat **Resolution 5**
(ii) Mr. Jagdish Singh Dhaliwal **Resolution 6**
5. To re-appoint Messrs Crowe Horwath as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 7**

AS SPECIAL BUSINESS:

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

6. **Authority to Issue Shares Pursuant to Section 132D of the Companies Act, 1965 ("the Act")** **Resolution 8**

"THAT subject always to the Act and the approvals of the regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Act 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 AGM of the Company."

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: 8 November 2010

Notice of Annual General Meeting

Notes:

- I) 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.
- II) 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.
- III) The instrument appointing a proxy shall be in writing under the hand of the appointer or of 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.
- IV) Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint one (1) proxy in respect of each Securities Account which it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- V) 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 not less than forty-eight (48) hours before the time 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:-

VI) Ordinary Resolution 8 - Section 132D of the Act

Proposed Resolution 8 is a renewal of the Section 132D mandate obtained from the Shareholders of the Company at the previous Annual General Meeting and, if passed, will give the Directors of the Company, from the date of the above Meeting, authority to allot and issue ordinary shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for purpose of acquiring assets which may be through joint-venture or in partnership with third parties and/or for such other purposes as the Directors consider would be in the interest of the Company. This authority will, unless revoked or varied by the Company in General Meeting, expire at the next Annual General Meeting.

Since the previous Annual General Meeting, there was no issuance of new ordinary shares by the Company pursuant to the Section 132D mandate and the Directors do not intend to utilise the Section 132D mandate from the date of issuance of this Annual Report up to the expiry date of the existing mandate.

Corporate Information

BOARD OF DIRECTORS

Dato' Ibrahim Bin Che Mat
(Chairman/Independent Non-Executive Director)

Wei Chuan Beng
(Managing Director)

Zainal Amanshah Bin Zainal Arshad
(Group Chief Executive Officer)

Lau Bik Soon
(Executive Director)

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

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

Jagdish Singh Dhaliwal
(Independent Non-Executive Director)

AUDIT COMMITTEE

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

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

Jagdish Singh Dhaliwal
(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.: 03-2773 9015
Website: www.redtone.com
E-mail: info@redtone.com

REGISTRAR

Tricor Investor Services 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' Suriah Abd Rahman
(Chairperson/Independent Non-Executive Director)

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

Jagdish Singh Dhaliwal
(Member/Independent Non-Executive Director)

REMUNERATION COMMITTEE

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

Wei Chuan Beng
(Member/Managing Director)

Jagdish Singh Dhaliwal
(Member/Independent Non-Executive Director)

AUDITORS

Crowe Horwath
Chartered Accountants

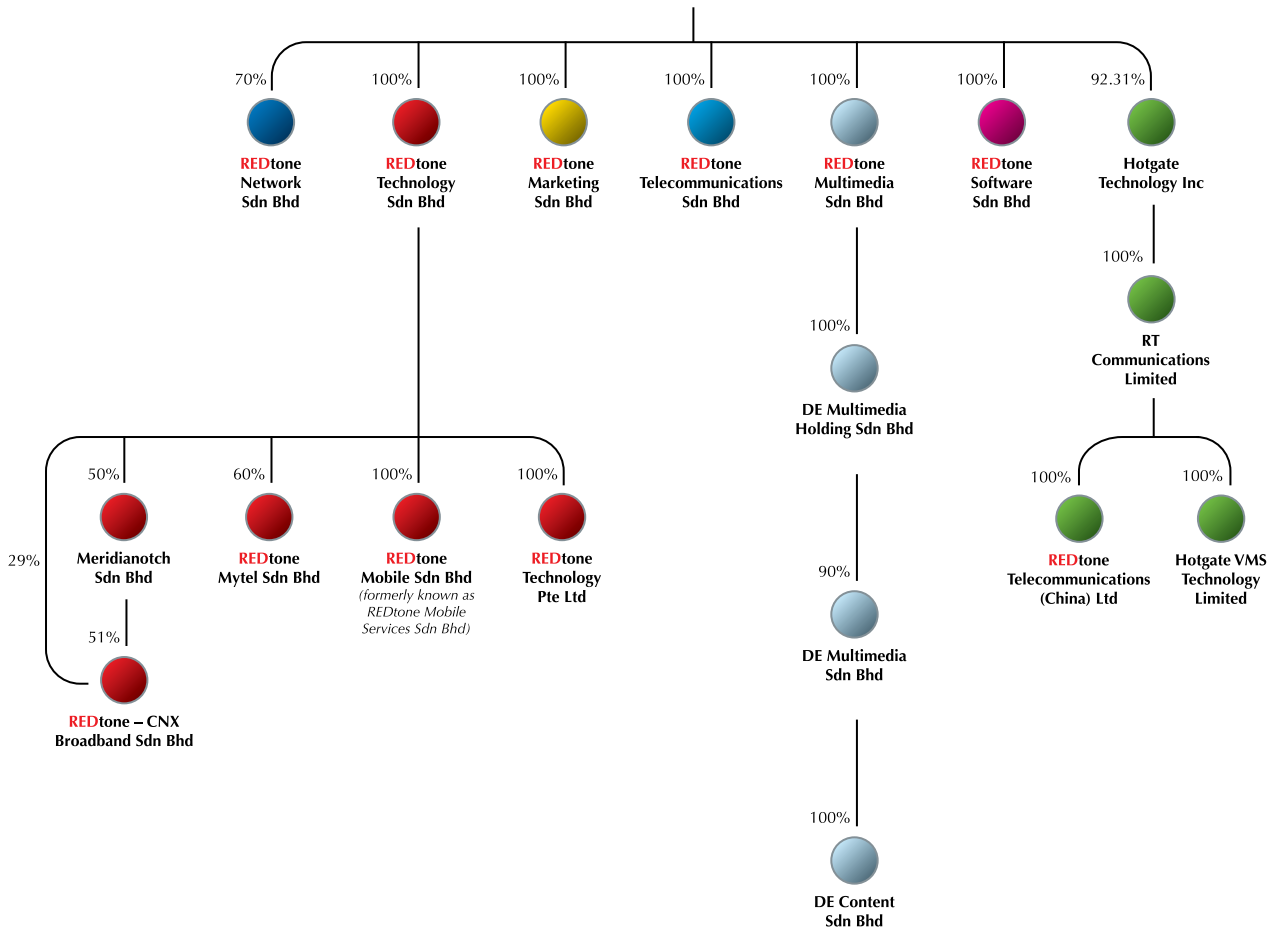
LISTING

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

Corporate Structure

as at 31 October 2010

REDtone REDTONE INTERNATIONAL BERHAD



Board of Directors



Dato' Ibrahim Bin Che Mat
(Chairman/Independent Non-Executive Director)



Wei Chuan Beng
(Managing Director)



**Zainal Amanshah Bin
Zainal Arshad**
(Group Chief Executive Officer)



Lau Bik Soon
(Executive Director)



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



Jagdish Singh Dhaliwal
(Independent Non-Executive Director)



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

Board of Directors' Profile

Dato' Ibrahim Bin Che Mat

(Chairman/Independent Non-Executive Director)

Dato' Ibrahim bin Che Mat, aged 69, a Malaysian, is the Chairman of the Company and was appointed to the Board of Directors of the Company on 1 November 2009. He obtained his Bachelor of Social Science degree from Universiti Sains Malaysia in 1979. He began his career as a school teacher in 1963 until 1982. From 1982 to 2005, he served as a political secretary and senior private secretary to the Ministers of various Government Ministries. He is also a leader in various co-operative societies including various societies for the youth.

He attended three (3) out of three (3) Board Meetings held during the financial year ended 31 May 2010.

Wei Chuan Beng

(Managing Director)

Wei Chuan Beng, aged 44, a Malaysian, is the Managing Director of REDtone and was appointed to the Board 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 information technology ("IT"), technical and customer relations and was subsequently promoted to Major Account Manager. Having gained the wide exposure in IT, electronics and telecommunications industry, he began his entrepreneur pursuit. He started REDtone Telecommunications Sdn Bhd in 1996 with two other partners. As one of the founding members of the REDtone 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. He started REDtone China in 2007. At present, he is the Chairman for PIKOM and the Chapter Chair person for the exclusive Young Presidents' Organisation (YPO).

Mr. Wei is also a member of Remuneration Committee of the Company.

He attended all six (6) Board Meetings held during the financial year ended 31 May 2010.

Zainal Amanshah Bin Zainal Arshad

(Group Chief Executive Officer)

En. Zainal Amanshah bin Zainal Arshad, aged 43, 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 Electronic Engineering from University of Kent, UK in 1989. Prior to joining REDtone, he worked for several local and multinational companies including Unisys Malaysia, 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 call centre solutions, system integration services and subsequently for the discounted call business for the Malaysian market. In his current role, he is developing new businesses and the government sector. He is currently a Director of the Malaysian Access Forum Berhad.

He attended all six (6) Board Meetings held during the financial year ended 31 May 2010.

Board of Directors' Profile

Lau Bik Soon

(Executive Director)

Mr. Lau Bik Soon, aged 39, 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 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 14 years' of experience in the ICT and Telecommunication 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.

He attended all six (6) Board Meetings held during the financial year ended 31 May 2010.

Mathew Thomas A/L Vargis Mathews

(Independent Non-Executive Director)

Mr. Mathew Thomas A/L Vargis Mathews, aged 55, 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 Association of Chartered Certified Accountants, UK. He began his career in a small audit practice and after qualifying, joined one of the big four accounting firms 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 and the Malaysian Institute of Taxation.

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

He attended all six (6) Board Meetings held during the financial year ended 31 May 2010.

Board of Directors' Profile

Dato' Suriah Abd Rahman

(Independent Non-Executive Director)

Dato' Suriah Abd Rahman, aged 60, 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, Universiti Putra Malaysia and MIMOS Berhad.

Dato' Suriah is the Chairperson of Nomination Committee and Remuneration Committee and a member of Audit Committee of the Company.

She attended five (5) out of six (6) Board Meetings held during the financial year ended 31 May 2010.

Jagdish Singh Dhaliwal

(Independent Non-Executive Director)

Mr. Jagdish Singh Dhaliwal, 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 1 May 2010. He is a Fellow of the Association of Chartered Certified Accountants and a member of the Malaysian Institute of Accountants. He began his career as a Managing Director at Nebpalm Ltd in 1975. From 1977 to 1978, he worked in various industries till 1979 when he was appointed as an Accountant/Chief Accountant in Malaysian Rubber Research & Development Board where he served till 1996. He was Financial Controller in Multimedia Development Corporation (MDec) from 1996 to 1999 and Vice President of MDec from 1999 to 2008.

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

He did not attend any Board Meetings held during the financial year ended 31 May 2010 as he was appointed to the Board of Directors on 1 May 2010.

Notes:

None of the Directors has:

- Family relationship with any Director and/or major shareholder of the Company.
- Conflict of interest with the Company.
- Conviction for offences within the past 10 years other than traffic offences.

Letter to Shareholders from the Chairman, Managing Director and Group CEO



“We have and will continue to strive for a balance between profitability and value creation to achieve short-term objectives while ensuring the business remains sustainable moving forward.”

Dear Shareholders

FINANCIAL REVIEW

This financial year, we continued to operate in a tough business environment. However, the strategies we implemented helped to ensure our revenue remained relatively unaffected despite the absence of Pakistan which we exited in the last financial year. Locally, the Data and Broadband segments continued to strengthen and together with consistent revenue stream from China, these helped to make up for the expected drop in Voice revenue. Thus, there was only a slight drop in revenue of 1.7% to RM78.07 million for the financial year ended May 31, 2010 from RM79.42 million in the previous year.

However, bad debts provision and write-off from an associate company contributed to a loss after tax of RM5.6 million. Other factors which led to the loss included our broadband WiMAX operations in East Malaysia where the infrastructure cost is three times higher than in the Peninsular and the market substantially smaller. Expenses were also incurred for a rights issue and further seeding in the Group’s IPTV (Internet Protocol Television) business.

BUSINESS OVERVIEW

We undertook a **rights issue** successfully raising RM40.612 million while minimizing the immediate dilution effect on the company’s earnings per share which would have risen from a full equity issue. Of the amount raised, RM23 million has been allocated to set-up the necessary infrastructure that is required to grow the company’s broadband business, while the balance was set aside to fund working capital and the expenses for the rights issue. During the year under review, we utilized RM1.15 million for working capital and rights issue expenses and invested RM8.34 million of the RM23 million capital expenditure reserved for broadband.

The broadband landscape was as exciting as it was challenging, especially in the home-users segment where consumers were enticed with many **broadband** packages that came with a host of benefits. As our strategy was to focus on the corporate and enterprise segments where we are strong in, we were able to further build our customer base in a less competitive environment. Our ability to use a suite of last-mile technologies such as satellite, Metro E, Microwave, 3G, Wi-Fi, wireless point-to-point and ADSL to offer customized solutions to multinational companies, large corporations, SMEs and SMIs showcased our expertise and R & D capabilities and helped REDtone to gain recognition as the ‘broadband expert for offices’.

However, without a nationwide licenced spectrum, we have yet to realize the full potential of our broadband capabilities.

Things were a bit different though in Sabah and Sarawak where challenges such as high rental cost, lengthy preparation processes and fragmented market areas affected our business performance. Nonetheless, we persevered and went on to deploy broadband WiMAX services in areas where there is a ready demand. We also see our presence in East Malaysia as supporting the government’s efforts to increase broadband penetration in the country.

The voice business, despite a drop in revenue and margins, continued to be the major contributor towards the Group’s revenue and bottomline. Though competition remained intense, our ability to offer what our customers need at fair pricing and, boosted by value-add solutions, high service level and our good track record since 1996 enabled us to retain majority of our post-paid business customers, many of whom have been with us for the last five to ten years.

Letter to Shareholders from the Chairman, Managing Director and Group CEO

We faced issues in the **MVNO** (mobile virtual network operator) segment which saw us continuing to work with our partner, Celcom, to further sharpen our offerings so that they remain appealing to our focused market segments.

On a brighter note, we were awarded a Content Applications Service Provider individual license from MCMC (Malaysian Communications and Multimedia Commission) and officially launched our **IPTV** service, DETV, in January 2010, making it the country's first. We ramped up our marketing efforts to build our subscriber base and further enhanced the content where there are now more than 30 channels covering an extensive range of topics from entertainment, education and news to documentaries.

In China, our prepaid discounted call services in Shanghai did quite well. The operations continued to generate cash with a customer base of approximately one million active users.

CORPORATE SOCIAL RESPONSIBILITY

We initiated "Connected 1Malaysia", a CSR programme designed to provide broadband access to under-served communities. The first beneficiaries were deserving residences in Kota Kinabalu, a project where we joined hands with several other parties.

PROSPECTS

Looking at the year ahead, while we expect numerous challenges, we are also optimistic on a few fronts and will work towards achieving these objectives:

To grow our broadband business

We are pleased to announce that MCMC has allocated us a 20MHz block on the 2.6GHz broadband wireless spectrum. This will enable us to further grow our broadband business and to roll out high-speed broadband services (ie LTE or long-term evolution and 4G) to our corporate and enterprise customers in the peninsula. We expect to commence trials over the frequency as soon as possible.

It is our aim to reshape the broadband landscape in as far as corporate and SME customers are concerned, like what we did with discounted call voice when we launched the services 14 years ago.

To grow the China business

Our Shanghai operations have started to offer prepaid value reloads for mobile users, an area which has enormous potential. This will help to make up for an anticipated decline in the voice business in China as it reaches maturity.

We have also initiated a reverse takeover of OTCBB (Over The Counter Bulletin Board) listed Hotgate Technology Inc. This will provide REDtone control of a listed entity and allow us to raise funds to further grow the China business.

To explore new media channels

Value-add services are crucial to our voice business and we will be exploring new media channels such as webcast and SMS cast to enhance our offerings.

Our Appreciation

To our shareholders, we thank you for your confidence in us and we would like to assure all of you that we remain committed to improve the Group's financial performance.

We would also like to express our gratitude to our colleagues, loyal customers and business associates for their continued trust, support and faith in us.

DATO' IBRAHIM CHE MAT
Chairman

WEI CHUAN BENG
Managing Director

ZAINAL AMANSHAH
Group CEO

Corporate Governance Statement

The Board of Directors (“Board”) of REDtone International Berhad appreciates the importance of embedding the highest standards of 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 also 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”).

The Board has adopted the Code as a fundamental guide to the discharge of its principal duty to act in the best interest of the Company as well as managing the business affairs of the Group effectively.

In the attainment of this purpose, the Board of Directors of REDtone International Berhad and its group of companies set out below the various concepts, principles and practices that were adopted with regard to their governance framework and the extent to which the Company has complied with the Best Practices of the Code throughout the financial year ended 31 May 2010.

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 comprised of members drawn from various professional backgrounds, bringing depth and diversity in experience, expertise and perspectives to the Group’s business operations. The Group recognises 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.

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 reserves to itself responsibility for the following matters:

- Reviewing and adopting a strategic business plan and direction for the Group.
- The approval of all investment and divestment proposals.
- The review and approval of all corporate plans, budgets and other significant matters of a financial nature.
- Human resource policies and processes involving the planning, appointing and training, including succession planning, for top management.
- Developing and implementing an effective public communications and investor relations policies and programmes 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.

Corporate Governance Statement

A. BOARD OF DIRECTORS (Cont'd)

Board Committees (Cont'd)

The abovementioned 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 Chairpersons 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 seven (7) Directors and the status of their directorship is as follows:

DIRECTORS	STATUS
Dato' Ibrahim bin Che Mat (Appointed on 1 November 2009) (Appointed as Chairman on 1 December 2009)	Non-Executive Independent
Dato' Larry Gan Nyap Liou @ Gan Nyap Liow (former Chairman) (Retired on 28 October 2009)	Non-Executive Independent
Mr. Wei Chuan Beng (Managing Director)	Executive Non-Independent
En. Zainal Amanshah bin Zainal Arshad (Group Chief Executive Officer)	Executive Non-Independent
Mr. Lau Bik Soon	Executive Non-Independent
Mr. Mathew Thomas a/l Vargis Mathews	Non-Executive Independent
Dato' Suriah Abd Rahman	Non-Executive Independent
Mr. Jagdish Singh Dhaliwal (Appointed on 1 May 2010)	Non-Executive Independent
En. Shaifubahrim bin Mohd Saleh (Resigned on 1 May 2010)	Non-Executive Independent

Dato' Larry Gan Nyap Liou @ Gan Nyap Liow, the former Chairman of the Company, had retired at the Annual General Meeting of the Company held on 28 October 2009.

Dato' Ibrahim bin Che Mat was appointed on 1 November 2009 as an Independent Non-Executive Director of the Company and was subsequently appointed as Chairman of the Board on 1 December 2009 in place of Dato' Larry Gan Nyap Liou @ Gan Nyap Liow.

En. Shaifubahrim bin Mohd Saleh, an Independent Non-Executive Director of the Company had resigned from the Board on 1 May 2010 and was replaced by Mr. Jagdish Singh Dhaliwal who was appointed as an Independent Non-Executive Director on the same date.

REDtone International Berhad complies with the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad with regard to board composition and the required ratio of independent directors. The profiles of the directors are set out on pages 7 to 9 of this Annual Report.

Corporate Governance Statement

A. BOARD OF DIRECTORS (Cont'd)

The roles of the Chairman and the Managing Director are segregated and clearly defined by their individual position descriptions. This division ensures there is always a clear and defined balance of power and authority.

The Chairman's main responsibility is to ensure effective conduct of the Board and that all Directors, both Executive and Non-Executive, have unrestricted and timely access to all relevant information necessary for informed decision making. Participation and deliberation by all Directors is encouraged to benefit from the experience of the Board members and to promote as far as possible consensus building.

The Managing Director has overall responsibilities over the Group's operational and day to day business management and is also empowered to implement all Board policies, directives, strategies and decisions. The Managing Director also acts as an intermediary between the Board and management.

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 for the time being or if their number is not three or multiple of three then the number nearest to one-third shall retire from office and be eligible 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.

Meetings

During the financial year ended 31 May 2010, the Board met on six (6) 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:

2009: July 23, September 10, October 22
2010: January 21, February 6, April 27

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

DIRECTORS	ATTENDANCE
Dato' Ibrahim bin Che Mat	3/3
Dato' Larry Gan Nyap Liou @ Gan Nyap Liow	3/3
Mr. Wei Chuan Beng	6/6
En. Zainal Amanshah bin Zainal Arshad	6/6
Mr. Lau Bik Soon	6/6
Mr. Mathew Thomas a/l Vargis Mathews	6/6
Dato' Suriah Abd Rahman	5/6
Mr. Jagdish Singh Dhaliwal	N/A
En. Shaifubahrim bin Mohd Saleh	4/6

Corporate Governance Statement

A. BOARD OF DIRECTORS (Cont'd)

Supply of Information

All members of the Board are supplied with information in a timely manner. Board reports and 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 the 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 Committee is also responsible on the evaluation of Directors' performance. Ultimate responsibility and final decisions on all matters, however, lies with the Board.

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

MEMBERS	ATTENDANCE
Dato' Suriah Abd Rahman – Chairperson	2/2
Dato' Larry Gan Nyap Liou @ Gan Nyap Liow	2/2
Mr. Mathew Thomas a/l Vargis Mathews	2/2
Mr. Jagdish Singh Dhaliwal	N/A
En. Shaifubahrim bin Mohd Saleh (Appointed on 1 November 2009 and resigned on 1 May 2010)	N/A

Dato' Suriah Abd Rahman was appointed Chairperson of the Nomination Committee on 1 November 2009, in place of Dato' Larry Gan Nyap Liou @ Gan Nyap Liow who retired on 28 October 2009.

Mr. Jagdish Singh Dhaliwal was appointed to the Nomination Committee on 1 May 2010.

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 a director. As at the end of the financial year under review, all directors have successfully completed the Mandatory Accreditation Programme. In addition, directors undergo continuous training to equip themselves with the necessary knowledge and to keep abreast with developments to effectively discharge their duties as a director.

The Board evaluates the training needs of its members on a continuous basis by identifying potential training that would strengthen and generally improve the contribution of the Board to the Group.

Corporate Governance Statement

A. BOARD OF DIRECTORS (Cont'd)

Directors' Training (Cont'd)

During the financial year under review, the Directors have attended and participated in various programmes and seminars 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 seminars attended by them individually or collectively are as follows:-

- Asia Oceania Regional Software Park Forum 2009
- Asia Telecommunications Forum 2009
- Briefing Session on the 10th Malaysian Plan
- ICT Focus Group and Broadband – Roundtable Discussion
- NIM Conference
- National Tax Conference
- The Non-Executive Director Development Series
- The 14th Malaysian Capital Market Summit 09
- 7th ASEAN Leadership Forum
- 12th Malaysia Strategy Outlook Conference 2010
- 2010 Budget Talk

B. DIRECTORS' REMUNERATION

Remuneration Committee

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

MEMBERS	ATTENDANCE
Dato' Suriah Abd Rahman-Chairperson	1/1
Dato' Larry Gan Nyap Liou @ Gan Nyap Liow	1/1
Mr. Wei Chuan Beng	N/A
Mr. Jagdish Singh Dhaliwal	N/A
En. Shaifubahrim bin Mohd Saleh	1/1

Dato' Suriah Abd Rahman was appointed Chairperson of the Remuneration Committee on 1 November 2009, in place of Dato' Larry Gan Nyap Liou @ Gan Nyap Liow who retired on 28 October 2009.

Mr. Wei Chuan Beng was appointed to the Remuneration Committee on 1 November 2009.

Mr. Jagdish Singh Dhaliwal was appointed to the Remuneration Committee on 1 May 2010 in place of En. Shaifubahrim bin Mohd Saleh who resigned on the same date.

The Committee is responsible for recommending the remuneration framework for executive 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.

Corporate Governance Statement

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	Executive Directors (RM)	Non-Executive Directors (RM)
Salaries	591,980	–
Benefits-in-Kind	–	–
Fees	–	244,500
Allowances	–	–

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	–	3
50,001 to 100,000	–	–
100,001 to 150,000	–	1
150,001 to 200,000	–	–
200,001 to 250,000	1	–
250,001 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. 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 Securities Berhad, in particular, the timely release of the quarterly results within two (2) months from the close of a particular quarter. Summaries of the quarterly and full year results and copies of the full announcements are supplied to shareholders and members of the public upon request. Members of the public can also obtain the full financial results and Company announcements from the Company and Bursa Malaysia Securities Berhad websites.

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

Corporate Governance Statement

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide a clear, 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 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.

The assessment of financial reporting is provided in this Annual Report through the Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 as set out on page 37 of this Annual Report.

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 of Internal Control furnished on pages 27 to 29 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 21 to 26 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 continued to be outsourced during the financial year under review to M/S 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 on pages 21 to 26 of this Annual Report.

E. STATEMENT OF COMPLIANCE

The Group has complied throughout the financial year ended 31 May 2010 with all the Best Practices of Corporate Governance set out in Part 2 of the Code.

Additional Compliance Information

Options, Warrants or Convertible Securities

During the financial year ended 31 May 2010, a total of 19,806,405 options were exercised pursuant to the Company's Employees' Share Option Scheme.

The Company undertook the issuance of 406,116,335 of 10 year 2.75% Irredeemable Convertible Unsecured Loan Stocks ("ICULS") together with 162,446,534 free detachable Warrants as follows:

ICULS

Issue Date	4 March 2010
Maturity Date	4 March 2020
Issue Size	RM40,611,633 nominal value of RM0.10 ICULS
Conversion Price	RM0.25

Warrants

Issue Date	4 March 2010
Maturity Date	4 March 2015
Issue Size	162,446,534 exercisable into 162,446,534 new ordinary shares
Exercise Price	RM0.25

The total number of ICULS converted in the financial year ended 31 May 2010 and number of ordinary shares issued are as follows:

No. of ICULS converted	63,827,400
No. of ordinary shares issued	25,530,960

There was no exercise of Warrants into ordinary shares during the financial year ended 31 May 2010.

The Company had on 1 April 2010 established a Loan Stocks & Warrants Committee to facilitate the conversion of ICULS and the exercise of Warrants to ordinary shares in the Company.

Utilisation of Proceeds raised from issuance of ICULS

Details of Utilisation	Approved Utilisation RM'000	Revised Utilisation RM'000	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Deviation
Capital expenditure	38,210	23,210	8,347	Within 3 years	NA
Working capital	1,802	16,802	693	Within 2 years	NA
Estimated expenses for rights issue	600	600	461	Within 1 year	NA
	<u>40,612</u>	<u>40,612</u>	<u>9,501</u>		

Non Audit Fees

The amount of non-audit fees paid to the external auditors by the Company for the financial year ended 31 May 2010 was RM26,250. (2009: RM16,300)

Recurrent Related Party Transactions ("RRPT")

The details of RRPT for the financial year under review are disclosed in Note 34 of the financial statements. The above related party transactions are of revenue or trading in nature and are entered into in the ordinary course of business and in accordance with the shareholders' mandate.

Additional Compliance Information

Revaluation of Landed Property

The Group has one property 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

The shareholders of the Company had approved the Renewal of Share Buy-Back Authority for the Company to purchase its own shares up to 10% of the issued and paid up capital of the Company pursuant to Section 67A of the Companies Act 1965 at the Seventh Annual General Meeting of the Company held on 28 October 2009.

During the financial year under review, the share buy-back transaction is as follows:

Month	No. of REDtone shares purchased and retained as Treasury Shares	Purchase price per share RM	Total consideration paid RM
February 2010	350,000	0.26	91,664

Sanctions and/or Penalties

In the financial year ended 31 May 2010, there were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by any regulatory body.

Variation in Profit Estimates, Forecasts, Projections or Unaudited Results

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 under review.

Profit Guarantees

There were no profit guarantees given by the Company during the financial year ended 31 May 2010.

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 ended 31 May 2009.

Depository Receipt ("DR") Programme

During the financial year under review, the Company did not sponsor any DR Programme.

Audit Committee Report

The Board of Directors of REDtone International Berhad is pleased to present the report on the Audit Committee of the Board for the financial year ended 31 May 2010.

OBJECTIVE

The Audit Committee was established to act as a Committee of the Board of Directors to fulfill its fiduciary responsibilities in accordance to the Audit Committee Charter of REDtone International Berhad and assist the Board 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 for compliance with applicable laws, regulations, rules, directives and guidelines.

TERMS OF REFERENCE

1.0 MEMBERSHIP

- 1.1 The Committee shall be appointed by the Board of Directors amongst the Directors of the Company which fulfils 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) years' 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 Association 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 Bursa Malaysia Securities Berhad. ("Bursa Securities")
- 1.2 The members of the Committee shall elect a Chairman from among themselves 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 of Bursa Securities pertaining to composition of audit committee, the Board of Directors shall within 3 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.
- 1.6 The internal audit function must be independent of the activities it audits and reports directly to the audit committee.

Audit Committee Report

2.0 MEETINGS

2.1 Frequency

- 2.1.1 Meetings shall be held at least four (4) times annually, or more frequently if circumstances so require the Committee to do so.
- 2.1.2 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.

2.2 Quorum

- 2.2.1 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.

2.3 Secretary

- 2.3.1 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.

2.4 Attendance

- 2.4.1 The Head of Finance Department and the Head of Internal Audit (where such a function exists) shall normally attend meetings.
- 2.4.2 Other directors, employees and a representative of the external auditors may attend any particular meeting only at the Committee's invitation, specific to the relevant meeting.

2.5 Reporting Procedure

- 2.5.1 The minutes of each meeting shall be circulated to all members of the Board.

2.6 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

3.0 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 auditors and person(s) carrying out the internal audit function or activity;
- (f) be able to obtain external independent professional advice 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.

4.0 FUNCTIONS

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

4.1 To review

- (a) the quarterly results 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 auditors:
 - (i) the audit plan;
 - (ii) his evaluation of the system of internal controls;
 - (iii) his audit report;
 - (iv) his management letter and management's response; and
 - (v) the assistance given by the Company's employees to the external auditors;

Audit Committee Report

4.0 FUNCTIONS (Cont'd)

- 4.2 To review the effectiveness of the internal control, management information system and management's risk management practices and procedures.
- 4.3 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 review any letter of resignation from the external auditors of the Company.
- 4.4 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 programme, processes, the results of the internal audit programme, 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 take cognizance of any resignations of internal audit staff member and provide the resigning staff member an opportunity to submit his reasons for resigning.
- 4.5 To promptly report such matter to Bursa Securities if the Committee is of the view that any matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements.
- 4.6 To carry out such other functions as may be agreed to by the Committee and the Board of Directors

Audit Committee Report

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

Mr. Mathew Thomas a/l Vargis Mathews - Chairman

Dato' Suriah Abd Rahman

Mr. Jagdish Singh Dhaliwal (Appointed on 1 May 2010)

En Shaifubahrim bin Mohd Saleh (Resigned on 1 May 2010)

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
Mr. Mathew Thomas a/l Vargis Mathews - Chairman	5/5
Dato' Suriah Abd Rahman	4/5
Mr. Jagdish Singh Dhaliwal	N/A
En. Shaifubahrim bin Mohd Saleh	5/5

The Audit Committee met on the following dates in the financial year under review:

2009: July 17, September 3 and October 15

2010: January 14 and April 19

The Company Secretary was present at all meetings.

Also attended by invitation were Senior Management and 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 Securities.
2. Deliberated on the re-appointment and fee payable to the External Auditors for the financial year ended 31 May 2009 before recommending to the Board of Directors for approval.
3. Reviewed the revised Terms of Reference of the Audit Committee.

Audit Committee Report

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE DURING THE FINANCIAL YEAR UNDER REVIEW (Cont'd)

4. Reviewed the Audit Planning Memorandum of the Group for the financial year ended 31 May 2010 with the External Auditors.
5. 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.
6. Reviewed the role and management of the internal audit function and the continued option to outsource the internal audit function in the financial year ended 31 May 2010.
7. Reviewed the internal audit findings and recommendations presented and the manner in which the issues raised by the internal auditor was subsequently resolved by management.
8. 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 Auditors 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.

To this end 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 compliance with the decision of the Audit Committee in the financial year under review, M/S Stanco & Ruche Consulting undertook four (4) operational compliance reviews as follows:

- Treasury Management;
- Other Assets Management;
- Liabilities and Contingencies Management; and
- Inventory Management

STATEMENT ON EMPLOYEE SHARE OPTION SCHEME BY THE COMMITTEE

The By-Laws governing the Company's Employee Share Option Scheme ("ESOS") was approved on 10 February 2006 for a duration of 4 (four) years commencing 15 February 2006. The Board of Directors and the Options Committee may extend the ESOS for another 6 (six) years upon expiry of the current validity period.

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.

The ESOS expired during the financial year and was not extended.

Breakdown of the options offered to and exercised by Non-Executive Directors pursuant to the Company's ESOS in respect of the financial year ended 31 May 2010 is as follows:-

Name of directors	Amount of options offered	Amount of options exercised
1. Mr. Mathew Thomas a/l Vargis Mathews	225,000	225,000
2. En. Shaifubahrim bin Mohd Saleh	135,000	135,000

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 ACE Market Listing Requirements of Bursa Malaysia Securities Berhad 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 this responsibility, hereby issues the following statement which is prepared in accordance with both 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 overall responsibility to maintain a sound system of internal controls to cover all aspects of the Group's business and to safeguard the interests of its shareholders. This responsibility requires Directors to establish procedures, controls and policies and to seek continuous assurance that the system is operating satisfactorily in respect of the strategic direction, financial, operational, compliance and risk management policies and procedures.

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. It should also be appreciated that the whole system of internal control is designed to manage and control risks appropriately rather than a definitive system designed for the total avoidance of risks or for eliminating the risk of failure.

The Board maintains full control over strategic, financial, organisational and compliance issues and has put in place an organization with formal lines of responsibility, clear segregation of duties and appropriate 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 as well as reviewing the adequacy and integrity of those systems.

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 in conjunction with the Statement of Internal Control: Guidance for Directors of Public Listed Companies.

There were no material joint ventures nor associated companies that have not been dealt with as part of the Group in applying the Group's Internal Control System.

3. CONTROL STRUCTURE & RISK MANAGEMENT FRAMEWORK

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

The Board fully supports the contents of the Statement of Internal Control: Guidance for Directors of Public Companies 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.

Statement of Internal Control

3. CONTROL STRUCTURE & RISK MANAGEMENT FRAMEWORK (Cont'd)

Management also acknowledges its responsibility 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. Acknowledging the need for an effective and independent Internal Audit function as an integral part of the control structure and risk management framework of the Group, the decision was taken to outsource the Internal Audit activity to a third party service provider.

The Board of Directors and Senior Management also recognise and acknowledge 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 management of the internal control environment and remain in compliance with the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad Listing requirements, the Company has appointed Messrs Stanco & Ruche Consulting to manage the Company's Internal Audit function on an outsourced basis and the cost incurred for the financial year ended 31 May 2010 was approximately RM60,000.

Stanco & Ruche Consulting reports independently and directly to the Audit Committee in respect of the Internal Audit function. The Audit Committee together with Stanco & Ruche Consulting agrees on the scope and planned Internal Audit activity annually and all audit findings arising there from are reported to the Audit Committee on a quarterly basis.

Stanco & Ruche Consulting is allowed complete and unrestricted access to all documents and records of the Group deemed necessary in the performance of its function and independently reviews the risk identification procedures and control processes implemented by management. 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 Stanco & Ruche Consulting carry out periodic assignments to ensure the policies and procedures established by the Board are complied with by management. All reports and findings arising from these reviews are discussed primarily with the respective process custodians prior to a formal report being presented to the Audit Committee.

As an additional function to the Group, Stanco & Ruche also provide business improvement recommendations for the consideration of management and the Board to assist in the continuous development of a more efficient and comprehensive internal control environment.

In the year under review, Stanco & Ruche Consulting undertook the following internal audit compliance reviews and the findings arising there from have been reported to management for their response and subsequently for Audit Committee deliberation.

- Treasury Management
- Other Assets Management
- Liabilities and Contingencies Management
- Inventory Management

Statement of Internal Control

5. OTHER KEY INTERNAL CONTROL ELEMENTS

- Clearly defined terms of reference, authorities and responsibilities of the various committees which include the Audit Committee, Nomination Committee and Remuneration Committee.
- Well defined organisational structure with clear lines for the segregation of duties, accountability and the 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 in advance to all Board members who are entitled to receive and access all necessary and relevant information. 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. The Audit Committee is also entitled to seek such other third party independent professional advice deemed necessary in the performance of its responsibility.
- 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.
- 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 professionalism and competency of staff are enhanced through a structured training and development program and potential candidates/entrants are subject to a stringent recruitment process. A performance management system is in place with established key performance indicators to measure and review staff performance on an annual basis.
- 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 1 October 2010

Name of Director	No. of Shares Held			
	Direct	%	Indirect	%
THE COMPANY				
Dato' Ibrahim bin Che Mat	-	-	-	-
Wei Chuan Beng	26,259,376	6.00	-	-
Zainal Amanshah bin Zainal Arshad	2,961,768	0.68	⁽²⁾ 93,902,291	21.46
Lau Bik Soon	2,196,600	0.50	-	-
Mathew Thomas A/L Vargis Mathews	225,000	0.05	-	-
Dato' Suriah Abd Rahman	-	-	-	-
Jagdish Singh Dhaliwal	50,000	0.01	-	-

Name of Director	No. of Shares Held			
	Direct	%	Indirect	%
SUBSIDIARY				
REDtone Network Sdn Bhd				
Zainal Amanshah bin Zainal Arshad	450,000	30.00	-	-

Name of Director	No. of Irredeemable Convertible Unsecured Loan Stocks 2010/2020 Held			
	Direct	%	Indirect	%
THE COMPANY				
Dato' Ibrahim bin Che Mat	-	-	-	-
Wei Chuan Beng	21,283,000	6.53	-	-
Zainal Amanshah bin Zainal Arshad	2,792,000	0.86	⁽²⁾ 93,812,291	28.77
Lau Bik Soon	511,900	0.16	-	-
Mathew Thomas A/L Vargis Mathews	225,000	0.07	-	-
Dato' Suriah Abd Rahman	-	-	-	-
Jagdish Singh Dhaliwal	-	-	-	-

Name of Director	No. of Warrants Held			
	Direct	%	Indirect	%
THE COMPANY				
Dato' Ibrahim bin Che Mat	-	-	-	-
Wei Chuan Beng	-	-	-	-
Zainal Amanshah bin Zainal Arshad	-	-	⁽²⁾ 37,440,916	23.05
Lau Bik Soon	104,760	0.06	-	-
Mathew Thomas A/L Vargis Mathews	90,000	0.06	-	-
Dato' Suriah Abd Rahman	-	-	-	-
Jagdish Singh Dhaliwal	-	-	-	-

Directors' Responsibility Statement

The Companies Act 1965 ("the Act") requires the Directors to present financial statements of REDtone International Berhad ("the Company") and its subsidiaries ("the Group") 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 ACE Market Listing Requirements of Bursa Malaysia Securities Berhad, the financial statements have been prepared in accordance with the Act and the MASB 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 the 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 also have a general responsibility for taking such steps as are 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 2010 as set out on pages 32 to 113 of this annual report.

Directors' Report

The directors present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 May 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of management services to its subsidiaries. The principal activities of the subsidiaries are as disclosed in Note 12 to the financial statements.

There have been no significant changes in the nature of the principal activities during the financial year.

RESULTS

	Group RM	Company RM
Loss for the year	(4,998,705)	(736,977)
Attributable to:		
Equity holders of the Company	(5,414,133)	(736,977)
Minority interests	415,428	-
	(4,998,705)	(736,977)

All material transfers to or from reserves or provisions during the financial year are 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 other than as disclosed in the notes to the financial statements.

DIVIDENDS

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

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' Ibrahim bin Che Mat (Appointed on 1.11.2009)

Wei Chuan Beng

Mathew Thomas A/L Vargis Mathews

Zainal Amanshah bin Zainal Arshad

Lau Bik Soon

Dato' Suriah Abd Rahman

Jagdish Singh Dhaliwal (Appointed on 1.5.2010)

Dato' Gan Nyap Liou @ Gan Nyap Liow (Retired on 28.10.2009)

Shaifubahrim bin Mohd Saleh (Resigned on 1.5.2010)

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 Option 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 34 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 debentures in the Company during the financial year were as follows:

	Number of ordinary shares of RM0.10 each			
	1 June 2009 or Date of Appointment	Acquired	Sold	31 May 2010
The Company				
Direct interests				
Wei Chuan Beng	17,571,525	1,500,00	(3,111,125)	15,960,400
Zainal Amanshah bin Zainal Arshad	2,641,768	4,000,000	(3,510,000)	3,131,768
Lau Bik Soon	225,100	2,867,500	(896,000)	2,196,600
Mathew Thomas A/L Vargis Mathews	–	225,000	–	225,000
Jagdish Singh Dhaliwal	50,000	–	–	50,000
Deemed interests				
Wei Chuan Beng *	10,298,976	–	–	10,298,976
Zainal Amanshah bin Zainal Arshad **	54,327,291	40,000,000	(425,000)	93,902,291

	Number of ordinary shares of RM0.10 each under option			31 May 2010
	1 June 2009	Exercised	Expired	
The Company				
Wei Chuan Beng	1,250,000	(500,000)	(750,000)	–
Zainal Amanshah bin Zainal Arshad	4,750,000	(4,000,000)	(750,000)	–
Mathew Thomas A/L Vargis Mathews	225,000	(225,000)	–	–
Lau Bik Soon	4,717,500	(2,867,500)	(1,850,000)	–

Directors' Report

DIRECTORS' INTERESTS (Cont'd)

	Number of ICULS of RM0.10 each			
	1 June 2009	Acquired	Sold	31 May 2010
The Company				
Direct interests				
Wei Chuan Beng	–	21,283,000	–	21,283,000
Zainal Amanshah bin Zainal Arshad	–	2,792,000	–	2,792,000
Mathew Thomas A/L Vargis Mathews	–	225,000	–	225,000
Lau Bik Soon	–	511,900	–	511,900
Deemed interest				
Zainal Amanshah bin Zainal Arshad **	–	93,812,291	–	93,812,291

	Number of warrants			
	1 June 2009	Acquired	Sold	31 May 2010
The Company				
Direct interests				
Wei Chuan Beng	–	8,513,200	(8,513,200)	–
Zainal Amanshah bin Zainal Arshad	–	1,116,800	(1,116,800)	–
Mathew Thomas A/L Vargis Mathews	–	90,000	–	90,000
Lau Bik Soon	–	204,760	–	204,760
Deemed interest				
Zainal Amanshah bin Zainal Arshad **	–	37,751,316	(310,400)	37,440,916

Note:

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

** Deemed interested by virtue of his interest in Indah Pusaka Sdn. Bhd. and the direct shareholding of his wife, Suryani Binti Ahmad Sarji.

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,

- (a) there were no changes in the authorised share capital of the Company;
- (b) the Company increased its issued and paid-up ordinary share capital from RM38,646,750 to RM43,180,487 by:
 - (i) the issuance of 25,530,960 new ordinary shares of RM0.10 each resulting from the conversion of 2.75% Irredeemable Convertible Unsecured Loan Stocks ("ICULS") at the rate of 10 RM0.10 nominal amount of ICULS into 4 fully paid up ordinary shares of RM0.10 each in the Company; and
 - (ii) the issuance of 19,806,405 new ordinary shares of RM0.10 each at prices ranging from RM0.14 to RM0.29 per share pursuant to the Company's Employees' Share Option Scheme ("ESOS").

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

- (c) there were no debentures issued by the Company.

TREASURY SHARES

As at 31 May 2010, the Company held as treasury shares a total of 350,000 out of its 431,804,865 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM91,664 and further relevant details are disclosed in Note 24 to the financial statements.

EMPLOYEES' SHARE OPTIONS SCHEME ("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 salient features, other terms of the ESOS and details of the share options granted during the financial year are disclosed in Note 31 to the financial statements.

The ESOS expired during the financial year and was not renewed or extended.

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

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 150,000 ordinary shares of RM0.10 each.

The following are names of employees who have been granted options to subscribe for 150,000 or more ordinary shares of RM0.10 each.

	Number of ordinary shares of RM0.10 each under option			31 May 2010
	1 June 2009	Granted	Exercised	
Jennifer Tan Bee Lian	–	680,000	(680,000)	–
Wong Swee Yen	–	680,000	(680,000)	–
Nagaratnam a/p Letchmanan	–	680,000	(680,000)	–

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 allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; 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) it necessary to further write off bad debts or increase the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company to any substantial extent; and
 - (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.

Directors' Report

OTHER STATUTORY INFORMATION (Cont'd)

- (d) 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.
- (e) In the opinion of the directors:
- (i) other than the contingent liabilities as disclosed in Note 36 to the financial statements, 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 DURING THE FINANCIAL YEAR

Details of the significant events during the financial year are disclosed in Note 37 to the financial statements.

SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

Details of the subsequent events after the balance sheet date are disclosed in Note 38 to the financial statements.

AUDITORS

The auditors, Messrs. Crowe Horwath (formerly known as Messrs. Horwath), have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 September 2010.

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 40 to 113 are 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 2010 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 24 September 2010

WEI CHUAN BENG

ZAINAL AMANSHAH BIN ZAINAL ARSHAD

Kuala Lumpur, Malaysia

Statutory declaration

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

I, Wong Thim Fatt, 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 40 to 113 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 above named Wong Thim Fatt at
Kuala Lumpur in the
Wilayah Persekutuan
on 24 September 2010

WONG THIM FATT

Before me,

KAPT (B) AFFANDI BIN AHMAD
No.: W602
COMMISSIONER OF OATHS

Independent Auditors' Report

to the Members of Redtone International Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Redtone International Berhad, which comprise the balance sheets as at 31 May 2010 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 financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 113.

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 judgement, 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of 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 of 31 May 2010 and of their financial performance and cash flows for the financial 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 the subsidiaries for which we have acted as auditors, have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 12 to the financial statements.

Independent Auditors' Report

to the Member of Redtone International Berhad

REPORT ON THE FINANCIAL STATEMENTS (Cont'd)

- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment 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.

CROWE HORWATH
Firm No: AF 1018
Chartered Accountants

JAMES CHAN KUAN CHEE
Approval No: 2271/10/11 (J)
Chartered Accountant

Kuala Lumpur
24 September 2010

Income statements

For the year ended 31 May 2010

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Continuing operations					
Revenue	3	82,211,459	79,417,968	-	-
Other income	4	2,389,969	1,536,149	1,261,043	1,380
Call bandwidth cost		(40,857,140)	(47,368,847)	-	-
Changes in inventories of trading goods		(458,837)	103,898	-	-
Depreciation of property, plant and equipment		(3,777,526)	(3,120,132)	(91)	(91)
Employee benefits expense	5	(11,494,706)	(16,757,897)	(268,477)	(226,493)
Gain on disposal of subsidiaries	12(c)	-	4,406,839	-	-
Materials and consumables used		(4,715,283)	(5,306,308)	-	-
Sales commissions and incentives		(5,513,832)	(4,348,501)	-	-
Universal Service Provision fund contribution		(822,906)	(818,897)	-	-
Other expenses		(19,094,899)	(9,334,284)	(1,442,119)	(1,016,968)
Operating loss		(2,133,701)	(1,590,012)	(449,644)	(1,242,172)
Share of loss in associates		(788,488)	(716,517)	-	-
Share of loss in jointly controlled entities		(1,491,641)	(607)	-	-
Loss before tax	7	(4,413,830)	(2,307,136)	(449,644)	(1,242,172)
Income tax (expense)/benefit	8	(584,875)	(154,220)	(287,333)	68
Loss for the year from continuing operations		(4,998,705)	(2,461,356)	(736,977)	(1,242,104)

The accompanying notes form an integral part of the financial statements.

Income statements

For the year ended 31 May 2010 (Cont'd)

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Continuing operations					
Loss for the year from continuing operations		(4,998,705)	(2,461,356)	(736,977)	(1,242,104)
Discontinued operations					
Loss after tax for the year from discontinued operations	9	–	(4,488,478)	–	–
Loss for the year		(4,998,705)	(6,949,834)	(736,977)	(1,242,104)
Attributable to:					
Equity holders of the Company		(5,414,133)	(5,982,861)	(736,977)	(1,242,104)
Minority interests		415,428	(966,973)	–	–
		(4,998,705)	(6,949,834)	(736,977)	(1,242,104)
Loss per share (LPS) attributable to equity holders of the Company (sen):					
Basic LPS					
- continuing operations	10(a)	(1.4)	(0.5)	–	–
- discontinuing operations	10(a)	–	(1.4)	–	–
- for the year	10(a)	(1.4)	(1.9)	–	–

The accompanying notes form an integral part of the financial statements.

Balance Sheets

as at 31 May 2010

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
ASSETS					
Non-current assets					
Property, plant and equipment	11	32,180,575	25,549,126	379	470
Investment in subsidiaries	12	–	–	5,707,189	6,262,580
Investment in associates	13	230,962	1,019,450	–	–
Investment in a jointly controlled entity	14	–	1,491,641	–	–
Investment property	15	870,000	870,000	–	–
Intangible assets	16	21,609,681	16,418,065	–	–
Deferred tax assets	17	4,930,201	3,528,872	1,401,329	–
Other receivables	18	–	789,690	–	–
		59,821,419	49,666,844	7,108,897	6,263,050
Current assets					
Inventories	19	1,998,312	2,642,000	–	–
Trade and other receivables	18	42,783,796	38,214,243	80,546,668	38,240,959
Tax recoverable		430,497	847,855	200	480
Other investments	20	1,342,980	8,629	1,065	1,065
Cash and bank balances	21	53,773,759	27,135,765	24,547,927	108
		100,329,344	68,848,492	105,095,860	38,242,612
TOTAL ASSETS		160,150,763	118,515,336	112,204,757	44,505,662

The accompanying notes form an integral part of the financial statements.

Balance Sheets

as at 31 May 2010 (Cont'd)

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	22	43,180,487	38,646,750	43,180,487	38,646,750
Share premium	22	9,342,028	6,396,054	9,342,028	6,396,054
Other reserves	23	(140,477)	2,620,916	-	1,774,529
Treasury shares	24	(91,664)	-	(91,664)	-
Irredeemable Convertible Unsecured Loan Stocks ("ICULS")	25	13,665,772	-	13,665,772	-
Warrants reserve	26	19,331,138	-	19,331,138	-
Retained earnings/ (Accumulated losses)		7,524,717	12,303,201	(3,133,964)	(2,396,987)
Total equity		92,812,001	59,966,921	82,293,797	44,420,346
Minority interests		475,479	5,455,135	-	-
Total equity		93,287,480	65,422,056	82,293,797	44,420,346
Non-current liabilities					
ICULS	25	5,605,316	-	5,605,316	-
Deferred tax liabilities	17	2,496	2,496	-	-
Borrowings	27	4,510,259	2,853,469	-	-
		10,118,071	2,855,965	5,605,316	-
Current liabilities					
Deferred income	28	9,449,699	11,477,826	-	-
Trade and other payables	29	39,006,170	37,694,642	24,305,644	85,316
Current tax payable		267,543	-	-	-
Bank overdraft	30	4,828,699	-	-	-
Borrowings	27	3,193,101	1,064,847	-	-
		56,745,212	50,237,315	24,305,644	85,316
Total liabilities		66,863,283	53,093,280	29,910,960	85,316
TOTAL EQUITY AND LIABILITIES		160,150,763	118,515,336	112,204,757	44,505,662

The accompanying notes form an integral part of the financial statements.

Statements of changes in equity

For the year ended 31 May 2010

Group	←----- Attributable to Equity Holders of the Company ----->						
	Share capital (Note 22)	Non-distributable Share premium (Note 22)	Distributable Other reserves (Note 23)	Retained earnings	Total	Minority interests	Total equity
	RM	RM	RM	RM	RM	RM	RM
At 1 June 2008	25,764,500	19,278,304	1,955,654	18,286,062	65,284,520	5,741,445	71,025,965
Foreign currency translation, representing net income recognised directly in equity	-	-	(712,506)	-	(712,506)	484,916	(227,590)
Loss for the year	-	-	-	(5,982,861)	(5,982,861)	(966,973)	(6,949,834)
Total recognised income and expense for the year	-	-	(712,506)	(5,982,861)	(6,695,367)	(482,057)	(7,177,424)
Contribution to share capital of subsidiaries by minority interests	-	-	-	-	-	538,901	538,901
Issuance of ordinary shares, pursuant to bonus issue	12,882,250	(12,882,250)	-	-	-	-	-
Share options granted under ESOS, recognised in the income statement	-	-	1,034,614	-	1,034,614	-	1,034,614
Accretion arising from disposal of stake to non-controlling interest	-	-	343,154	-	343,154	(343,154)	-
At 31 May 2009	38,646,750	6,396,054	2,620,916	12,303,201	59,966,921	5,455,135	65,422,056

The accompanying notes form an integral part of the financial statements.

Statements of changes in equity

For the year ended 31 May 2010 (Cont'd)

Group	Attributable to Equity Holders of the Company										
	Non-distributable						Distributable		Total	Minority interests	Total equity
	Share capital (Note 22)	Share premium (Note 22)	Other reserves (Note 23)	Treasury shares (Note 24)	ICULS (Note 25)	Warrants reserve (Note 26)	Retained earnings	RM			
At 1 June 2009	38,646,750	6,396,054	2,620,916	-	-	-	12,303,201	59,966,921	5,455,135	65,422,056	
Foreign currency translation, net expense recognised directly in equity	-	-	(986,864)	-	-	-	-	(986,864)	(98,531)	(1,085,395)	
Loss for the year	-	-	-	-	-	-	(5,414,133)	(5,414,133)	415,428	(4,998,705)	
Total recognised income and expense for the year	-	-	(986,864)	-	-	-	(5,414,133)	(6,400,997)	316,897	(6,084,100)	
Treasury shares acquired	-	-	-	(91,664)	-	-	-	(91,664)	-	(91,664)	
Acquisition of remaining equity in subsidiaries from minority interests	-	-	-	-	-	-	-	-	(5,296,553)	(5,296,553)	
Share options granted under ESOS, recognised in the income statement	-	-	80,258	-	-	-	-	80,258	-	80,258	
Issuance of ICULS, net of tax	-	-	-	-	16,214,515	-	-	16,214,515	-	16,214,515	
Issuance of warrants	-	-	-	-	-	19,331,138	-	19,331,138	-	19,331,138	
Issuance of ordinary shares, pursuant to conversion of ICULS	2,553,096	-	-	-	(2,548,743)	-	-	4,353	-	4,353	
Issuance of ordinary shares, pursuant to exercise of ESOS	1,980,641	2,945,974	(1,219,138)	-	-	-	-	3,707,477	-	3,707,477	
Expiry of ESOS	-	-	(635,649)	-	-	-	635,649	-	-	-	
At 31 May 2010	43,180,487	9,342,028	(140,477)	(91,664)	13,665,772	19,331,138	7,524,717	92,812,001	475,479	93,287,480	

The accompanying notes form an integral part of the financial statements.

Statements of changes in equity

For the year ended 31 May 2010 (Cont'd)

Company	Share capital	Non-distributable		Accumulated losses	Total equity
	(Note 22) RM	Share premium (Note 22) RM	Other reserves (Note 23) RM	RM	RM
At 1 June 2008	25,764,500	19,278,304	739,915	(1,154,883)	44,627,836
Loss for the year, representing total recognised income and expense for the year	-	-	-	(1,242,104)	(1,242,104)
Issuance of ordinary shares, pursuant to bonus issue	12,882,250	(12,882,250)	-	-	-
Share options granted under ESOS included in investments in subsidiaries	-	-	1,034,614	-	1,034,614
At 31 May 2009	38,646,750	6,396,054	1,774,529	(2,396,987)	44,420,346

Company	Non-distributable						Accumulated losses RM	Total equity RM
	Share capital (Note 22) RM	Share premium (Note 22) RM	Other reserves (Note 23) RM	Treasury shares (Note 24) RM	ICULS (Note 25) RM	Warrants reserve (Note 26) RM		
At 1 June 2009	38,646,750	6,396,054	1,774,529	-	-	-	(2,396,987)	44,420,346
Loss for the year, representing total recognised income and expense for the year	-	-	-	-	-	-	(736,977)	(736,977)
Treasury shares acquired	-	-	-	(91,664)	-	-	-	(91,664)
Share options granted under ESOS included in investments in a subsidiary	-	-	80,258	-	-	-	-	80,258
Issuance of ICULS, net of tax	-	-	-	-	16,214,515	-	-	16,214,515
Issuance of warrant	-	-	-	-	-	19,331,138	-	19,331,138
Issuance of ordinary shares, pursuant to conversion of ICULS	2,553,096	-	-	-	(2,548,743)	-	-	4,353
Issuance of ordinary shares, pursuant to exercise of ESOS	1,980,641	2,945,974	(1,219,138)	-	-	-	-	3,707,477
Expiry of ESOS	-	-	(635,649)	-	-	-	-	(635,649)
At 31 May 2010	43,180,487	9,342,028	-	(91,664)	13,665,772	19,331,138	(3,133,964)	82,293,797

The accompanying notes form an integral part of the financial statements.

Cash Flow Statements

For the year ended 31 May 2010

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Cash Flows From operating activities					
Loss before tax from:					
Continuing operations		(4,413,830)	(2,307,136)	(449,644)	(1,242,172)
Discontinued operations		–	(4,488,478)	–	–
Adjustments for:					
Amortisation of intangible assets	7	1,826,421	116,399	–	–
Bad debts written off (Note 7 and 9 (ii))		366,867	4,069,118	–	–
Depreciation of property, plant and equipment	11	3,777,526	3,475,152	91	91
Deposits written off		–	146,970	–	–
Fair value adjustment for investment property	4	–	(80,000)	–	–
Gain on disposal of subsidiaries		–	(4,406,839)	–	–
Net gain on conversion of ICULS	4	(1,057,241)	–	(1,057,241)	–
Loss on disposal of property, plant and equipment	7	11,236	2,407	–	–
Intangible assets written off	16	–	678,091	–	–
Interest income (Note 4, 9 (i) and 9 (ii))	4	(502,685)	(325,749)	(199,448)	(1,380)
Interest expense	7	458,110	24,384	147,591	–
Inventories written off	7	115,766	136,842	–	–
Property, plant and equipment written off	7	–	441,470	–	–
Universal Service Provision fund contribution		858,350	2,729,475	–	–
Allowance for doubtful debts	7	4,387,801	455,500	–	–
Share of loss in associates		788,488	716,517	–	–
Share of loss in jointly controlled entity		1,491,641	607	–	–
Share options granted under ESOS	5	80,258	1,034,614	–	–
Writeback of allowance for doubtful debts	7	(42,534)	–	–	–
Short-term accumulating compensated absences	5	13,924	(32,103)	–	–
Unrealised foreign exchange loss (Note 7 and 9 (ii))		396,024	138,316	–	–
Gain arising from deemed disposal of investment in a subsidiary	4	–	(116,110)	–	–
Gain arising from deemed disposal of investment in associate	4	–	(419,357)	–	–
Waiver of debt	4	–	(302,791)	–	–
Operating profit/(loss) before working capital changes		8,556,122	1,687,299	(1,558,651)	(1,243,461)

The accompanying notes form an integral part of the financial statements.

Cash Flow Statements

For the year ended 31 May 2010 (Cont'd)

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Cash flows from operating activities (Cont'd)					
Operating profit/(loss) before working capital changes		8,556,122	1,687,299	(1,558,651)	(1,243,461)
Decrease/(Increase) in inventories		528,085	(682,254)	-	-
(Increase)/Decrease in trade and other receivables		(8,334,734)	(24,560,283)	(42,305,709)	1,090,278
(Decrease)/Increase in trade and other payables		(962,301)	23,832,158	23,985,004	41,243
Cash (used in)/generated from operations		(212,828)	276,920	(19,879,356)	(111,940)
Interest paid		(310,519)	-	-	-
Taxes refunded/(paid)		385,029	(565,159)	280	(412)
Net cash generated used in operating activities		(138,318)	(288,239)	(19,879,076)	(112,352)
Cash flows from investing activities					
Net cash outflow on subscription of shares of existing subsidiaries		(8,981,000)	-	-	-
Interest income received		502,685	325,749	199,448	1,380
Acquisition of subsidiaries, net of cash and cash equivalents	12(b)	-	558,425	-	-
Proceeds from disposal of property, plant and equipment		385,023	7,679	-	-
Proceeds from disposal of an unquoted investment		167,000	-	-	-
Net proceeds from disposal of subsidiaries, net of cash and cash equivalents	12(c)	-	9,134,341	-	-
Purchase of property, plant and equipment	33	(6,611,056)	(4,036,695)	-	-
Purchase of an unquoted investment		(2,000,000)	-	-	-
Expenditure of intangible assets		(3,804,871)	(3,676,828)	-	-
Net cash (used in)/generated from investing activities		(20,342,219)	2,312,671	199,448	1,380

The accompanying notes form an integral part of the financial statements.

Cash Flow Statements

For the year ended 31 May 2010 (Cont'd)

	Note	Group		Company	
		2010 RM	2009 RM	2010 RM	2009 RM
Cash flows from financing activities					
Cash received from disposal of other investments		-	600,000	-	-
Cash (paid)/received from minority interests		(98,534)	655,011	-	-
Treasury shares acquired		(91,664)	-	(91,664)	-
Proceeds from issuance of ICULS and warrants		40,611,634	-	40,611,634	-
Proceeds from exercise of ESOS		3,707,477	-	3,707,477	-
Proceeds from term loan		1,128,000	1,050,000	-	-
Repayment of hire purchase payables		(11,152)	-	-	-
Repayment of term loans		(94,801)	-	-	-
Repayment of finance lease payables		(2,034,904)	(193,108)	-	-
Net cash generated from financing activities		43,116,056	2,111,903	44,227,447	-
Net increase/(decrease) in cash and cash equivalents		22,635,519	4,136,335	24,547,819	(110,972)
Effects of exchange rate changes		(825,873)	1,946,476	-	-
Cash and cash equivalents at beginning of year		27,144,216	21,061,405	1,173	112,145
Cash and cash equivalents at end of year		48,953,862	27,144,216	24,548,992	1,173

Cash and cash equivalents comprise:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Other investments (Note 20)	8,802	8,451	1,065	1,065
Cash on hand and at bank (Note 21)	41,281,531	21,856,436	24,547,927	108
Deposits with licensed banks (Note 21)	12,492,228	5,279,329	-	-
Bank overdraft (Note 30)	(4,828,699)	-	-	-
	48,953,862	27,144,216	24,548,992	1,173

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

31 May 2010

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the ACE Market of Bursa Malaysia Securities Berhad. The principal place of business of the Company is located at Suites 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 to its subsidiaries. The principal activities of the subsidiaries are as disclosed under Note 12 to the financial statements. There have been no significant changes in the nature of the principal activities during the year then ended.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 September 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Financial Reporting Standards ("FRS") and the Companies Act 1965 in Malaysia.

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 any impairment losses. On disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in the income statement.

(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 unless costs cannot be recovered. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events 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)

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 business combination 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 business combination is recognised immediately in the income statement.

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 having control or joint control over those policy decisions.

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 income statements. 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.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(b) Associates (Cont'd)

The most recent available management accounts and audited 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 any impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amount is included in the income statement.

(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) to the financial statements.

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

On the disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in the income statement.

(d) Intangible assets

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the 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 disposed.

(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 represents 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, which are 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 but 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 initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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, fittings and office equipment	10%
Equipment, plant and machinery	10% - 20%
Renovation	10%
Motor vehicles	20%

The assets in progress are stated at cost and will be transferred to the relevant category of long-term assets and depreciated accordingly when the assets are completed and ready for their intended use.

Notes to the Financial Statements

31 May 2010

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 the income statement.

(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 the income statement 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 the income statement in the year in which they arise.

(g) Impairment of non-financial assets

The carrying amounts of assets, other than those to which FRS 136 - Impairment of Assets does not apply, 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, the 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, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. 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 the income statement 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 income statement.

(h) Inventories

Inventories which consist of trading goods are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business less 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

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(i) Financial instruments (Cont'd)

(ii) *Other non-current liabilities*

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

(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 the income statement. On the disposal of marketable securities, the differences between the net disposal proceeds and the carrying amount is recognised in the income statement.

(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 instruments*

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.

(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 building elements of a lease of land and buildings are considered separately for the purpose 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 terms 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. 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 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 or substantively 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 excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs 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 income statement 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.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(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.

(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 contribution plans

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 Employees' 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 presented in 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 from the settlement of monetary items, and on the translation of monetary items, are included in the income statement 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 the income statement. 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 the income statement for the period. Exchange differences arising from 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 the Company's income statement or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising from the translation of non-monetary items carried at fair value are included in the income statement for the period except for the differences arising from 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.

(iii) *Foreign operations*

The results and financial position of foreign operations that have a functional currency which is 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.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(n) Foreign currencies (Cont'd)

(iii) Foreign operations (Cont'd)

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) Borrowing costs

Interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment and development costs are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

(p) Related parties

A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate of the entity;
- (c) the party is a joint venture in which the entity is a venturer;
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(p) Related parties (Cont'd)

- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(q) Segmental information

Segment revenue and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of property, plant and equipment (net of accumulated depreciation, where applicable), other investments, prepaid lease payments, inventories, receivables and cash and bank balances.

Most segment assets can be directly attributed to the segments on a reasonable basis. Segment assets do not include income tax assets, whilst segment liabilities do not include income tax liabilities and borrowings from financial institutions.

Segment revenue, expenses and results include transfers between segments. The prices charged on intersegment transactions are based on normal commercial terms. These transfers are eliminated on consolidation.

(r) Treasury shares

When the share capital recognised as equity is purchased by the Company under the share buy-back programme, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

(s) Irredeemable Convertible Unsecured Loan Stocks ("ICULS")

The ICULS are regarded as compound instruments, consisting of a liability component and an equity component. The component of ICULS that exhibits characteristics of a liability is recognised as a financial liability in the statements of financial position, net of transaction costs. The interests on ICULS are recognised as interest expense in the income statement using the effective interest rate method.

Transaction costs are apportioned between the liability and equity components of the ICULS based on the allocation of proceeds to the liability and equity components when the instruments were first recognised.

(t) Warrants reserve

Proceeds from the issuance of warrants, net of issue costs, are credited to warrants reserve which is non-distributable. Warrants reserve is transferred to the share premium account upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry of the warrants will be transferred to retained earnings.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(u) 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) *Rental income*

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

(iv) *Interest income*

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

(v) *Maintenance income*

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

(vi) *Dividend income*

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

(vii) *Commission income*

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

(v) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group and of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of significant accounting policies (Cont'd)

(w) Contingent assets

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs, amendment and IC Interpretations

During the current financial year, the Group has not adopted any new accounting standards and interpretations (including the consequential amendments).

2.4 Standards and Interpretations issued but not yet effective

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:

FRS and IC Interpretations (including the Consequential Amendments)	Effective date
Revised FRS 1 (2010) First-time Adoption of Financial Reporting Standards	1 July 2010
Revised FRS 3 (2010) Business Combinations FRS 4 Insurance Contracts	1 January 2010
FRS 7 Financial Instruments: Disclosures FRS 8 Operating Segments	1 July 2009
Revised FRS 101 (2009) Presentation of Financial Statements	1 January 2010
Revised FRS 123 (2009) Borrowing Costs	1 January 2010
Revised FRS 127 (2010) Consolidated and Separate Financial Statements	1 July 2010
Revised FRS 139 (2010) Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1 and FRS 127: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 2: Vesting Conditions and Cancellations	1 January 2010

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.4 Standards and Interpretations issued but not yet effective (Cont'd)

FRS and IC Interpretations (including the Consequential Amendments)	Effective date
Amendments to FRS 2: Scope of FRS 2 and Revised FRS 3 (2010)	1 July 2010
Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions	1 January 2011
Amendments to FRS 5: Plan to Sell the Controlling Interest in a Subsidiary	1 July 2010
Amendments to FRS 7, FRS 139 and IC Interpretation 9	1 January 2010
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 101 and FRS 132: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2010
Amendments to FRS 132: Classification of Right Issues and the Transitional Provision in Relation to Compound Instruments	1 January 2010/ 1 March 2010
Amendments to FRS 138: Consequential Amendments Arising from Revised FRS 3 (2010)	1 January 2010
IC Interpretation 4: Determining Whether An Arrangement Contains a Lease	1 January 2011
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 13: Customer Loyalty Programmes	1 January 2010
IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
IC Interpretation 15: Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16: Hedges of a Net Investment in a Foreign Operation	1 July 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.4 Standards and Interpretations issued but not yet effective (Cont'd)

FRS and IC Interpretations (including the Consequential Amendments)	Effective date
IC Interpretation 17: Distributions of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and Revised FRS 3 (2010)	1 July 2010
Annual Improvements to FRSs (2009)	1 January 2010

The above accounting standards and interpretations (including the consequential amendments) are not relevant to the Group's operations except as follows:

The revised FRS 3 (2010) introduces significant changes to the accounting for business combinations, both at the acquisition date and post acquisition, and requires greater use of fair values. In addition, all transaction costs, other than share and debt issue costs, will be expensed as incurred. This revised standard will be applied prospectively and therefore there will not have any financial impact on the financial statements of the Group for the current financial year but may impact the accounting for future transactions or arrangements.

The Group considers financial guarantee contracts entered into to be insurance arrangements and accounts for them under FRS 4. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee. The adoption of FRS 4 is expected to have no material impact on the financial statements of the Group.

The possible impacts of FRS 7 (including the subsequent amendments) and the revised FRS 139 (2010) on the financial statements upon their initial applications are not disclosed by virtue of the exemptions given in these standards.

FRS 8 replaces FRS 114²⁰⁰⁴ Segment Reporting and requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard only impacts the form and content of disclosures presented in the financial statements of the Group. This FRS is expected to have no material impact on the financial statements of the Group upon its initial application.

The revised FRS 101 (2009) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. The adoption of this revised standard will only impact the form and content of the presentation of the Group's financial statements in the next financial year.

The revised FRS 127 (2010) requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority interest to be absorbed by the minority interest instead of by the parent. The Group will apply the major changes of the revised FRS 127 (2010) prospectively and therefore there will not have any financial impact on the financial statements of the Group for the current financial year but may impact the accounting for future transactions or arrangements.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.4 Standards and Interpretations issued but not yet effective (Cont'd)

Amendments to FRS 1 and FRS 127 remove the definition of 'cost method' currently set out in FRS 127, and instead require an investor to recognise all dividend from subsidiaries, jointly controlled entities or associates as income in its separate financial statements. In addition, FRS 127 has also been amended to deal with situations where a parent reorganises its group by establishing a new entity as its new parent. Under this circumstance, the new parent shall measure the cost of its investment in the original parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the reorganisation date. The amendments will be applied prospectively and therefore there will not have any financial impact on the financial statements of the Company for the current financial year but may impact the accounting for future transactions or arrangements.

Amendments to FRS 2: Vesting Conditions and Cancellation clarify the definition of vesting conditions for the purposes of FRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations. These amendments are expected to have no material impact on the financial statements of the Group upon their initial application.

Amendments to FRS 2: Scope of FRS 2 and Revised FRS 3 (2010) clarify that business combination among entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under FRS 2. These amendments are expected to have no material impact on the financial statements of the Group upon their initial application.

Amendments to FRS 138 clarify the requirements under the revised FRS 3 (2010) regarding accounting for intangible assets acquired in a business combination. These amendments are expected to have no material impact on the financial statements of the Group upon their initial application.

IC Interpretation 4 aims to provide guidance for determining whether certain arrangements are, or contain, leases that should be accounted for in accordance with FRS 117; it does not provide guidance whether such a lease should be classified as a finance lease or an operating lease. It clarifies that an arrangement, although does not take the legal form of a lease, is a lease when the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. This interpretation is expected to have no material impact on the financial statements of the Group upon its initial application.

IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation is expected to have no material impact on the financial statements of the Group upon its initial application.

IC Interpretation 11 or Amendments to FRS 2: Group Cash-settled Share-based Payment Transactions (will replace IC Interpretation 11 in year 2011) provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash settled share-based payment transactions in the separate financial statements of the parent and group companies. This interpretation is expected to have no material impact on the financial statements of the Group upon its initial application.

Annual Improvements to FRSs (2009) contain amendments to 21 accounting standards that result in accounting changes for presentation, recognition or measurement purposes and terminology or editorial amendments. These amendments are expected to have no material impact on the financial statements of the Group upon their initial application.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.5 Changes in estimates

FRS 116: Property, Plant and Equipment requires the review of the residual values and remaining useful life of an item of property, plant and equipment at least at each financial year end. There were no revisions made this financial year.

FRS 138: Intangible Assets requires the review of the residual values and remaining useful life of an item of intangible assets at least at each financial year end. An intangible asset which was previously assessed to have an indefinite useful life was revised to have a definite useful life during the 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.

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 of uncertainties

The key assumptions concerning the future and other key sources of estimation of uncertainties 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.

Notes to the Financial Statements

31 May 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.6 Significant accounting estimates and judgements (Cont'd)

(b) Key sources of estimation of uncertainties (Cont'd)

(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.

(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.

(v) *Allowance 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.

(vi) *Allowance for slow-moving inventories*

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

Notes to the Financial Statements

31 May 2010

3. REVENUE

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Sale of bandwidth	64,714,713	69,429,033	-	-
Sale of telecommunication software and goods and installation charges	3,623,415	1,986,376	-	-
Commission income	13,462,191	7,363,487	-	-
Digital television services	411,140	639,072	-	-
	82,211,459	79,417,968	-	-

4. OTHER INCOME

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Interest income from deposits	502,685	319,549	199,448	1,380
Rental income receivable				
- investment property	-	54,077	-	-
- other than those relating to investment property	316,022	47,678	-	-
Foreign exchange gains	167,103	47,807	-	-
Gain arising from deemed disposal of investment in an associate	-	419,357	-	-
Gain arising from deemed disposal of investment in a subsidiary	-	116,110	-	-
Gain arising from conversion of ICULS	1,057,241	-	1,057,241	-
Waiver of debt	-	302,791	-	-
Fair value adjustment for investment property	-	80,000	-	-
Miscellaneous	346,918	148,780	4,354	-
	2,389,969	1,536,149	1,261,043	1,380

5. EMPLOYEE BENEFITS EXPENSE

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Wages and salaries	7,324,667	11,789,037	188,063	188,063
Social security contributions	93,421	116,391	-	-
Contributions to defined contribution plans	1,049,091	967,910	22,568	22,568
Share options granted under ESOS	80,258	1,034,614	-	-
Short-term accumulating compensated absences	13,924	(32,103)	-	-
Other benefits	2,933,345	2,882,048	57,846	15,862
	11,494,706	16,757,897	268,477	226,493

Included in employee benefits expense of the Group and of the Company are directors' remuneration amounting to RM836,480 (2009: RM994,404) and RM244,500 (2009: RM154,500), respectively as further disclosed in Note 6 to the financial statements.

Notes to the Financial Statements

31 May 2010

6. DIRECTORS' REMUNERATION

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
<u>Directors of the Company:</u>				
Executive directors' remuneration:				
Salaries and bonus	528,000	780,000	-	-
Contributions to defined contribution plans	63,360	59,904	-	-
Others	620	-	-	-
	591,980	839,904	-	-
Non-executive directors' remuneration:				
Fees	244,500	154,500	244,500	154,500
	836,480	994,404	244,500	154,500
Employees who are directors of the subsidiaries:				
Salaries	420,000	581,991	-	-
Contributions to defined contribution plans	50,400	51,247	-	-
	470,400	633,238	-	-
Total	1,306,880	1,627,642	244,500	154,500

The number of directors of the Company and their total remuneration during the financial year are analysed into the following bands:

	Number of Directors	
	2010	2009
Executive directors:		
RM200,001 - RM250,000	1	1
RM250,001 - RM300,000	1	1
Above RM300,000	1	1
Non-executive directors:		
Below RM50,000	3	3
RM50,001 - RM100,000	-	1
RM100,001 - RM150,000	1	-
	7	7

Notes to the Financial Statements

31 May 2010

7. LOSS BEFORE TAX

In addition to those disclosed in Note 4 to the financial statements, the following amounts have been included in arriving at loss before tax:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Advertising and promotion	1,083,738	563,396	6,431	3,398
Amortisation of intangible assets	1,826,421	116,399	-	-
Auditors' remuneration:				
- statutory audits	342,670	278,962	30,000	34,500
- under/(over)provision in previous financial years	1,879	115,742	(4,500)	7,250
- other services	36,130	52,587	35,000	42,950
Allowance for doubtful debts:				
- addition	4,387,801	455,500	-	-
- writeback	(42,534)	-	-	-
Bad debts written off	366,867	2,144,993	-	-
Deposits written off	-	146,970	-	-
Directors' remuneration:				
- executive directors	591,980	839,904	-	-
- non-executive directors	244,500	154,500	244,500	154,500
ICULS liability component interest	251,683	-	251,683	-
Intangible assets written off	-	678,091	-	-
Interest expense	458,110	24,384	147,591	-
Inventories written off	115,766	136,842	-	-
Lease payment of land and building	590,930	797,148	-	-
License fee	1,292,080	213,381	-	-
Net realised foreign exchange loss	10,382	85,889	6,692	-
Net unrealised foreign exchange loss	396,024	118,865	-	-
Property, plant and equipment written off	-	441,470	-	-
Loss on disposal of property, plant and equipment	11,236	2,407	-	-
Right issue expense	558,683	-	558,683	-
Travelling and accomodation	713,392	663,453	11,492	9,684

Notes to the Financial Statements

31 May 2010

8. INCOME TAX EXPENSE/(BENEFIT)

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Current tax:				
For the financial year	405,764	66,714	-	-
Overprovision in previous financial years	(108,222)	(217,327)	-	(68)
	297,542	(150,613)	-	(68)
Deferred tax (Note 17):				
Relating to origination and reversal of temporary differences	(147,291)	(357,351)	287,333	-
Relating to changes in tax rates	-	148,394	-	-
Underprovision in previous financial years	434,624	513,790	-	-
	287,333	304,833	287,333	-
Total income tax expense/(benefit)	584,875	154,220	287,333	(68)

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Two of the subsidiaries have been granted Multimedia Super Corridor status. This status exempts 100% of the statutory business income from tax. The exemption expires on 5 September 2010, and 18 September 2012 respectively.

A reconciliation of income tax expense applicable to 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	
	2010 RM	2009 RM	2010 RM	2009 RM
Loss before tax from:				
Continuing operations	(4,413,830)	(2,307,136)	(449,644)	(1,242,172)
Discontinued operations	-	(4,488,478)	-	-
	(4,413,830)	(6,795,614)	(449,644)	(1,242,172)
Taxation at Malaysian statutory tax rate of 25%	(1,103,458)	(1,698,904)	(112,411)	(310,543)
Effect of different tax rates in other countries	-	(80,941)	-	-
Effect of changes in tax rates on opening balance of deferred tax	-	69,551	-	-
Deferred tax recognised at different tax rates	-	14,361	-	-
Expenses not deductible for tax purposes	2,264,616	2,600,198	449,606	310,543
Income not subject to tax	(664,181)	(7,200,762)	(49,862)	-

Notes to the Financial Statements

31 May 2010

8. INCOME TAX EXPENSE/(BENEFIT) (Cont'd)

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	(1,404,718)	-	-	-
Deferred tax assets not recognised during the year	1,260,611	6,154,254	-	-
Tax exempt income	(94,397)	-	-	-
Underprovision of deferred tax in previous financial years	434,624	513,790	-	-
Overprovision of current tax expense in previous financial years	(108,222)	(217,327)	-	(68)
Tax expense/(benefit) for the year	584,875	154,220	287,333	(68)

9. DISCONTINUED OPERATIONS

Financial results

The summarised results of the discontinued operations were as follows:

	Note	Group 2009 RM
Profit/(Loss) after tax for the year from:		
Commpulse Sdn. Bhd.	9(i)	22,243
REDtone Telecommunications Pakistan (Private) Limited	9(ii)	(4,510,721)
		(4,488,478)

(i) Commpulse Sdn. Bhd. ("CSB")

Financial results of CSB

The results from CSB were presented separately in the income statement as discontinued operations.

	2009 RM
Revenue	339,356
Expenses	(317,113)
Profit before tax of discontinued operations	22,243
Income tax expense	-
Profit after tax for the year from CSB	22,243

Notes to the Financial Statements

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9. DISCONTINUED OPERATIONS (Cont'd)

(i) Disposal of Commpulse Sdn. Bhd. (Cont'd)

Financial results of CSB (Cont'd)

	2009 RM
Directors' remuneration:	
- other emoluments	13,440
Operating leases:	
- minimum lease payments for land and buildings	3,000
Depreciation of property, plant and equipment	493
Staff costs	143,878
Interest income	(2,704)

Cash flows of CSB

The cash flows attributable to CSB were as follows:

	2009 RM
Total cash flows	(19,452)

(ii) REDtone Telecommunications Pakistan (Private) Limited ("RTPL")

Financial results of RTPL

The results from RTPL were presented separately in the income statement as discontinued operations.

	2009 RM
Revenue	6,855,989
Expenses	(11,366,710)
Loss before tax of discontinued operations	(4,510,721)
Income tax expense	-
Loss after tax for the year from RTPL	(4,510,721)

An analysis of the results of RTPL was as follows:

	2009 RM
Directors' remuneration:	
- other emoluments	91,271
Bad debts written off	1,924,125
Operating leases:	
- minimum lease payments for land and buildings	106,987

Notes to the Financial Statements

31 May 2010

9. DISCONTINUED OPERATIONS (Cont'd)

(ii) REDtone Telecommunications Pakistan (Private) Limited ("RTPL") (Cont'd)

Financial results of RTPL (Cont'd)

	2009
	RM
Depreciation of property, plant and equipment	354,527
Universal Service Provision fund contribution	1,910,578
Staff costs	781,729
Unrealised foreign exchange loss	19,451
Interest income	(3,496)

Cash flows of RTPL

The cash flows attributable to RTPL were as follows:

	2009
	RM
Total cash flows	(4,274,681)

10. LOSS PER SHARE

(a) Basic

Basic loss per share ("LPS") is calculated by dividing the loss 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. The weighted average number of ordinary shares used in the previous financial year's LPS calculation has been adjusted for the effects of the ESOS and ICULS issued during the current financial year for comparison purposes.

	2010	Group	2009
	RM		RM
Loss attributable to ordinary equity holders of the Company			
- continuing operations	(5,414,133)	(1,505,821)	
- discontinuing operations	-	(4,477,040)	
- for the year	(5,414,133)	(5,982,861)	
Total weighted average number of ordinary shares in issue	400,018,453	323,291,534	
Basic loss per share (sen)			
- continuing operations	(1.4)		(0.5)
- discontinuing operations	-		(1.4)
- for the year	(1.4)		(1.9)

Notes to the Financial Statements

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10. LOSS PER SHARE (Cont'd)

(b) Diluted

Diluted loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the Company and the adjusted weighted average number of ordinary shares in issue and issuable.

The fully diluted loss per share for the Group is not presented as there was no dilutive effect on the loss per share arising from the potential ordinary shares during the financial year.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold office lots RM	Computers and software RM	Furniture, fittings and office equipment RM	*Equipment, plant and machinery RM	**Others assets RM	Total RM
Group 2010						
Net book value						
At 1 June 2009	4,987,442	4,902,487	1,354,201	12,217,988	2,087,008	25,549,126
Additions	–	95,518	278,374	10,296,642	738,423	11,408,957
Disposals	–	–	(5,433)	(686)	(390,140)	(396,259)
Reclassifications	–	–	(35,015)	12,706	22,309	–
Depreciation	(109,500)	(657,056)	(178,895)	(2,570,042)	(262,033)	(3,777,526)
Exchange differences	–	(17,846)	28,468	(585,307)	(29,038)	(603,723)
At 31 May 2010	4,877,942	4,323,103	1,441,700	19,371,301	2,166,529	32,180,575
Group 2009						
Net book value						
At 1 June 2008	3,838,151	4,437,988	1,489,511	11,585,774	1,223,947	22,575,371
Additions	1,236,128	736,875	436,020	3,501,015	1,163,697	7,073,735
Disposals	–	(10,086)	–	–	–	(10,086)
Write-offs	–	(2,494)	(256,153)	99,581	(282,404)	(441,470)
Reclassified from assets of disposal group classified as held for sale	–	–	–	2,166,696	–	2,166,696
Reclassifications	–	(2,926)	–	–	2,926	–
Depreciation	(86,837)	(649,781)	(242,066)	(2,235,757)	(260,711)	(3,475,152)
Acquisition of subsidiaries	–	482,068	289,994	8,260	227,215	1,007,537
Disposal of a subsidiary	–	(92,804)	(335,983)	(3,506,543)	–	(3,935,330)
Exchange differences	–	3,647	(27,122)	598,962	12,338	587,825
At 31 May 2009	4,987,442	4,902,487	1,354,201	12,217,988	2,087,008	25,549,126

Notes to the Financial Statements

31 May 2010

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	At cost RM	Accumulated depreciation RM	Net book value RM
Group 2010			
At 31.5.2010			
Freehold office lots	5,474,977	(597,035)	4,877,942
Computers and software	8,632,687	(4,309,584)	4,323,103
Furniture, fittings and office equipment	2,354,147	(912,447)	1,441,700
Equipment, plant and machinery *	35,337,889	(15,966,588)	19,371,301
Other assets **	2,803,970	(637,441)	2,166,529
	54,603,670	(22,423,095)	32,180,575
Group 2009			
At 31.5.2009			
Freehold office lots	5,474,977	(487,535)	4,987,442
Computers and software	8,526,734	(3,624,247)	4,902,487
Furniture, fittings and office equipment	2,072,033	(717,832)	1,354,201
Equipment, plant and machinery *	25,910,374	(13,692,386)	12,217,988
Other assets **	2,468,647	(381,639)	2,087,008
	44,452,765	(18,903,639)	25,549,126

The freehold office lots with a total net book value of RM4,877,942 (2009: RM1,234,068) have been pledged as security to licensed financial institutions for banking facilities granted to the Group.

Equipment with a total net book value of RM7,227,781 (2009: RM1,366,601) were acquired under finance lease terms.

A motor vehicle of the Group with a total net book value of RM130,062 (2009 - RMNil) was acquired under hire purchase terms.

* *Equipment consist of laboratory equipment, autodialers, gateway equipment, travelfon, payphones and Wimax equipment.*

** *Other assets consist of renovation, motor vehicles and assets in progress.*

Notes to the Financial Statements

31 May 2010

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company 2010	Furniture and fittings RM
Net book value	
At 1 June 2009	470
Depreciation charge	(91)
<hr/>	
At 31 May 2010	379

Company 2009	
Net book value	
At 1 June 2008	561
Depreciation charge	(91)
<hr/>	
At 31 May 2009	470

	At cost RM	Accumulated depreciation RM	Net book value RM
Company 2010			
Furniture and fittings	910	(531)	379
<hr/>			
2009			
Furniture and fittings	910	(440)	470

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2010 RM	2009 RM
Unquoted shares, at cost	5,707,189	6,262,580

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(a) Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Equity interest held (%)		Principal activities
		2010	2009	
REDtone Telecommunications Sdn. Bhd.	Malaysia	100	100	Research, development, manufacturing and marketing of computer-telephony integration products, provision of communication services and investment holding.
REDtone Technology Sdn. Bhd. ("RTT")	Malaysia	100	100	Provider of total solutions in business communication and telecommunication, provision of services and investment holding.
REDtone Network Sdn. Bhd.	Malaysia	70	70	Research and development and marketing of communication applications.
REDtone Marketing Sdn. Bhd.	Malaysia	100	100	Research and development, manufacturing and marketing of telecommunication and multimedia solutions.
REDtone Multimedia Sdn. Bhd. ("RTMM")	Malaysia	100	100	Investment holding.
REDtone Software Sdn Bhd. (formerly known as CNX Software Sdn. Bhd.)	Malaysia	100	100	Research, design, develop and commercialisation of VOIP Customer Premise Equipment.
Held through RTT				
REDtone Mytel Sdn. Bhd.	Malaysia	60	60	Provision of telecommunication services.
REDtone Mobile Sdn Bhd. (formerly known as REDtone Mobile Services Sdn. Bhd.)	Malaysia	100	100	Research, design, develop and commercialisation of VOIP Customer Premise Equipment.
REDtone Technology Pte. Ltd. ("RTPLS") #	Singapore	100	100	Provision of telecommunication related products and services.
REDtone Telecommunications (China) Limited ("RTCC") #	Hong Kong SAR	100	75	Investment holding.

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(a) Details of the subsidiaries are as follows: (Cont'd)

Name of subsidiary	Country of incorporation	Equity interest held (%)		Principal activities
		2010	2009	
Held through RTCC				
REDtone Telecommunications (Shanghai) Ltd. #	The People's Republic of China	100	75	Research and development of telecommunication and network technology and marketing of telecommunication technical services.
Shanghai Hongsheng Net Communication Company Ltd. # ^	The People's Republic of China	100	75	Marketing and distribution of discounted call services on consumer market.
Shanghai Huitong Telecommunication Company Ltd. # ^	The People's Republic of China	100	75	Marketing and distribution of IP call and discounted call services.
Shanghai Jia Mao e-Commerce Company Ltd. # ^	The People's Republic of China	100	53	Marketing and distribution of products on the internet.
Held through RTPLS				
VMS Telecommunications (S) Pte Ltd	Singapore	100	100	Dormant.
Held through RTMM				
DE Multimedia Holding Sdn. Bhd. ("DEMH")	Malaysia	100	61.10	Investment holding.
Held through DEMH				
DE Multimedia Sdn. Bhd. ("DEM")	Malaysia	90	55	Engaged in research, development, provision and commercialisation of digital television related technology services.
Held through DEM				
DE Content Sdn. Bhd.	Malaysia	90	55	Engaged in research, development and provision of contents for digital television related services.

Audited by firms of auditors other than Messrs Crowe Horwath.

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

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(b) Acquisition of subsidiaries

The summarised effect of the acquisition of subsidiaries on the financial statements of the Group in the previous financial year was as follows:

	Note	Group 2009 RM
Effect of acquisition on cash flow of the Group:		
Net cash inflow on acquisition to the Group:		
DE Multimedia Holding Sdn. Bhd. and its subsidiaries	12(b)(i)	558,425

(i) DE Multimedia Holding Sdn. Bhd. and its subsidiaries ("DE Group")

On 18 July 2008, the Group acquired 61,098 ordinary shares of DE Group representing 61.1% of DE Group's issued and paid-up share capital. The acquisition was accounted for using the purchase method of accounting.

In the previous financial year, the acquired subsidiary contributed the following results to the Group:

	2009 RM
Revenue	639,072
Loss for the year	(2,225,539)

Notes to the Financial Statements

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12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(b) Acquisition of subsidiaries (Cont'd)

(i) DE Multimedia Holding Sdn. Bhd. and its subsidiaries ("DE Group") (cont'd)

The assets and liabilities arising from the acquisition in the previous financial year were as follows:

	Fair value recognised on acquisition RM	Acquiree's carrying amount RM
Intangible assets	833,645	833,645
Property, plant and equipment	1,007,537	1,007,537
Inventories	603,714	603,714
Trade receivables	13,234	13,234
Other receivables	43,295	43,295
Prepayments	120	120
Cash and bank balances	558,427	558,427
	3,059,972	3,059,972
Trade payables	(1,660)	(1,660)
Other payables	(3,465,468)	(3,465,468)
Deferred income	(6,802)	(6,802)
	(3,473,930)	(3,473,930)
Fair value of net liabilities	(413,958)	
Goodwill on acquisition	413,960	
Total cost of acquisition	2	
The cash inflow on acquisition is as follows:		
Purchase consideration satisfied by cash	2	
Cash and cash equivalents of subsidiary acquired	(558,427)	
Net cash inflow of the Group	(558,425)	

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(c) Disposal of subsidiaries

The summarised effects of the disposal of subsidiaries on the financial statements of the Group were as follows:-

Effect of disposal on financial results of the Group	Note	Group 2009 RM
Gain/(Loss) on disposal to the Group:		
Commpulse Sdn. Bhd. (formerly known as REDtone Sdn. Bhd.)	12(c)(i)	(20,492)
REDtone Telecommunications Pakistan (Private) Limited	12(c)(ii)	4,427,331
		<hr/> 4,406,839

Effect of disposal on cashflow of the Group

Net cash inflow/(outflow) of the Group:		
Commpulse Sdn. Bhd. (formerly known as REDtone Sdn. Bhd.)	12(c)(i)	(156,034)
REDtone Telecommunications Pakistan (Private) Limited	12(c)(ii)	9,290,375
		<hr/> 9,134,341

(i) Disposal of Commpulse Sdn. Bhd.

On 5 May 2008, the Group entered into negotiations with Yong Kok Leong ("YKL"), a minority shareholder of Commpulse Sdn Bhd ("CSB"), to dispose of the Group's entire shareholding of 75% in CSB to YKL.

On 26 September 2008, the Group announced that its wholly-owned subsidiary, REDtone Technology Sdn. Bhd., entered into a share sale agreement with Yong Kok Leong ("YKL") for the disposal of 75% of its shareholding in CSB for a cash consideration of RM1.

Effect of disposal on financial statements of the Group

The disposals had the following effects on the financial position of the Group as at the end of the financial year ended 31 May 2009:

	2009 RM
Property, plant and equipment	11,856
Inventories	1,233
Trade and other receivables	644,125
Cash and bank balances	156,035
Trade and other payables	(760,448)
	<hr/>
Net assets disposed	52,801
Allocation of remeasurement	(32,308)
	<hr/>
Total disposal proceeds	20,493
	<hr/>
Loss on disposal to the Group	(1)
	<hr/>
	20,492

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(c) Disposal of subsidiaries (Cont'd)

(i) Disposal of Commpulse Sdn. Bhd. (Cont'd)

	2009 RM
Disposal proceeds settled by:	
Cash	1
<hr/>	
Cash consideration	1
Cash and cash equivalents of subsidiaries disposed	(156,035)
<hr/>	
Net cash outflow of the Group	(156,034)
<hr/>	

(ii) Disposal of RTPL

On 22 December 2008, the Group entered into a conditional share sale agreement with Quantum Global Networks, Inc ("Quantum") for the disposal of 100% of its shareholding in RTPL for a cash consideration of USD3,650,000.

In accordance with the terms of the conditional share sale agreement, the amount receivable at the balance sheet date was USD2,664,500 (RM9,291,645) representing 3 out of the 4 payment tranches. The balance of the consideration, being the 4th and final payment tranche amounting to USD985,500 (RM3,436,636), has not been recognised at the balance sheet date as it is receivable upon fulfillment of a specified condition in the conditional share sale agreement. This amount will be recognised upon satisfactory completion.

The terms further state that the transfer of the legal ownership of the shares of RTPL to Quantum will be in accordance with the receipt of the payment tranches and, as at 31 May 2010, the Group effectively holds approximately 27% of RTPL pending the satisfactory completion of the specified condition relating to the 4th payment tranche. Currently, the Company is in the process of engaging an arbitrator to resolve the issue.

Notes to the Financial Statements

31 May 2010

12. INVESTMENT IN SUBSIDIARIES (Cont'd)

(c) Disposal of subsidiaries (Cont'd)

(ii) Disposal of RTPL (Cont'd)

Effects of disposal on financial statements of the Group

The disposal had the following effects on the financial position of the Group as at the end of the financial year ended 31 May 2009:

	2009 RM
Intangible assets	1,370,354
Property, plant and equipment	3,923,475
Non-current assets - other receivables	222,182
Inventories	73,312
Trade and other receivables	111,890
Tax recoverable	553,634
Cash and bank balances	1,269
Trade and other payables	(19,901,347)
<hr/>	
Net liabilities disposed	(13,645,231)
Transfer from foreign exchange reserve	(3,206,832)
<hr/>	
	(16,852,063)
Cost of investment - unrealised	(178)
Total disposal proceeds	(9,291,644)
<hr/>	
Gain on disposal to the Group	(26,143,885)
Amounts due from RTPL written off	21,716,554
<hr/>	
Gain on disposal to the Group after bad debts written off	(4,427,331)
<hr/>	
Disposal proceeds settled by:	
Cash	9,291,644
<hr/>	
Cash consideration	9,291,644
Cash and cash equivalents of subsidiaries disposed	(1,269)
<hr/>	
Net cash inflow to the Group	9,290,375
<hr/>	

Notes to the Financial Statements

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13. INVESTMENT IN ASSOCIATES

	Group	
	2010 RM	2009 RM
Unquoted shares at cost	6,970,097	6,970,097
Share of post-acquisition reserves	(1,820,059)	(1,031,571)
Impairment loss on investment	(4,919,076)	(4,919,076)
	230,962	1,019,450

Name of associates	Country of incorporation	Equity interest held (%)		Principal activities
		2010	2009	
REDtone-CNX Broadband Sdn. Bhd.	Malaysia	54.5	54.5	Provision of broadband.
eB Capital Berhad [^]	Malaysia	23	23	Investment holding and provision of management services.
Hotgate Technology Inc. America	United States	19.5	19.5	Investment holding.

[^] For the purpose of applying the equity method of accounting, the management financial statements of the associate have been used.

The summarised financial information of the associates is as follows:

	Group	
	2010 RM	2009 RM
Assets and liabilities		
Non-current assets	4,150,760	4,194,325
Current assets	12,326,346	11,413,667
Total assets	16,477,106	15,607,992
Current liabilities	48,893,917	44,706,144
Results		
Revenue	7,391,491	5,651,302
Loss for the year	(4,012,391)	(6,501,214)

Notes to the Financial Statements

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14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2010 RM	2009 RM
Unquoted shares at cost	1,491,641	1,492,248
Share of post-acquisition reserves	(1,491,641)	(607)
	-	1,491,641

Name joint venture	Country of incorporation	Equity interest held (%)		Principal activities
		2010	2009	
Meridianotch Sdn. Bhd.	Malaysia	50	50	Investment holding.

15. INVESTMENT PROPERTY

	Group	
	2010 RM	2009 RM
Carrying amount:		
At 1 June	870,000	790,000
Fair value adjustment	-	80,000
At 31 May	870,000	870,000

The investment property with a carrying amount of RM870,000 (2009:Nil) has been pledged as security to licensed financial institutions for banking facilities granted to the Group.

The investment property was revalued by the directors on the open market value basis in year 2009 based on an independent firm of professional valuers. The surplus of the directors' valuation of the long leasehold land and building over the net book value has been credited to the retained profits. The details of the professional valuer are as follows:-

Name of firm	:	KGV-Lambert Smith Hampton (M) Sdn. Bhd.
Name of valuer	:	Sr. Anthony Chua Kian Beng
Qualification	:	Chartered Surveyors - Valuers

Notes to the Financial Statements

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16. INTANGIBLE ASSETS

	Goodwill RM	Patents and trademarks RM	License and software RM	Development cost RM	Total RM
Group					
Cost					
At 1 June 2008	1,308,797	159,794	10,956,261	3,494,071	15,918,923
Additions	-	-	1,132,730	2,735,694	3,868,424
Acquisition of subsidiaries	413,960	-	340,876	492,769	1,247,605
Derecognised on disposal of subsidiaries	-	-	(1,835,321)	-	(1,835,321)
Transfer in/(out)	-	-	-	(191,596)	(191,596)
Writeoff	-	-	-	(678,091)	(678,091)
Exchange differences	-	-	400,730	-	400,730
At 31 May 2009 and 1 June 2009	1,722,757	159,794	10,995,276	5,852,847	18,730,674
Additions	-	-	66,695	3,738,176	3,804,871
Arising from additional investment in subsidiaries	3,684,447	-	-	-	3,684,447
Exchange differences	-	-	(37,555)	-	(37,555)
At 31 May 2010	5,407,204	159,794	11,024,416	9,591,023	26,182,437
Accumulated amortisation					
At 1 June 2008	179,397	157,283	2,189,598	179,110	2,705,388
Charge for the year	-	553	61,955	53,891	116,399
Derecognised on disposal of subsidiaries	-	-	(464,967)	-	(464,967)
Exchange differences	-	-	(44,211)	-	(44,211)
At 31 May 2009 and 1 June 2009	179,397	157,836	1,742,375	233,001	2,312,609
Charge for the year	-	554	1,270,764	555,103	1,826,421
Exchange differences	-	-	433,726	-	433,726
At 31 May 2010	179,397	158,390	3,446,865	788,104	4,572,756
Net carrying amount at 31 May 2010	5,227,807	1,404	7,577,551	8,802,919	21,609,681
Net carrying amount at 31 May 2009	1,543,360	1,958	9,252,901	5,619,846	16,418,065

Notes to the Financial Statements

31 May 2010

16. INTANGIBLE ASSETS (Cont'd)

Included in intangible assets is the business development software of Nil (2009: RM7,753,337) with an indefinite useful life. During the financial year, the Company commenced the amortisation of the software over its estimated useful life.

The following item has been capitalised under development cost during the financial year:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Staff costs	3,738,176	2,735,694	-	-

Impairment test for goodwill and intangible asset with indefinite useful life

(i) Allocation of goodwill

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

	Group	
	2010 RM	2009 RM
DE Group	1,369,645	413,960
RTCC Group	2,728,762	-
Others	1,129,400	1,129,400
	5,227,807	1,543,360

(ii) Allocation of business development software with indefinite useful life

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

	Group	
	2010 RM	2009 RM
The People's Republic of China	-	7,753,337

Notes to the Financial Statements

31 May 2010

16. INTANGIBLE ASSETS (Cont'd)

Impairment test for goodwill and intangible asset with indefinite useful life (Cont'd)

(iii) Key assumptions used in value-in-use calculation

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 4-year or 10-year period. The discount rate applied to cash flow projections is the Group's weighted average cost of capital beyond the 4-year or 10-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:

	DE Group	RTCC Group	Others
Financial budget period	2011 - 2014	2011 - 2020	2011 - 2014
Average budgeted EBITDA margin	54.61%	35.14%	18.72%
Average growth rate	432.93%	9.16%	40.46%
Discount rate	16.73%	14% to 16%	16.73%

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

Management has determined the budgeted EBITDA margin and weighted average growth rates based on past performance and its expectations of market development. The discount rates used is computed based on the weighted average cost of capital of the industry that the Group operates in.

(iv) 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.

17. DEFERRED TAX

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
At 1 June	3,526,376	3,831,209	-	-
Arising from issuance of ICULS (Note 25)	1,688,662	-	1,688,662	-
Recognised in the income statement (Note 8)	(287,333)	(304,833)	(287,333)	-
At 31 May	4,927,705	3,526,376	1,401,329	-

Presented after appropriate offsetting as follows:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Deferred tax assets	4,930,201	3,528,872	1,401,329	-
Deferred tax liabilities	(2,496)	(2,496)	-	-
	4,927,705	3,526,376	1,401,329	-

Notes to the Financial Statements

31 May 2010

17. DEFERRED TAX (Cont'd)

(i) Key assumptions used in recognition calculation

The recoverable amount of the deferred tax assets are determined based on value-in-use calculations using cash flow projections based on financial forecasts approved by management covering a 4-year period. The discount rate applied to cash flow projections is the Group's weighted average cost of capital beyond the 4-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:

Financial budget period	2011 - 2014
Average budgeted EBITDA margin	18.72%
Average growth rate	40.46%
Discount rate	16.73%

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

Management has determined the budgeted EBITDA margin and weighted average growth rates based on past performance and its expectations of market development. The discount rates used is computed based on the weighted average cost of capital of the industry that the Group operates in.

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

	Unused tax losses and unabsorbed capital allowances RM	Provision RM	Property, plant and equipment RM	ICULS RM	Others RM	Total RM
Group						
At 1 June 2008	2,080,867	2,265,492	(1,033,391)	–	518,241	3,831,209
Recognised in income statement (Note 8)	3,255,909	(910,756)	(1,856,904)	–	(793,082)	(304,833)
At 31 May 2009 and 1 June 2009	5,336,776	1,354,736	(2,890,295)	–	(274,841)	3,526,376
Arising from issuance of ICULS (Note 25)	–	–	–	1,688,662	–	1,688,662
Recognised in income statement (Note 8)	(1,992,435)	2,104,194	(454,573)	(287,333)	342,814	(287,333)
At 31 May 2010	3,344,341	3,458,930	(3,344,868)	1,401,329	67,973	4,927,705

Notes to the Financial Statements

31 May 2010

17. DEFERRED TAX (Cont'd)

Company	ICULS RM
At 1 June 2009	–
Arising from issuance of ICULS (Note 25)	1,688,662
Recognised in income statement (Note 8)	(287,333)
<hr/>	
At 31 May 2010	1,401,329

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

	Group	
	2010 RM	2009 RM
Other deductible temporary differences	757,900	530,000
Unutilised tax losses	9,749,000	10,334,800
Unabsorbed capital allowances	1,583,700	1,802,200
<hr/>		
	12,090,600	12,667,000

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 as provided in the Income Tax Act, 1967 and guidelines issued by the tax authority.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Current				
Trade receivables				
Third parties	18,307,126	17,287,757	–	–
Associates	8,278,240	8,311,524	–	–
Less: Allowance for doubtful debts				
At 1 June	(2,710,875)	(2,788,761)	–	–
Addition	(2,352,507)	(455,500)	–	–
Writeoff	14,736	533,386	–	–
Writeback	42,534	–	–	–
At 31 May	(5,006,112)	(2,710,875)	–	–
<hr/>				
Trade receivables, net	21,579,254	22,888,406	–	–
<hr/>				
Other receivables				
Associates	9,514,346	6,038,129	–	–
Amount due from subsidiaries	–	–	80,521,060	38,229,811
<hr/>				
Other receivables carried forward	9,514,346	6,038,129	80,521,060	38,229,811

Notes to the Financial Statements

31 May 2010

18. TRADE AND OTHER RECEIVABLES (Cont'd)

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
Other receivables brought forward	9,514,346	6,038,129	80,521,060	38,229,811
Deposits	617,977	549,740	–	–
Prepayments	1,348,696	1,367,566	25,608	11,108
Sundry receivables	11,758,817	7,370,402	–	40
	23,239,836	15,325,837	80,546,668	38,240,959
Less: Allowance for doubtful debts	(2,035,294)	–	–	–
	21,204,542	15,325,837	80,546,668	38,240,959
	42,783,796	38,214,243	80,546,668	38,240,959
Non-current				
Security deposits	–	789,690	–	–

In the previous financial year, the fair value of the security deposits was RM589,206.

(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

The non-trade amounts due from related parties are non-interest bearing and are repayable on demand. All related party receivables are unsecured and are to be settled in cash.

(c) Sundry receivables

Included in sundry receivables is an amount of RM2,440,093 (2009: RM511,982) paid to a third party as part of advances for purchases and the security deposit of RM789,690 (2009: Nil as it was disclosed as long-term security deposit) placed in accordance with the requirements of an agreement with a telecommunication company.

(d) Long-term security deposits

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

Notes to the Financial Statements

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18. TRADE AND OTHER RECEIVABLES (Cont'd)

The foreign currency exposure profile of the trade and other receivables is as follows:-

	Sterling Pound RM	Thai Baht RM	Hong Kong Dollar RM	United States Dollar RM	Singapore Dollar RM
Group					
At 31 May 2010					
Trade receivables					
Third parties	5,459	-	1,038,811	277,112	3,424
Associates	-	-	-	198,018	-
Other receivables					
Deposits	-	-	55,728	-	-
Sundry receivables	-	-	887,175	2,260,416	40,345
At 31 May 2009					
Trade receivables					
Third parties	6,420	-	540,927	11,258,528	4,097
Associates	-	-	-	8,247,837	-
Other receivables					
Sundry receivables	-	13,405	976,902	2,857,548,051	183,773
Associates	-	-	-	-	-

19. INVENTORIES

	Group	
	2010 RM	2009 RM
Trading goods, at cost	1,998,312	2,642,000

None of the inventories is carried at net realisable value.

20. OTHER INVESTMENTS

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Quoted in Malaysia:				
Market value of investment/ unit trust funds				
AmCash Management	8,280	7,975	1,065	1,065
Avenue Income EXTRA Fund	522	476	-	-
	8,802	8,451	1,065	1,065
Investment in unquoted shares, at cost	1,334,178	178	-	-
Total	1,342,980	8,629	1,065	1,065

Notes to the Financial Statements

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21. CASH AND BANK BALANCES

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Cash on hand and at banks	41,281,531	21,856,436	24,547,927	108
Deposits with licensed banks	12,492,228	5,279,329	-	-
	53,773,759	27,135,765	24,547,927	108

Deposits with licensed banks for the Group amounting to RM12,492,228 (2009: RM5,279,329) are pledged to the banks as security for bankers' guarantee and bank overdraft facilities granted.

The foreign currency exposure profile of the cash and bank balances is as follows:

	Group	
	2010 RM	2009 RM
United States Dollar	9,291	653,036
Hong Kong Dollar	14,218,675	10,252,790
Singapore Dollar	279,076	231,472

22. SHARE CAPITAL

	Number of ordinary shares of RM0.10 each	Share capital (issued and fully paid) RM	Share premium RM	Total RM
Group and Company				
At 1 June 2008	257,645,000	25,764,500	19,278,304	45,042,804
Ordinary shares issued pursuant to bonus issue	128,822,500	12,882,250	(12,882,250)	-
At 31 May 2009 and 1 June 2009	386,467,500	38,646,750	6,396,054	45,042,804
Ordinary shares issued pursuant to conversion of ICULS	25,530,960	2,553,096	-	2,553,096
Ordinary shares issued pursuant to exercise of ESOS options	19,806,405	1,980,641	2,945,974	4,926,615
At 31 May 2010	431,804,865	43,180,487	9,342,028	52,522,515

	Number of ordinary shares of RM0.10 each		2010 RM	2009 RM
	2010	2009		
Authorised share capital				
At 1 June 2008/2009	1,000,000,000	300,000,000	100,000,000	30,000,000
Increase during the financial year	-	700,000,000	-	70,000,000
At 31 May 2009/2010	1,000,000,000	1,000,000,000	100,000,000	100,000,000

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.

Notes to the Financial Statements

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23. OTHER RESERVES

Group	Capital reserve RM	Foreign currency translation reserve RM	Share option reserve RM	Total RM
At 1 June 2008	–	1,215,739	739,915	1,955,654
Foreign currency translation	–	(712,506)	–	(712,506)
Share options granted under ESOS	–	–	1,034,614	1,034,614
Accretion arising from disposal of stake to non-controlling interest	343,154	–	–	343,154
At 31 May 2009/1 June 2009	343,154	503,233	1,774,529	2,620,916
Foreign currency translation	–	(986,864)	–	(986,864)
Share options granted under ESOS, recognised in the income statement	–	–	80,258	80,258
Issuance of ordinary shares, pursuant to ESOS	–	–	(1,219,138)	(1,219,138)
Expiry of ESOS	–	–	(635,649)	(635,649)
At 31 May 2010	343,154	(483,631)	–	(140,477)
Company				
At 1 June 2008	–	–	739,915	739,915
Share options granted under ESOS	–	–	1,034,614	1,034,614
At 31 May 2009/1 June 2009	–	–	1,774,529	1,774,529
Share options granted under ESOS included in investments in a subsidiary	–	–	80,258	80,258
Issuance of ordinary shares, pursuant to ESOS	–	–	(1,219,138)	(1,219,138)
Expiry of ESOS	–	–	(635,649)	(635,649)
At 31 May 2010	–	–	–	–

(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.

Notes to the Financial Statements

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23. OTHER RESERVES (Cont'd)

(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 the grant of the share options.

24. TREASURY SHARES

The shareholders of the Company, by an ordinary resolution passed in the Seventh Annual General Meeting held on 28 October 2009, renewed their approval for the Company's plan to purchase its own ordinary shares from the open market under the share buy-back programme.

The total shares purchased under the share buy-back programme were financed by internally generated funds. The shares purchased were retained as treasury shares and are presented as a deduction from shareholders' equity.

Details of the treasury shares are as follows:

Date of buy-back	Average share price RM	Number of Shares	Total consideration RM
February 2010	0.26	350,000	91,664

25. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS")

	Group and Company	
	2010 RM	2009 RM
Equity		
At 1 June 2009/2008	-	-
Arising from rights issue with warrants during the financial year	14,525,853	-
Deferred tax (Note 17)	1,688,662	-
Converted during the financial year	(2,548,743)	-
At 31 May 2010/2009	13,665,772	-
Non-current liabilities		
At 1 June 2009/2008	-	-
Arising from rights issue with warrants during the financial year	6,754,642	-
Converted during the financial year	(1,061,595)	-
Amortisation charge during the financial year	(87,731)	-
At 31 May 2010/2009	5,605,316	-

Notes to the Financial Statements

31 May 2010

25. IRREDEEMABLE CONVERTIBLE UNSECURED LOAN STOCKS ("ICULS") (Cont'd)

The ICULS represent the unconverted portion of the original RM40,611,634 nominal value of 10-year 2.75% ICULS issued and allotted at 100% of the nominal value, net of deferred tax and the amount allocated to warrant reserve.

The ICULS have a tenure of ten years from the date of issue and will not be redeemable in cash. All outstanding ICULS will be mandatorily converted by the Company into new ordinary shares at the conversion price applicable on the maturity date. The ICULS are convertible into fully paid ordinary shares of RM0.10 each at any time during the tenure of the ICULS from 4 March 2010 to the maturity date on 4 March 2020, at the rate of ten RM0.10 nominal amount of ICULS for four fully paid up ordinary share of RM0.10 each in the Company.

Upon conversion of the ICULS into new ordinary shares, such shares would rank pari passu in all material respects with the existing ordinary shares of the Company in issue at the date of allotment of the new ordinary shares except that the newly converted ordinary shares shall not be entitled to any rights, allotments of dividends, and/or other distribution if the dividend entitlement date is on or before the relevant conversion date.

The interest on the ICULS is at the rate of 2.75% per annum on the nominal value of the ICULS commencing March 2010 and is payable annually in arrears on March in each year.

26. WARRANTS RESERVE

	Group and Company	
	2010	2009
	RM	RM
At 1 June 2009/2008	–	–
Arising from rights issue with warrants during the financial year	19,331,138	–
At 31 May 2010/2009	19,331,138	–

On 4 March 2010, the Company allotted the rights issue of 406,116,335 ICULS at the nominal value of RM0.10, together with 162,446,534 free detachable warrants to the holders of the ICULS on the basis of ten ICULS and four free detachable warrants for every ten existing ordinary shares held.

Each warrant entitles the registered holder to subscribe for one new ordinary share in the Company at any time on or after 4 March 2010 up to the date of expiry on 4 March 2015, at an exercise price of RM0.25 per share or such adjusted price in accordance with the provisions in the Deed Poll. The warrants were listed on the ACE Market of Bursa Malaysia Securities Berhad with effect from 4 March 2010.

No warrants were exercised during the financial year ended 31 May 2010.

As at balance sheet date, 162,446,534 warrants remain unexercised.

The fair value of the warrants is estimated using the Trinomial American model, taking into account the terms and conditions upon which the warrants are acquired. The fair value of the warrants measured at issuance date and the assumptions are as follows:

Valuation model	Trinomial
Exercise type	American
Tenure	5 years
5-day volume weighted average price of REDtone share at 29.12.2009	RM0.29
Conversion price	RM0.25
Volatility rate	29.817%
Period of volatility assessment	The average of the following market days: 29.12.2009; 30.9.2009; 30.6.2009; 31.3.2009; and 31.12.2008

Notes to the Financial Statements

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27. BORROWINGS

	Group	
	2010 RM	2009 RM
Short-term borrowings		
Finance lease payables (Note 27(a))	3,057,460	1,012,346
Term loans (Note 27(b))	108,902	52,501
Hire purchase payable (Note 27(c))	26,739	–
	3,193,101	1,064,847
Long-term borrowings		
Finance lease payables (Note 27(a))	2,440,053	1,855,970
Term loans (Note 27(b))	1,974,298	997,499
Hire purchase payable (Note 27(c))	95,908	–
	4,510,259	2,853,469
Total borrowings		
Finance lease payables (Note 27(a))	5,497,513	2,868,316
Term loans (Note 27(b))	2,083,200	1,050,000
Hire purchase payable (Note 27(c))	122,647	–
	7,703,360	3,918,316

(a) Finance lease payables

Future minimum lease payments:

	Group	
	2010 RM	2009 RM
- not later than one year	3,443,403	1,158,650
- later than one year and not later than five years	2,749,090	2,124,192
	6,192,493	3,282,842
Less: Future finance charges	(694,980)	(414,526)
Present value of finance lease payables	5,497,513	2,868,316

Analysis of present value of finance lease payables:

Current		
- not later than one year	3,057,460	1,012,346
Non-current		
- later than one year and not later than five years	2,440,053	1,855,970
	5,497,513	2,868,316

Notes to the Financial Statements

31 May 2010

27. BORROWINGS (Cont'd)

The Group obtained finance lease for the purchase of the Wimax equipment as disclosed in Note 11 to the financial statements, which was granted to the Company. The equipment are sub-leased to its associate.

The finance lease payables at the balance sheet date bore effective interest rates ranging from 3.9% to 4.82% (2009: 4.82%) per annum.

(b) Term loan

	Group	
	2010	2009
	RM	RM
Current portion:		
- repayable within one year	108,902	52,501
Non-current:		
- repayable between one and two years	108,901	52,501
- repayable between two and five years	217,802	157,504
- repayable more than five years	1,647,595	787,494
Total non-current portion	1,974,298	997,499
	2,083,200	1,050,000

Details of the repayment terms are as follows:

Term loan	Number of monthly instalments	Monthly instalment RM	Date of commencement of repayment
I	240	6,308	1 June 2009
II	240	6,776	1 September 2009

The term loans bore interest at 3.9% (2009: 3.9%) per annum at the balance sheet date.

The term loans are for the purpose of financing properties purchased and are secured by a Deed of Assignment executed by the Group, assigning all the rights and title, interests and benefits under the Sale and Purchase Agreement in respect of these properties as disclosed in Note 11 to the financial statements.

Notes to the Financial Statements

31 May 2010

27. BORROWINGS (Cont'd)

(c) Hire purchase payable

	2010 RM	Group 2009 RM
Future minimum hire purchase payments:		
- not later than one year	30,780	-
- later than one year and not later than five years	110,265	-
	141,045	-
Less: Future finance charge	(18,398)	-
Present value of hire purchase payable	122,647	-
Analysis of present value of hire purchase payable:		
Current		
- not later than one year	26,739	-
Non-current		
- later than one year and not later than five years	95,908	-
	122,647	-

The hire purchase payable at the balance sheet date bore an interest of 3.0% per annum.

28. DEFERRED INCOME

Group	RM
Carrying amount	
At 1 June 2008	8,821,077
Addition	3,422,113
Utilisation	(659,109)
Disposal of subsidiary	(106,255)
At 31 May 2009 and 1 June 2009	11,477,826
Addition	2,926,725
Utilisation	(4,954,852)
At 31 May 2010	9,449,699

Deferred income consists of prepaid products sold to customers which are yet to be utilised.

Notes to the Financial Statements

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29. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Trade payables				
Third parties	17,213,006	19,211,823	-	-
Amount due to associates	37,497	18,767	-	-
	17,250,503	19,230,590	-	-
Other payables				
Amount due to associates	4,898,080	4,898,080	-	-
Amount due to subsidiaries	-	-	23,839,124	-
USOF contribution	6,116,182	5,257,832	-	-
Accruals	1,853,944	1,829,895	298,574	63,230
Sundry payables	8,887,461	6,478,245	167,946	22,086
	21,755,667	18,464,052	24,305,644	85,316
	39,006,170	37,694,642	24,305,644	85,316

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

The non-trade amounts due to associates are non-interest bearing and are repayable on demand. All associates payables are unsecured and are to be settled in cash.

Included in sundry payables is an amount of RM2,289,430 (2009:Nil) payable to Kerry Telecommunications (Shanghai) Limited being the balance of the cash consideration for the acquisition as disclosed in Note 37(4) to the financial statements.

The foreign currency exposure profile of the trade and other payables is as follows:-

	Chinese Renminbi RM	Thai Baht RM	Hong Kong Dollar RM	United States Dollar RM	Singapore Dollar RM
Group					
At 31 May 2010					
Trade payables					
Third parties	-	710	1,383,787	699,853	58,596
Associates	-	-	8,500	26,732	-
Other payables					
Associates	-	-	6,762	-	-
Accruals	15,243	-	340,429	6,600	-
Sundry payables	-	-	3,408,553	17,723	19,422
At 31 May 2009					
Trade payables					
Third parties	-	727	3,266,895	228,411	83,009
Other payables					
Accruals	-	-	119,939	-	-
Sundry payables	-	-	1,283,385	265,986	69,454

30. BANK OVERDRAFT

The bank overdraft of the Group bore an effective interest rate of 6.3% and is secured by a Deed of Assignment executed by the Group, assigning all the rights and title, interests and benefits in respect of the properties with net book value of RM3,084,418 and deposits with licensed banks as disclosed in Notes 11 and 21 respectively to the financial statements.

Notes to the Financial Statements

31 May 2010

31. EMPLOYEES' SHARE OPTIONS SCHEME ("ESOS")

- (a) 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 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 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.

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

Grant date	Expiry date	Outstanding	Exercise price	Granted	Exercised	Expired	Forfeited	Adjustment*	At 31 May 2010	Exercisable at 31 May 2010
		as at 1 June 2009								
2010										
31 May 2005	15 February 2010	6,996	0.42	-	-	(6,996)	-	-	-	-
19 October 2006	15 February 2010	2,142	0.29	-	(2,044)	(98)	-	-	-	-
1 November 2006	15 February 2010	3,000	0.29	-	(1,150)	(1,850)	-	-	-	-
13 November 2008	15 February 2010	3,450	0.29	-	-	(3,450)	-	-	-	-
23 March 2009	15 February 2010	11,000	0.14	-	(10,824)	(176)	-	-	-	-
23 April 2009	15 February 2010	2,168	0.20	-	(2,168)	-	-	-	-	-
30 August 2009	15 February 2010	-	0.23	2,620	(2,620)	-	-	-	-	-
3 November 2009	15 February 2010	-	0.25	1,000	(1,000)	-	-	-	-	-
		28,756		3,620	(19,806)	(12,570)	-	-	-	-
2009										
31 May 2005	15 February 2010	5,816	0.42*	-	-	-	(1,152)	2,332	6,996	6,996
19 October 2006	15 February 2010	1,428	0.29*	-	-	-	-	714	2,142	2,142
1 November 2006	15 February 2010	2,000	0.29*	-	-	-	-	1,000	3,000	2,678
13 November 2008	15 February 2010	-	0.29*	2,300	-	-	-	1,150	3,450	3,450
23 March 2009	15 February 2010	-	0.14	11,000	-	-	-	-	11,000	11,000
23 April 2009	15 February 2010	-	0.20	2,168	-	-	-	-	2,168	2,168
		9,244		15,468	-	-	(1,152)	5,196	28,756	28,434

Note:

* Adjustment to the number of options granted pursuant to the Company's bonus issue.

Notes to the Financial Statements

31 May 2010

31. EMPLOYEES' SHARE OPTIONS SCHEME ("ESOS") (Cont'd)

(a) Fair value of share options granted during the financial year

The fair value of share options granted during the financial year was estimated by an external valuer using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

	2010
Fair value of share options at the following grant dates (sen):	
30 August 2009	0.02
3 November 2009	0.03
Market price of the underlying shares (RM)	0.25 - 0.27
Adjusted price of the option (RM)	0.23 - 0.25
Expected volatility (%)	96.78
Expected life (years)	0.33 - 0.5
Risk free rate (%)	2.12
Expected dividend yield (%)	0

The expected life of the options was based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option granted were incorporated into the measurement of the fair value.

(b) Share options exercised during the year

Options exercised during the financial year resulted in the issuance of 19,806,405 ordinary shares at an average price of RM0.22 (2009: Nil) each.

(c) Expiry of ESOS

The Company's ESOS expired on 15 February 2010.

32. OPERATING LEASE AGREEMENTS

The Group as lessee

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

	Group	
	2010	2009
	RM	RM
Future minimum rentals payments:		
Not later than 1 year	307,261	214,152
Later than 1 year and not later than 5 years	511,895	54,755
	819,156	268,907

The lease payments recognised in the income statement during the financial year are disclosed in Note 7 to the financial statements.

Notes to the Financial Statements

31 May 2010

33. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	Group	
	2010 RM	2009 RM
Cost of property, plant and equipment purchased	11,408,957	7,073,735
Amount financed through lease	(4,797,901)	(3,037,040)
Cash disbursed for purchase of property, plant and equipment	6,611,056	4,036,695

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Group	
	2010 RM	2009 RM
Group		
Rental expenses paid to Endless Revenue Sdn. Shd., a company in which the spouse of a director, Wei Chuan Beng, is a director and major shareholder	117,902	124,820

- (b) Compensation of key management personnel

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

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Short-term employee benefits	1,782,880	2,285,516	244,500	154,500
Defined contribution plans	165,649	209,211	-	-
	1,948,529	2,494,727	244,500	154,500

Included in the total key management personnel are:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Directors' remuneration (Note 6)	1,306,880	1,627,642	244,500	154,500

Notes to the Financial Statements

31 May 2010

34. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd)

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 Option Scheme ("ESOS"):

	Group and Company	
	2010	2009
	RM	RM
At 1 June	18,629,500	5,608,000
Granted	100,000	9,067,500
Adjustment*	–	3,954,000
Exercised	(9,799,500)	–
Expired	(8,930,000)	–
At 31 May	–	18,629,500

Note:

* Adjustment to the number of options granted pursuant to the Company's bonus issue.

35. 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.

(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.

Notes to the Financial Statements

31 May 2010

35. FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

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:

	Note	Interest rate %	RM
Group			
At 31 May 2010			
Fixed rate:			
Other investments	20	1.04 -2.62	8,802
Deposits with licensed banks	21	1.80 -2.60	12,492,228
			<hr/>
			12,501,030
<hr/>			
At 31 May 2009			
Fixed rate:			
Other investments	20	1.04 -2.47	8,451
Deposits with licensed banks	21	2.25 -3.40	5,279,329
			<hr/>
			5,287,780
<hr/>			
Company			
At 31 May 2010			
Fixed rate:			
Other investments	20	1.04 -2.47	1,065
			<hr/>
At 31 May 2009			
Fixed rate:			
Other investments	21	1.04 -2.47	1,065
			<hr/>

Notes to the Financial Statements

31 May 2010

35. FINANCIAL INSTRUMENTS (Cont'd)

(c) Foreign exchange risk

The Group is exposed to various currencies, mainly United States Dollar, Singapore Dollar, Sterling Pound, Indonesian Rupiah, Thai Baht 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 exposure. The foreign currency exposure profile is disclosed in Note 18 and Note 29 to the financial statements.

(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 and the Company's associations with business partners of high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group and the Company's management reporting procedures.

As at 31 May 2010, the Group and the Company have no significant concentration of credit risk that may arise from exposure to a single debtor or to groups of debtors.

36. CONTINGENT LIABILITIES (UNSECURED)

	2010 RM	2009 RM
Company		
Corporate guarantee given to Kerry Telecommunications (Shanghai) Limited in respect of acquisition of RTCC Group	2,300,000	–
Corporate guarantees given to suppliers for supply of services to subsidiaries and an associate	4,589,253	5,000,000
	<hr/> 6,889,253	<hr/> 5,000,000

Notes to the Financial Statements

31 May 2010

37. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are as follows:

- (1) During the period from 1 June 2009 to 15 February 2010, the Company issued 19,806,405 additional ordinary shares at RM0.10 each pursuant to the Employees' Share Option Scheme.
- (2) On 24 August 2009, DEM entered into a Collaboration Agreement with China International Communications Co. Ltd. to broadcast television package services which enroll 15 different international channels from China Central Television, China local television and other overseas television services in Malaysia.
- (3) On 9 September 2009, RTMM, a wholly-owned subsidiary of the Group, acquired 38,900 ordinary shares of RM1 each representing a 38.9% equity interest in DEMH for a total cash consideration of RM38,900.
- (4) On 10 November 2009, RTT, a wholly-owned subsidiary of the Group, entered into a Share Sale Agreement with Kerry Telecommunications (Shanghai) Limited in respect of the acquisition of 14,625,250 ordinary shares of RTCC representing a 25% equity interest in RTCC for a total cash consideration of HKD20.5 million, an equivalent to RM8,942,100, with the applicable foreign exchange rate of HKD1 to RM0.4362.
- (5) On 1 March 2010, DEM received an Individual Licence from Malaysian Communications and Multimedia Commission for the provision of any content application services.
- (6) On 4 March 2010, the Company issued 406,116,335 10-year 2.75% ICULS of RM0.10 each together with 162,446,534 5-year free detachable warrants to the holders of the ordinary shares.
- (7) During the period from 4 March 2010 to 31 May 2010, the Company issued 25,530,960 new ordinary shares at RM0.10 each pursuant to the conversion of ICULS to ordinary shares.

38. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

The subsequent events after the balance sheet date are as follows:

- (1) On 17 June 2010, the Securities Commission (Equity Compliance Unit) noted that the Company has complied with the Bumiputera equity condition imposed. In view of the foregoing, the Company will not implement the proposed special issue of up to 172,550,000 new ordinary shares of RM0.10 each in the Company to bumiputra investors and bonus issue of up to 235,340,000 new ordinary shares of RM0.10 each in the Company.
- (2) On 16 July 2010, RTPLS, a wholly-owned subsidiary of the Group, disposed of its wholly owned dormant subsidiary, VMSTelecommunications (S) Pte. Ltd. to Lu Kan and Lee Chee Keong for a total cash consideration of SGD2.
- (3) On 28 July 2010, the Company acquired from REDtone Telecommunications Sdn. Bhd., a wholly-owned subsidiary of the Group, 36,322,678 common shares with a par value of USD0.0001 each in Hotgate Technology Inc. ("Hotgate"), representing 12.23% of the issued and paid-up common shares of Hotgate for a cash consideration of RM973,227.
- (4) On 2 August 2010, RTT, a wholly-owned subsidiary of the Group, entered into a Share Sale Agreement with Hotgate ("Agreement") for the disposal of 58,501,000 ordinary shares of HKD1 each in RTCC to Hotgate for a total consideration of USD22 million, to be satisfied by the issuance of new common shares of USD0.0001 each in Hotgate at an issue price of USD0.09 per Hotgate share.

The Agreement also provides for the capitalisation and repayment of debts due from Hotgate to the Company, amounting to RM3.8 million, via the issuance of 13,147,197 new Hotgate shares to the Company at an indicative issue price of USD0.09 per Hotgate share.

Notes to the Financial Statements

31 May 2010

38. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE (Cont'd)

- (5) During the period from 1 June 2010 to 25 August 2010, the Company issued 3,010,860 new ordinary shares at RM0.10 each pursuant to the conversion of ICULS to ordinary shares.
- (6) On 30 August 2010, RTT and REDtone Telecommunications Sdn. Bhd. lodged a Notice of Dispute at the Singapore International Arbitration Centre, claiming the sum of approximately USD1.08 million due under the third and fourth tranches of the consideration for the disposal of REDtone Telecommunications (Pakistan) Pte. Ltd. to Quantum Global Networks Inc.

39. 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 the differences in the countries operated.

(b) Business segments

As the Group operates primarily in the telecommunication business segment, no segmental information is prepared in respect of business segments.

Geographical segment

	Malaysia RM	The Republic of Singapore RM	The People's Republic of China RM	Eliminations RM	Total RM
31 May 2010					
Revenue					
Sales to external customers	67,876,782	99,477	13,462,190	773,010	82,211,459
Inter-segment sales	29,655,626	-	-	(29,655,626)	-
Total revenue	97,532,408	99,477	13,462,190	(28,882,616)	82,211,459
Results					
Segment results	(7,898,626)	(313,186)	5,606,306	471,805	(2,133,701)
Share of loss in associates	(788,488)	-	-	-	(788,488)
Share of loss in jointly controlled entities	(1,491,641)	-	-	-	(1,491,641)
Loss before tax					(4,413,830)
Income tax expense					(584,875)
Net loss for the year					(4,998,705)

Notes to the Financial Statements

31 May 2010

39. SEGMENTAL INFORMATION (Cont'd)

Geographical segment (Cont'd)

	Malaysia RM	The Republic of Singapore RM	The People's Republic of China RM	Eliminations RM	Total RM
31 May 2010					
Assets					
Segment assets	379,739,672	21,287,624	38,408,611	(279,516,106)	159,919,801
Investments in associates	2,051,021	-	-	(1,820,059)	230,962
Investments in jointly controlled entities	1,500,000	-	-	(1,500,000)	-
Total Assets	383,290,693	21,287,624	38,408,611	(282,836,165)	160,150,763
Liabilities					
	275,434,248	23,233,163	11,209,454	(243,013,582)	66,863,283
Other segment information					
Capital expenditure	11,378,250	-	30,707	-	11,408,957
Depreciation	3,178,702	467	1,392,376	(794,019)	3,777,526
Amortisation	742,556	-	1,083,865	-	1,826,421

	----- Continuing operations -----					----- Discontinued operations -----					
	Malaysia RM	The Republic of Singapore RM	The People's Republic of China RM	Eliminations RM	Total RM	Malaysia RM	Pakistan RM	Eliminations RM	Total RM	Total operations RM	
31 May 2009											
Revenue											
Sales to external customers	71,885,079	169,297	7,363,592	-	79,417,968	339,355	6,855,989	-	7,195,344	86,613,312	
Inter-segment sales	41,415,332	-	-	(41,415,332)	-	-	-	-	-	-	
Total revenue	113,300,411	169,297	7,363,592	(41,415,332)	79,417,968	339,355	6,855,989	-	7,195,344	86,613,312	
Results											
Segment results	(21,828,320)	151,233	932,193	19,154,882	(1,590,012)	7,050	(4,905,403)	409,875	(4,488,478)	(6,078,490)	
Share of loss in associates	(716,517)	-	-	-	(716,517)	-	-	-	-	(716,517)	
Share of loss in jointly controlled entities	(607)	-	-	-	(607)	-	-	-	-	(607)	
Loss before tax					(2,307,136)				(4,488,478)	(6,795,614)	
Income tax expense					(154,220)				-	(154,220)	
Net loss for the year					(2,461,356)				(4,488,478)	(6,949,834)	

Notes to the Financial Statements

31 May 2010

39. SEGMENTAL INFORMATION (Cont'd)

Geographical segment (Cont'd)

	Continuing operations				Total	Discontinued operations			Total operations
	Malaysia RM	The Republic of Singapore RM	The People's Republic of China RM	Eliminations RM		Malaysia RM	Pakistan RM	Total RM	
31 May 2009									
Assets									
Segment assets	244,226,827	6,528,534	36,644,082	(171,395,198)	116,004,245	-	-	-	116,004,245
Investments in associates	2,051,021	-	-	(1,031,571)	1,019,450	-	-	-	1,019,450
Investments in jointly controlled entities	1,500,000	-	-	(8,359)	1,491,641	-	-	-	1,491,641
Total Assets	247,777,848	6,528,534	36,644,082	(172,435,128)	118,515,336	-	-	-	118,515,336
Liabilities	170,534,351	8,210,244	13,369,119	(139,020,434)	53,093,280	-	-	-	53,093,280
Other segment information									
Capital expenditure	6,888,008	-	157,665	-	7,045,673	10,661	17,401	28,062	7,073,735
Depreciation	2,492,304	478	1,477,603	(937,672)	3,032,713	493	441,946	442,439	3,475,152
Amortisation	57,944	-	-	-	57,944	-	58,455	58,455	116,399

40. FAIR VALUES

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) Investment in associates and other investments

It is not practicable to determine the fair values because of the lack of quoted market prices and the assumptions used in valuation models to value these investments cannot be reasonably determined.

(b) Long-term borrowings

The carrying amounts approximated their fair values. The fair values of the long-term borrowings are determined by discounting the relevant cash flows using current interest rates at the balance sheet date for similar types of instruments.

(c) Cash and cash equivalents, receivables and payables

The carrying amounts approximated their fair values due to the relatively short-term maturity of these financial instruments.

(d) Contingent liabilities

The nominal amount and net fair value of financial instruments not recognised in the balance sheet of the Company are as follows:

Notes to the Financial Statements

31 May 2010

40. FAIR VALUES (Cont'd)

	Company	
	Nominal amount RM	Net fair value RM
Contingent liabilities		
- At 31 May 2010	6,889,253	*
- At 31 May 2009	5,000,000	*

* *The net fair value of the contingent liabilities are estimated to be minimal as the subsidiaries are expected to fulfill their obligations to repay their debts.*

41. COMPARATIVE FIGURES

The following comparative figures have been reclassified to conform with the presentation of the current financial year:

	Group	
	As Restated RM	As Previously Reported RM
Balance Sheet (extract)		
Trade and other receivables	38,214,243	35,164,370
Trade and other payables	(37,694,642)	(34,644,769)
Cash Flow Statement (extract)		
Increase in trade and other receivables	(24,560,283)	(21,510,410)
Increase in trade and other payables	23,832,158	20,782,285

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 2010	Date of Valuation/ Effective Year of Purchase
RTC/ Unit No: T18/6F/BC6A (12), Storey: 6 th , 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	11	RM115,060.38	N/A/ 10 Feb 1999
RTC/ Unit No: T19/6F/BC6B (13), Storey: 6 th , 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	11	RM120,920.93	N/A/ 10 Feb 1999
RTC/ Unit No: T27/6F/BC6C (14), Storey: 6 th , 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	11	RM146,639.30	N/A/ 10 Feb 1999
RTC/ Unit No: T32/6F/BC7A (16), Storey: 6 th , 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	11	RM149,029.40	N/A/ 10 Feb 1999
RTC/ Unit No: 26 Storey: 2 nd , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 136.29 square meters	Freehold	12	RM296,457.12	N/A/ 1 Mar 2005
RTC/ Unit No: 27 Storey: 2 nd , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 321.63 square meters	Freehold	12	RM870,000	30 April 2009/ 1 Mar 2005

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 2010	Date of Valuation/ Effective Year of Purchase
RTC/ Unit No: 26 & 27 Storey: 3 rd , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 457.92 square meters	Freehold	12	RM1,209,345.67	N/A/ 16 Feb 2009
RTC/ Unit No: 23 Storey: 4 th , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 119.66 square meters	Freehold	12	RM228,139.08	N/A/ 28 Mar 2005
RTC/ Unit No: 24 Storey: 4 th , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 145.49 square meters	Freehold	12	RM287,010	N/A/ 21 Jun 2005
RTC/ Unit No: 24, 25, 26, 27, 28, 29 & 30 Storey: 5 th , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 1,143 square meters	Freehold	12	RM2,037,619.50	N/A/ 29 Mar 2004
RTC/ Unit No: 28 Storey: 6 th , Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 142.14 square meters	Freehold	12	RM287,721.83	N/A/ 7 July 2005

Analysis of Shareholdings

as at 1 October 2010

Authorised share capital	:	RM100,000,000.00
Issued and paid-up share capital	:	RM43,826,942.50
Class of Shares	:	Ordinary shares of RM0.10 each
Voting rights	:	One (1) vote per ordinary share

Size of shareholdings	No. of Shareholders	% of Total Shareholders	No. of Shares Held	% of Issued Capital
1 – 99 shares	98	1.717	5,273	0.001
100 – 1000 shares	152	2.664	87,343	0.019
1,001 – 10,000 shares	2,679	46.958	14,608,238	3.338
10,001 – 100,000 shares	2,479	43.453	83,768,578	19.143
100,001 – 21,879,160 shares	294	5.153	207,711,502	47.467
21,879,161 and above of shares	3	0.052	131,402,291	30.029
TOTAL	5,705	100.00	437,583,225#	100.00

less 686,200 shares bought back and retained as treasury shares

THIRTY (30) LARGEST SHAREHOLDERS

(without aggregating securities from different securities accounts belonging to the same person)

No.	Name	No. of Shares Held	% of Issued Capital
1	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD INTER-PACIFIC MANAGEMENT SDN BHD FOR INDAH PUSAKA SDN BHD	53,602,291	12.249
2	INDAH PUSAKA SDN BHD	40,000,000	9.141
3	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR WARISAN JUTAMAS SDN. BHD.	37,800,000	8.638
4	BERJAYA SOMPO INSURANCE BERHAD	19,225,800	4.393
5	SELAT MAKMUR SDN BHD	19,200,000	4.387
6	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR HSBC PRIVATE BANK (SUISSE) S.A. (SPORE TST AC CL)	18,940,900	4.328
7	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSAM BIN DAMIS (AA0023)	13,500,000	3.085
8	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR WEI CHUAN BENG	10,677,400	2.440
9	WEI CHUAN BENG	10,298,976	2.353
10	HOW BEIK TIN	5,292,500	1.209
11	MAYBAN NOMINEES (TEMPATAN) SDN BHD WEI CHUAN BENG	5,000,000	1.142

Analysis of Shareholdings

as at 1 October 2010

THIRTY (30) LARGEST SHAREHOLDERS

(without aggregating securities from different securities accounts belonging to the same person) (Cont'd)

No.	Name	No. of Shares Held	% of Issued Capital
12	PERMODALAN NASIONAL BERHAD	4,969,350	1.135
13	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUAH SWEE HUAT (E-KLC)	4,550,000	1.039
14	JUARA SEJATI SDN BHD	3,825,000	0.874
15	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	3,551,550	0.811
16	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	3,000,000	0.685
17	TIEW MING CHING	2,510,341	0.573
18	MAYBAN NOMINEES (TEMPATAN) SDN BHD MOHD ARIFFIN BIN ZAINOL	2,498,000	0.570
19	LEE ENG HOCK & CO. SENDIRIAN BERHAD	2,100,000	0.479
20	ZAINAL AMANSHAH BIN ZAINAL ARSHAD	1,901,768	0.434
21	LAU BIK SOON	1,900,000	0.434
22	PETER YEOW HENG HO	1,752,000	0.400
23	NG HO FATT	1,729,600	0.395
24	LEONG KOK TAI	1,558,000	0.356
25	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FABULOUS CHANNEL SDN BHD (AF0010)	1,500,000	0.342
26	LOW CHENG KAT	1,373,000	0.313
27	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM BOON JIN @ LIM BAK KIM (E-SPI)	1,200,000	0.274
28	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR PHANG MIOW SIN (MM1162)	1,100,000	0.251
29	KENANGA NOMINEES (TEMPATAN) SDN BHD KENANGA CAPITAL SDN BHD FOR ZAINAL AMANSHAH BIN ZAINAL ARSHAD	1,060,000	0.242
30	HIEW HENG FOO	998,000	0.228

Analysis of Shareholdings

as at 1 October 2010

SUBSTANTIAL SHAREHOLDERS

No	Name	Direct	No. of Shares Held		%
			%	Indirect	
1	INDAH PUSAKA SDN BHD	93,602,291	21.39	–	–
2	OSK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR WARISAN JUTAMAS SDN BHD	37,800,000	8.64	–	–
3	WEI CHUAN BENG	26,259,376	6.00	–	–
4	JUARA SEJATI SDN BHD	3,825,000	0.87	⁽¹⁾ 41,425,800	9.47
5	ZAINAL AMANSHAH BIN ZAINAL ARSHAD	2,961,768	0.68	⁽²⁾ 93,602,291	21.39
6	MOHAMED SHAH BIN KADIR	–	–	⁽³⁾ 37,800,000	8.64
7	ABDUL KARIM BIN ABDUL KADIR	–	–	⁽³⁾ 37,800,000	8.64
8	BERJAYA CAPITAL BERHAD	–	–	⁽⁴⁾ 22,225,800	5.08
9	BIZURAI BIJAK (M) SDN BHD	–	–	⁽⁵⁾ 22,225,800	5.08
10	BERJAYA GROUP BERHAD	–	–	⁽⁶⁾ 45,250,800	10.34
11	BERJAYA CORPORATION BERHAD	–	–	⁽⁷⁾ 45,250,800	10.34
12	TAN SRI DATO' SERI VINCENT TAN CHEE YIOUN	–	–	⁽⁸⁾ 45,250,800	10.34

Notes:

- 1 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.
- 2 Deemed interested by virtue of his interest in Indah Pusaka Sdn Bhd.
- 3 Deemed interested by virtue of their interest in Warisan Jutamas Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.
- 4 Deemed interested by virtue of its interest in Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd.
- 5 Deemed interested by virtue of its interest in Berjaya Capital Berhad, the holding company of Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd.
- 6 Deemed interested by virtue of its (1) interest in Juara Sejati Sdn Bhd, Berjaya Sompo Insurance Berhad and Prime Credit Leasing Sdn Bhd (2) deemed interest in Berjaya Land Berhad, the holding company of Selat Makmur Sdn Bhd.
- 7 Deemed interested by virtue of its interest in Berjaya Group Berhad.
- 8 Deemed interested by virtue of his interests in Berjaya Corporation Berhad.

Analysis of 2.75% 10-Year Irredeemable Convertible Unsecured Loan Stocks 2010/2020 (ICULS) Holdings

as at 1 October 2010

Nominal Amount of ICULS	:	RM32,612,753.50
Conversion Price	:	RM0.25 per ordinary share of RM0.10 each
Conversion Period	:	4 March 2010 to 4 March 2020
Redeemability	:	Not redeemable for cash. All outstanding ICULS will be mandatorily converted into new ordinary shares of RM0.10 each on the Maturity Date at the Conversion Price
Coupon Rate	:	2.75% per annum calculated on the nominal value of the ICULS payable annually in arrears during the 10 years on the ICULS remaining outstanding. The last coupon payment shall be made on the Maturity Date.
ICULS converted during the year ended 31 May 2010	:	63,827,400

Size of ICULS holdings	No. of ICULS Holders	% of Total ICULS Holders	No. of ICULS	% of ICULS
1 – 99 ICULS	8	0.323	353	0.000
100 – 1,000 ICULS	29	1.173	19,300	0.005
1,001 – 10,000 ICULS	936	37.879	5,705,404	1.749
10,001 – 100,000 ICULS	1,260	50.991	44,432,800	13.624
100,001 – 16,306,375 of ICULS	233	9.429	106,141,587	32.546
16,306,376 and above of ICULS	5	0.202	169,828,091	52.074
TOTAL	2,471	100.00	326,127,535	100.00

THIRTY (30) LARGEST ICULS HOLDERS

(As per Record of Depositors)

No.	Name	No. of ICULS Held	% of ICULS
1	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD INTER-PACIFIC MANAGEMENT SDN BHD FOR INDAH PUSAKA SDN BHD	53,602,291	16.435
2	INDAH PUSAKA SDN BHD	40,000,000	12.265
3	WARISAN JUTAMAS SDN.BHD	37,800,000	11.590
4	BERJAYA SOMPO INSURANCE BERHAD	19,225,800	5.895
5	SELAT MAKMUR SDN BHD	19,200,000	5.887
6	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEGDED SECURITIES ACCOUNT FOR WEI CHUAN BENG	11,000,000	3.372
7	MAYBAN NOMINEES (TEMPATAN) SDN BHD WEI CHUAN BENG	10,000,000	3.066
8	CHEE LAI HOCK	5,219,600	1.600

Analysis of 2.75% 10-Year Irredeemable Convertible Unsecured Loan Stocks 2010/2020 (ICULS) Holdings

as at 1 October 2010

THIRTY (30) LARGEST ICULS HOLDERS

(As per Record of Depositors) (Cont'd)

No.	Name	No. of ICULS Held	% of ICULS
9	JUARA SEJATI SDN BHD	3,825,000	1.172
10	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	3,651,550	1.119
11	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	3,000,000	0.919
12	LEE ENG HOCK & CO. SENDIRIAN BERHAD	2,900,000	0.889
13	OOI BENG LIEW & SONS SDN. BHD.	1,750,000	0.536
14	KENANGA NOMINEES (TEMPATAN) SDN BHD KENANGA CAPITAL SDN BHD FOR ZAINAL AMANSHAH BIN ZAINAL ARSHAD	1,660,000	0.509
15	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FABULOUS CHANNEL SDN BHD (AF0010)	1,500,000	0.459
16	HU JUAH LANG	1,360,987	0.417
17	TEO AH SENG	1,300,000	0.398
18	HLG NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHAN BOON YONG	1,190,000	0.364
19	ZAINAL AMANSHAH BIN ZAINAL ARSHAD	1,132,000	0.347
20	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR PHANG MIOW SIN (MM1162)	1,000,000	0.306
21	HIEW HENG FOO	998,000	0.306
22	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM BOON JIN @ LIM BAK KIM (E-SPI)	923,900	0.283
23	CHENG HON SANG	900,000	0.275
24	LIEW THONG	900,000	0.275
25	LEONG KOK TAI	863,150	0.264
26	ON THIAM CHAI	833,500	0.255
27	NG LAI YIN	765,000	0.234
28	LIM CHOONG KONG	750,000	0.229
29	LIM POH FONG	730,000	0.223
30	CHENG HON SANG	700,000	0.214

Analysis of Warrant Holdings

as at 1 October 2010

No. of Warrant 2010/2015	:	162,446,534
Exercise Price	:	RM0.25 per ordinary share of RM0.10 each
Exercise Rights	:	Each Warrant entitles the holder to subscribe for one new ordinary share of RM0.10 each
Exercise Period	:	4 March 2010 to 4 March 2015
No. of Warrants exercised during the year ended 31 May 2010	:	Nil

Size of Warrant holdings	No. of Warrant Holders	% of Total Warrant Holders	No of Warrants	% of Warrants
1 – 99 Warrants	118	4.602	5,996	0.003
100 – 1,000 Warrants	129	5.031	82,140	0.050
1,001 – 10,000 Warrants	1,307	50.975	5,783,807	3.560
10,001 – 100,000 Warrants	843	32.878	28,084,720	17.288
100,001 – 8,122,325 Warrants	164	6.396	75,928,955	46.740
8,122,326 and above of Warrants	3	0.117	52,560,916	32.355
TOTAL	2,564	100.00	162,446,534	100.00

THIRTY (30) LARGEST WARRANT HOLDERS

(As per Record of Depositors)

No.	Name	No. of Warrants Held	% of Warrants
1	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD INTER-PACIFIC MANAGEMENT SDN BHD FOR INDAH PUSAKA SDN BHD	21,440,916	13.198
2	INDAH PUSAKA SDN BHD	16,000,000	9.849
3	WARISAN JUTAMAS SDN.BHD	15,120,000	9.307
4	BERJAYA SOMPO INSURANCE BERHAD	7,690,320	4.734
5	SELAT MAKMUR SDN BHD	7,680,000	4.727
6	LIM TENG HAI	2,408,800	1.482
7	ONG CHENG HUAT	1,630,900	1.003
8	JUARA SEJATI SDN BHD	1,530,000	0.941
9	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	1,460,620	0.899
10	HOW BEIK TIN	1,400,000	0.861
11	LEE KIM SENG	1,290,000	0.794
12	TAN KOK KENG	1,285,000	0.791

Analysis of Warrant Holdings

as at 1 October 2010

THIRTY (30) LARGEST WARRANT HOLDERS

(As per Record of Depositors) (Cont'd)

No.	Name	No. of Warrants Held	% of Warrants
13	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	1,200,000	0.738
14	LEE ENG HOCK & CO. SENDIRIAN BERHAD	1,160,000	0.714
15	CHAANG KOK LEONG	1,100,000	0.677
16	CHONG KAH LEONG	1,100,000	0.677
17	LIM CHENG TEN	1,100,000	0.677
18	LEE MEE KUEN	1,000,000	0.615
19	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN SUN PING	1,000,000	0.615
20	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR ONG BOK LIM (PB)	936,000	0.576
21	TAN KOK KEAT	900,000	0.554
22	CHONG KAH AN	889,700	0.547
23	LEONG HON WAH	870,000	0.535
24	LYNCHER WUNG WEI FONG	864,700	0.532
25	MOHD FAUZI BIN MOHD ANUAR	850,000	0.523
26	LIM KAM YOKE	820,000	0.504
27	HLG NOMINEE (TEMPATAN) SDN BHD CIMB BANK FOR LEN BOOK LEARN (M66002)	782,300	0.481
28	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE TUNG HONG (T MLK RAYA-CL)	760,000	0.467
29	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR CHONG HWA JAU (M78021)	750,000	0.461
30	NG HO FATT	723,720	0.445

REDtone

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 & NRIC NO.)

of
(FULL ADDRESS)

being a member of **REDtone International Berhad** ("the Company"), hereby appoint
(FULL NAME IN BLOCK LETTERS & NRIC NO.)

of
(FULL ADDRESS)

or failing him/her
(FULL NAME IN BLOCK LETTERS & NRIC NO.)

of
(FULL ADDRESS)

as my/our proxy to attend and vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at The Ballroom, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on **Tuesday, 30 November 2010 at 9:30 a.m.** and at any adjournment thereof:

RESOLUTION		FOR	AGAINST
1.	To receive the Statutory Financial Statements for the financial year ended 31 May 2010 together with the Reports of the Directors and Auditors thereon.		
2.	To approve the payment of Directors' fees amounting to RM244,500 in respect of the financial year ended 31 May 2010.		
3.	To re-elect Encik Zainal Amanshah Bin Zainal Arshad retiring pursuant to Article 85 of the Company's Articles of Association.		
4.	To re-elect Mr. Mathew Thomas A/L Vargis Mathews retiring pursuant to Article 85 of the Company's Articles of Association.		
5.	To re-elect Dato' Ibrahim Bin Che Mat retiring pursuant to Article 92 of the Company's Articles of Association.		
6.	To re-elect Mr. Jagdish Singh Dhaliwal retiring pursuant to Article 92 of the Company's Articles of Association.		
7.	To re-appoint Messrs Crowe Horwath as Auditors of the Company and to authorize the Directors to fix their remuneration.		
8.	Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.		

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 2010

Number of shares held

.....
Signature of member/Common Seal

CDS Account No.

Notes:

- I) 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.
- II) 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.
- III) The instrument appointing a proxy shall be in writing under the hand of the appointer or of 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.
- IV) Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint one (1) proxy in respect of each Securities Account which holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- V) 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 not less than forty-eight (48) hours before the time 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.



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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

Please fold here
