REDtone

ANNUAL REPORT 2011

REDTONE INTERNATIONAL BERHAD
(596364-U)

REDTONE INTERNATIONAL BERHAD | ANNUAL REPORT 2011

REDtone

REDTONE INTERNATIONAL BERHAD (596364-U)
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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Ninth Annual General Meeting of the Company will be held at Manhattan V, Level 14, Berjaya Times Square Hotel & Convention Center, No. 1 Jalan Imbi, 55100 Kuala Lumpur on **Tuesday, 15 November 2011** at 10.00 a.m. for the following purposes:

AGENDA

1.	To receive the Statutory Financial Statements for the financial year ended 31 May 2011 together with the Reports of the Directors and Auditors thereon.	Resolution 1
2.	To approve the payment of Directors' fees amounting to RM282,000 in respect of the financial year ended 31 May 2011 (2010: RM244,500.00).	Resolution 2
3.	To re-elect Mr. Lau Bik Soon, who is retiring pursuant to **Article 85** of the Company's Articles of Association and, being eligible, offered himself for re-election.	Resolution 3
4.	To re-elect the following Directors, who are retiring pursuant to **Article 92** of the Company's Articles of Association and, being eligible, offered themselves for election:-	
	(i) Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee	Resolution 4
	(ii) Dato' Ismail Bin Osman	Resolution 5
5.	To consider and if thought fit, to pass the following resolution pursuant to Section 129(6) of the Companies Act, 1965:-	
	"THAT Dato' Ibrahim Bin Che Mat who is of the age of seventy years and retiring in accordance with Section 129(2) of the Companies Act, 1965 be and is hereby re-appointed as a Director of the Company and to hold office until the next Annual General Meeting."	Resolution 6
6.	To re-appoint Messrs Crowe Horwath as Auditors of the Company and to authorise the Directors to fix their remuneration.	Resolution 7

AS SPECIAL BUSINESSES:

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

7. **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 nominal value of the issued and paid-up capital (excluding treasury shares) of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

8. **Proposed Renewal Of Authority To Purchase Its Own Shares By The Company ("Proposed Renewal of Share Buy-Back Authority")** — Resolution 9

"**THAT** subject to the Companies Act, 1965 ("the Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum and Articles of Association and Bursa Malaysia Securities Berhad ("Bursa Securities") ACE Market Listing Requirements ("ACE LR") for the time being in force and any other relevant authorities, the Directors of the Company be hereby unconditionally and generally authorised to make purchases of ordinary shares of RM0.10 each in the Company's issued and paid-up share capital through Bursa Securities at anytime and upon such terms and conditions and for such purposes as the Directors may, in their discretion deem fit, subject further to the following:

(i) the maximum number of ordinary shares which may be purchased and/or held by the Company as treasury shares shall not exceed ten per centum (10%) of the issued and paid-up share capital of the Company for the time being ("REDtone Shares");

Notice of Annual General Meeting

(ii) the maximum fund to be allocated by the Company for the purpose of purchasing the REDtone Shares shall not exceed the aggregate of the retained profits and the share premium account of the Company. As of 31 May 2011, the audited retained losses and share premium of the Company were RM1.93 million and RM9.4 million, respectively;

(iii) the authority conferred by this resolution shall commence immediately upon the passing of this ordinary resolution and will continue to be in force until the conclusion of the next Annual General Meeting ("AGM") of the Company at which such resolution was passed (at which time it will lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions), or unless earlier revoked or varied by ordinary resolution of the shareholders of the Company in general meeting or the expiration of the period within which the next AGM is required by law to be held, whichever occurs first.

"THAT in respect of each purchase of REDtone Shares, the Directors of the Company shall have the absolute discretion to decide whether such shares purchased are to be cancelled and/or retained as treasury shares for distribution as dividend to the shareholders and/or resale on the ACE Market of Bursa Securities and/or retained part as treasury shares and cancel the remainder.

AND THAT the Directors of the Company be hereby authorised to take all such steps to give effect to the Proposed Renewal of Share Buy-Back Authority and to do all such acts and things as the Directors of the Company may deem fit and expedient in the best interest 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: 24 October 2011

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 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.

Notice of Annual General Meeting

VI) For the purpose of determining a member who shall be entitled to attend the Ninth Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 61 of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositor as at 8 November 2011. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/or vote on his stead.

VII) Dato' Suriah Abd Rahman who is due for retirement at the Ninth Annual General Meeting pursuant to Article 85 of the Company's Articles of Association, had indicated to the Company that she does not wish to seek re-election at this Annual General Meeting.

Explanatory Notes on Special Businesses:-

VIII) 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 issue ordinary shares in the Company up to an amount not exceeding in total 10% of the nominal value of the issued and paid-up share capital (excluding treasury shares) of the Company for purpose of funding current and/or future investment projects, working capital, repayment of bank borrowings, acquisitions 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.

IX) Ordinary Resolution 9 - Proposed Renewal of Share Buy-Back Authority

For further information, please refer to the Share Buy-Back Statement dated 24 October 2011 accompanying the Company's Annual Report for the financial year ended 31 May 2011.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING
Pursuant to Rule 8.29 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad

1. Directors standing for election

(a) The Directors retiring by rotation and standing for election pursuant to Article 92 of the Company's Articles of Association are as follows:

(i) Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Hashee; and
(ii) Dato' Ismail Bin Osman.

(b) The profiles of the Directors who are standing for election at the Ninth Annual General Meeting are set out in the Board of Directors' Profile on page 8 to 10 of the Annual Report. Their shareholdings in the Company are set out in the section entitled Statement of Directors' Interests on page 29 of the Annual Report.

Corporate Information

BOARD OF DIRECTORS

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

Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee
(Deputy Chairman/ Non-Independent Non-Executive Director)

Dato' Wei Chuan Beng
(Managing Director)

Lau Bik Soon
(Group Chief Executive Officer)

Dato' Ismail bin Osman
(Senior 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)

NOMINATIONS 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)

Dato' Wei Chuan Beng
(Member/Managing Director)

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

OPTION COMMITTEE

Dato' Wei Chuan Beng
(Chairman)

Wong Thim Fatt

Ng Keng Chai

LOAN STOCKS & WARRANTS COMMITTEE

Dato' Wei Chuan Beng
(Chairman)

Wong Thim Fatt

Ng Keng Chai

COMPANY SECRETARY

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

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

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IOI Business Park
47100 Puchong
Selangor Darul Ehsan
Telephone no.: 03-8073 2288
Facsimile no.: 03-8073 7940
Website: www.redtone.com
E-mail: info@redtone.com

REGISTRAR

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 BANKER

HSBC Bank Malaysia Berhad

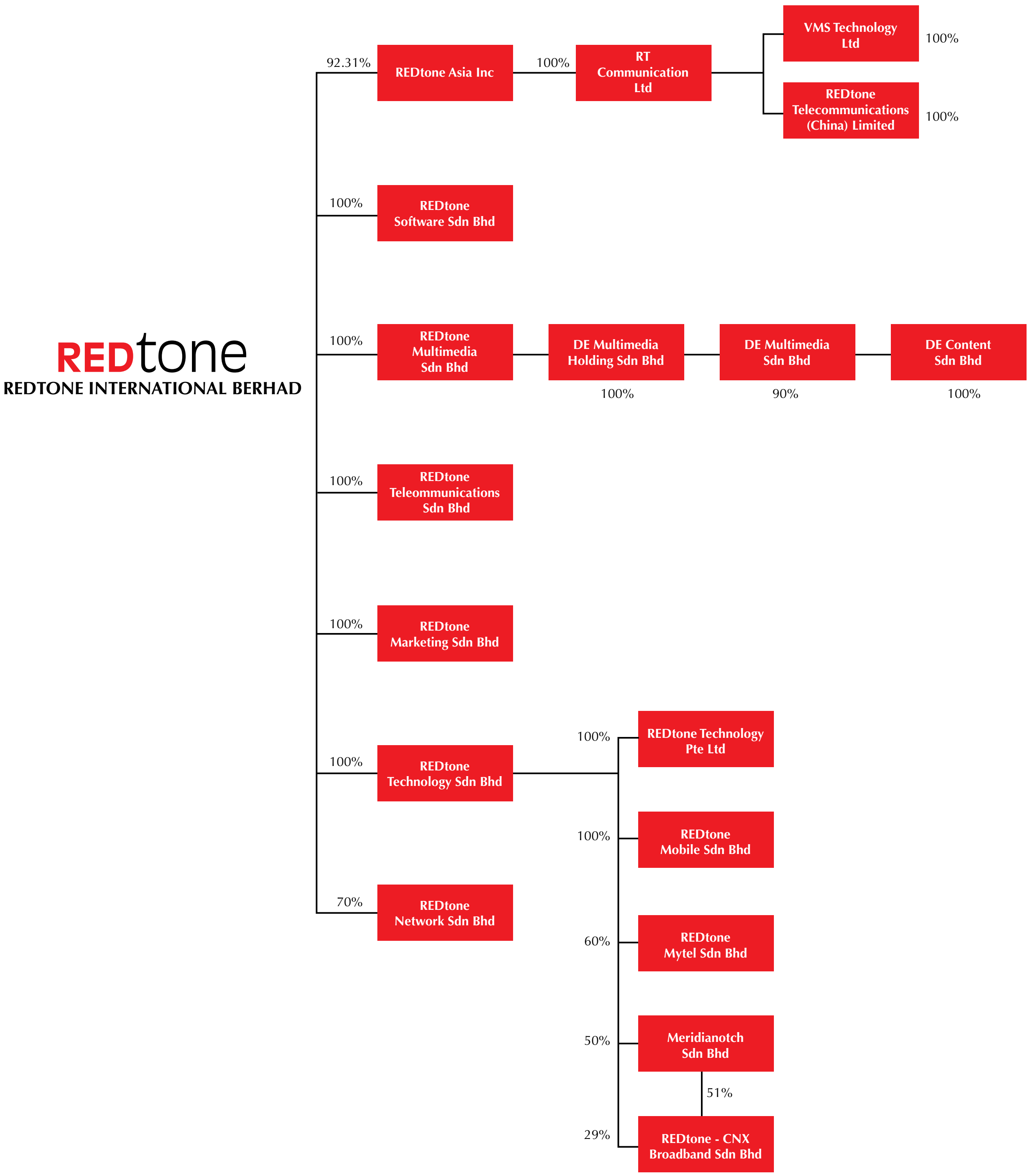
AUDITORS

Crowe Horwath
Chartered Accountants

LISTING

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

Corporate Structure



Board of Directors

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

2 Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee
(Deputy Chairman/Non-Independent Non-Executive Director)

3 Dato' Wei Chuan Beng
(Managing Director)

4 Dato' Ismail Bin Osman
(Senior Executive Director)

5 Lau Bik Soon
(Group Chief Executive Officer)

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

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

8 Jagdish Singh Dhaliwal
(Independent Non-Executive Director)

Board of Directors' Profile

DATO' IBRAHIM BIN CHE MAT
(Chairman/Independent Non-Executive Director)

Dato' Ibrahim bin Che Mat, aged 70, 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 all six (6) Board Meetings held during the financial year ended 31 May 2011.

DATUK WIRA SYED ALI BIN TAN SRI SYED ABBAS AL HABSHEE
(Deputy Chairman/Non-Independent Non-Executive Director)

Datuk Wira Syed Ali bin Tan Sri Syed Abbas Al Habshee, aged 49, a Malaysian, is the Deputy Chairman and was appointed to the Board of Directors of the Company on 28 July 2011. He obtained his Professional Diploma in Leadership and Management by the New Zealand Institute of Management, New Zealand in 2003.

Datuk Wira has great knowledge and executive experience in leading private, public and government controlled organisations from a broad range of industries. Datuk Wira ventured into business in the early 1980s and currently sits on the board of several private and public corporations involved in a diverse range of businessses such as Asia Media Group Berhad, C.I. Holdings Berhad, Tanjung Offshore Berhad and UZMA Berhad. He also holds Chairmanships in Composites Technology Research Malaysia Sdn Bhd, a company which is controlled by the Ministry of Finance, and Yayasan Pendidikan Cheras, Kuala Lumpur. He was appointed as a member of the Malaysian Senate (Dewan Negara) on 21 April 2003 until April 2009.

He did not attend any Board Meetings held during the financial year ended 31 May 2011 as he was appointed to the Board of Directors on 28 July 2011.

DATO' WEI CHUAN BENG
(Managing Director)

Dato' Wei Chuan Beng, aged 45, a Malaysian, is the Founder and 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.

Dato' Wei 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 direction and strategy. 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 past Chapter Chair person for the exclusive Young Presidents' Organisation (YPO). He is also a member of Malaysia National IT Council chaired by Prime Minister.

Dato' 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 2011.

Board of Directors' Profile

LAU BIK SOON

(Group Chief Executive Officer)

Mr. Lau Bik Soon, aged 40, a Malaysian, was appointed to the Board of Directors of the Company on 13 August 2008. He was subsequently appointed as the Group Chief Executive Officer on 8 July 2011. 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 had strengthened the organization and company's channel partner, and helped the company grow its business in Malaysia.

He also brings to REDtone more than 16 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.

He attended all six (6) Board Meetings held during the financial year ended 31 May 2011.

DATO' ISMAIL BIN OSMAN

(Senior Executive Director)

Dato' Ismail bin Osman, aged 61, a Malaysian, is a Senior Executive Director and was appointed to the Board of Directors of the Company on 5 September 2011. He obtained his Master of Science in Microwave Semiconductor Electronics from the University of Kent, United Kingdom.

Dato' Ismail Bin Osman began his career in the telecommunications industry when he joined the Jabatan Telekom Malaysia (then known as JT) in 1976 after graduating in 1975 from Universiti Teknologi Mara. He then moved to the newly established telecommunications regulatory department called Jabatan Telekomunikasi Malaysia (JTM) in January, 1987 when JT migrated from government department to a corporation (called then STMB, now TM) established under the Companies Act, 1965. He held the position of Director of Spectrum Management in JTM until 1994 when he was promoted to Deputy Director General. In January 1999, he was promoted to the Director General of Telecommunications. Due to changes of regulatory regime from the Telecommunications Act, 1950 to the Communication Multimedia Act, 1998, JTM ceased its functions and regulatory functions were handed over to the Communications and Multimedia Commission from April 1999. He retired as the last Director General of Telecommunications on 1 April 1999.

Since his retirement from the government service, he has been actively involved directly in the private sector involving telecommunications industry in particular and others in general. He previously sat on various boards of public and private companies, including DiGi.Com Berhad, Cosway Berhad, Berjaya Group Berhad, MOLACCESS Bhd and Asiaspace Sdn. Bhd.

He is currently the Chairman of Malaysian Technical Standard Forum Bhd (MTSFB), a forum designated by Malaysian Communications and Multimedia Commission (MCMC). He is also nominated by the Chairman of MCMC to lead the Entry Point Project (EPP) # 9 called Smart Network.

He did not attend any Board Meetings held during the financial year ended 31 May 2011 as he was appointed to the Board of Directors on 5 September 2011.

MATHEW THOMAS A/L VARGIS MATHEWS

(Independent Non-Executive Director)

Mr. Mathew Thomas A/L Vargis Mathews, aged 56, a Malaysian, is the Independent Non-Executive Director of the Company and was appointed to the Board of Directors of the Company on 15 November 2003. He obtained his Chartered Association of Certified Accountants (UK) qualification from London in 1985. He is currently a Fellow of the Chartered Association of Certified Accountants, UK. He began his career in a small audit practice and after qualifying, joined 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 (MIA) 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 2011.

Board of Directors' Profile

DATO' SURIAH ABD RAHMAN
(Independent Non-Executive Director)

Dato' Suriah Abd Rahman, aged 61, 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 Universiti Putra and MIMOS Berhad.

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

She attended all six (6) Board Meetings held during the financial year ended 31 May 2011.

JAGDISH SINGH DHALIWAL
(Independent Non-Executive Director)

Mr. Jagdish Singh Dhaliwal, aged 59, 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 from1999 to 2008.

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

He attended all six (6) Board Meetings held during the financial year ended 31 May 2011.

Notes:

None of the Director 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 and Managing Director

"Change is important. It is what gives us the hope and optimism of turning the company around into one that shows growth again."

Dear Shareholders,

During the financial year under review, repositioning of the Company from primarily a Voice business into one that is more diversified continued to take place. Our business is now more data and broadband-centric following the transformation that started 3½ years ago, and our China operations is gradually playing a bigger role.

While the focus may be less on the discounted call segment, it remains significant and profitable, albeit on a thinner margin.

We incurred additional expenses in FY'11 as we continued to invest in new areas of business within the technology and telco space. This is absolutely necessary for the Company's future.

To ensure key staff members are aligned to the Company's business direction and remain motivated, the Company granted share option under ESOS (Employee Share Option Scheme). As proven in the past, this is an important instrument to provide employees a sense of ownership.

FINANCIAL REVIEW

FY'11 remained tough. While revenue generated rose to RM89,573,235 from the previous financial year's RM82,211,459, the Group's loss after tax widened to RM12,260,368 from RM4,998,705 previously.

The 8.95% increase in revenue was largely driven by our China operations which recorded a rise in call traffic for our consumer business.

Factors which contributed to the loss were impairment of goodwill, impairment of past investment in China, depreciation of fixed assets, amortization of intangibles such as R & D (research and development) and project costs, share option granted under ESOS and provision of doubtful debts.

BUSINESS OVERVIEW

Our company has always been strong in R & D, and this is what sets us apart from others in the industry. Our technological innovations have enabled us to introduce solutions that have won us many customers. We continued to focus on technology development and are optimistic of seeing revenue from some of the new businesses beginning from the new financial year. One of these is the second-generation Internet TV where we have been working on what we call the e-coder. It comes with a browser and connects with your TV allowing you to access a wealth of content from the Internet on your TV.

The data and broadband segment registered healthy growth and profitability. While the AA (Apparatus Assignment) for the 2.6GHz broadband wireless spectrum has yet to be assigned to all the parties who have been informed they will be assigned a block of the spectrum including REDtone, nonetheless we forged ahead to offer corporate Internet and managed network (IP VPN) services to a growing number of customers from the corporate, SME and government sectors.

We started building WiFi networks in 2009 when we participated in a WiFi project in Penang. Since no licence is required to roll out WiFi hotspots, we seized the opportunity to start building WiFi networks for service providers, working with them on a revenue-share basis. This will provide the Company with recurring income. We are now the largest WiFi network builder in the country with more than 1,500 WiFi hotspots nationwide.

Though our discounted call segment remained a growth pillar, we continued to face challenges in this competitive and mature market. This was no different with the mobile segment which remained under intense pressure.

Likewise, our WiMAX operation in East Malaysia has yet to turn around even though we were very mindful of not incurring unnecessary capital expenditure. We would like to reiterate that our presence there is very much to support the government's efforts to raise broadband penetration throughout the country.

Letter to Shareholders from the Chairman and Managing Director

On a much brighter note, our China business is seeing a healthy growth with steady profits. We completed the reverse takeover of Hotgate Technologies Inc which is listed on the US OTC Bulletin Board and now hold a 92.3% share in the company. We have renamed the company REDtone Asia Inc. We also acquired a 100% stake in China-based Shanghai QianYue Business Administration Co Ltd. This enabled us to expand into the pre-paid card shopping business which has enormous growth potential in the republic.

PROSPECTS

We have in place numerous strategies in the year ahead to change and strengthen the business. While there may be headwinds, we are optimistic that some of our initiatives will start bearing fruits and help lessen the impact.

Data and broadband business
We will continue to build on our corporate and SME customer base by riding on our expertise to offer customized solutions. The growth momentum and profitability trend we saw in this segment is expected to continue as we have achieved critical mass.

We will also continue to bid for broadband projects initiated by the government.

Voice business
We will explore strategic partnerships with telco service providers as one of the strategies to maintain and further develop our discounted call and VoIP services.

Building of WiFi networks
We will leverage on our track record and standing as the largest WiFi infrastructure builder to pitch for joint projects with other telco service providers.

Mobile segment
We are actively pursuing partnerships with relevant parties with the aim of making the business more vibrant with greater reach, better distribution channels and more appealing offerings.

East Malaysia
Through our subsidiary REDtone – CNX Broadband Sdn Bhd, we have initiated and are taking the lead to explore the formation of a Borneo telecoms entity comprising telco service and infrastructure providers. This is to ensure critical mass in infrastructure, customer base and funding to make the business more viable in East Malaysia.

Technology products
One of our core and proprietary technologies is e-purse which we have been using successfully over the past 11 years in the rollout of some of our services. We are looking into commercializing the technology to generate revenue and profit for the Group. Local and international parties have expressed interest in e-purse and we are aggressively pursuing discussions with them to formalize the deal.

We are also sharpening our e-coder offering to enhance its appeal to the target groups and expect to launch it in the new financial year.

China business
We expect our Shanghai operations to continue to perform well. The market there shows great promise. We want to be able to fund the rapid growth and possibly expand our pre-paid business to other parts of the republic. To do that will require more capital and we are looking into various fund raising instruments.

We also plan to pare down our stake in REDtone Asia to about 70% from the current 92.3% through a share placement exercise. If this happens, it will further boost our coffers and results.

Spectrum and licences
This is crucial for the expansion of our data business. We will do whatever's possible within our means to secure the necessary spectrum. We hope that the relevant authorities can see that we are a highly capable and competent company and support our aim of rolling out data and high-speed broadband services (LTE or long-term evolution and 4G) nationwide.

At Board level
New directors have come on board. We now have a more balanced and stronger Board comprising highly experienced individuals from the government and corporate sectors who will be able to significantly enhance the business and value of the Group.

Letter to Shareholders from the Chairman and Managing Director

CORPORATE SOCIAL RESPONSIBILITY

We continued to provide free WiFi services to selected villages and schools in Sabah and Negeri Sembilan and to many public areas in Penang as well.

THANK YOU

We have an amazing staff team, some of whom have been with the Company even before it was listed in 2004. For your hard work, dedication and patience in a trying year, thank you from the bottom of our heart.

We would also like to express our gratitude to our loyal customers and business associates for their support.

To our shareholders, we appreciate your trust and confidence in the Board of Directors and the management team to further grow the value of our Company.

Dato' Ibrahim Che Mat
Chairman

Dato' Wei Chuan Beng
Managing Director

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, integrity and corporate performance as the prerequisites of a responsible corporate citizen.

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 the Malaysian Code on Corporate Governance (Revised 2007) ("Code"). The Code has served as a fundamental guide to the Board in discharging its principal duty to act in the best interest of the Company as well as managing the business and affairs of the Group efficiently.

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 is pleased to share the manner in which the Principles of the Code have been applied in the Group in respect of the financial year ended 31 May 2011 and the extent to which the Company has complied with the Best Practices of the Code. The Board believes that the Principles and the Best Practices set out in the Code have, in all material respects, been adhered to and complied with.

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.

A. BOARD OF DIRECTORS

1. The Board and its 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.

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

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

Corporate Governance Statement

A. BOARD OF DIRECTORS (CONT'D)

2. Board Composition and Balance

The Board consists of a total of eight (8) Directors, comprising three (3) Executive Directors and five (5) Non-Executive Directors. Four (4) out of five of the Non-Executive Directors are independent, which fulfils the prescribed requirement of one third of the Board to be independent. The profiles of the directors are set out on pages 8 to 10 of this Annual Report.

The roles of the Chairman and the Managing Director are clearly segregated and defined to ensure a 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.

3. Re-election of Directors

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

4. Board Meetings

During the financial year ended 31 May 2011, 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 attendance record for each Director is as follow:

DIRECTOR	ATTENDANCE
Dato' Ibrahim bin Che Mat	6/6
Dato' Wei Chuan Beng	6/6
Mr. Lau Bik Soon	6/6
En. Zainal Amanshah bin Zainal Arshad (resigned with effect from 8 July 2011)	6/6
Mr. Mathew Thomas a/l Vargis Mathews	6/6
Dato' Suriah Abd Rahman	6/6
Mr. Jagdish Singh Dhaliwal	6/6
Datuk Wira Syed Ali bin Tan Sri Syed Abbas Al Habshee *	NA
Dato' Ismail bin Osman *	NA

* *Datuk Wira Syed Ali bin Tan Sri Syed Abbas Al Habshee and Dato' Ismail bin Osman were appointed to the Board on 28 July 2011 and 5 September 2011 respectively.*

All the directors have complied with the minimum 50% attendance requirement in respect of Board meetings as stipulated by the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad.

Corporate Governance Statement

A. BOARD OF DIRECTORS (CONT'D)

5. 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 Chairman of the Audit Committee would brief the Board on matters deliberated by the Audit Committee which require the attention of the Board.

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.

6. Appointment and Re-election to the Board

The Nomination Committee is responsible for identifying and recommending to the Board suitable nominees for Board appointments. In discharging this duty, the Nomination Committee will assess the suitability of an individual to be appointed to the Board by taking into account the individual's skills, knowledge, expertise and experience, professionalism and integrity. Ultimate responsibility and final decisions on all matters, however, lies with the Board.

The Nomination Committee comprises entirely of Independent Non-Executive Directors. The Committee comprised the following members in the financial year under review and their attendance at meetings are as follows:

MEMBERS	ATTENDANCE
Dato' Suriah Abd Rahman - Chairperson	1/1
Mr. Mathews Thomas a/l Vargis Mathews	1/1
Mr. Jagdish Singh Dhaliwal	1/1

7. Directors' Training

The Board, through the Nomination Committee, ensures that it recruits to the Board only individuals of sufficient calibre, knowledge, and experience to perform the duties of a director. All Directors have successfully completed the Mandatory Accreditation Programme. In addition, the Directors undergo continuous training to equip themselves with the necessary knowledge and to keep abreast with developments to discharge their duties as a director effectively.

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.

The training courses attended by the Directors during the financial year are as follows:

- The Non-Executive Director Development Series
- Innovations: Tools & Technologies for Substantial Growth
- Economic Outlook of Malaysia and its Impact on Businesses
- Leading Innovation Joel Barker
- NLP - Negotiation with Influence
- Cranfield Executive Leadership Forum:- The Makings of a Global Leader

Corporate Governance Statement

B. DIRECTORS' REMUNERATION

Remuneration Committee

The Remuneration Committee comprised the following members and their attendance at meetings are as follows:

MEMBERS	ATTENDANCE
Dato' Suriah Abd Rahman - Chairperson	1/1
Dato' Wei Chuan Beng	1/1
Mr. Jagdish Singh Dhaliwal	1/1

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 survey data on the remuneration practices of comparable companies.

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	987,198	–
Fees	–	282,000

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

Range of Remuneration(RM)	Executive Directors	Non-Executive Directors
50,000 and below	–	3
150,001 to 200,000	–	1
250,001 to 300,000	2	–
300,001 and above	1	–

C. SHAREHOLDERS AND INVESTORS

Communications between Company and Investors

The Company recognizes the importance of communicating with its shareholders, stakeholders and the public. The Annual General Meeting ("AGM") is the principal forum for dialogue with all shareholders who are encouraged and are given sufficient opportunity to enquire about the Group's activities and prospects as well as to communicate their expectations and concerns. Shareholders are also encouraged to participate in the Question and Answer session on the resolutions being proposed or about the Group's operations in general. Shareholders who are unable to attend the AGM are allowed to appoint proxies in accordance with the Company's Articles of Association to attend and vote on their behalf. The Chairman and the Board members are in attendance to provide clarification on shareholders queries. Where appropriate the Chairman of the Board will endeavour to provide shareholders with written answers to any significant questions that cannot be readily answered during the AGM. Shareholders are also encouraged to contact REDtone anytime during the year and not only at the AGM.

Corporate Governance Statement

C. SHAREHOLDERS AND INVESTORS (CONT'D)

Communications between Company and Investors (cont'd)

In addition, the Company makes various announcements through Bursa Malaysia Securities Berhad, in particular, the Company's quarterly interim and full year financial results are released within two (2) months and four (4) months respectively from the end of each quarter/financial year and the Annual Report, which remains a key channel of communication, is published within six (6) months after the financial year end. 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 Bursa Malaysia Securities Berhad's website.

Investor Relations

Along with good corporate governance practices, the Company has embarked on appropriate corporate policies to provide greater disclosure and transparency through all its communications with its shareholders, investors and the 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.

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

Any queries, concerns or request for any information relating to the Group may be conveyed to the following persons:

Ng Keng Chai
General Manager, Corporate Affairs
REDtone International Berhad

Telephone : 603 8073 2288
Facsimile : 603 2773 9015
Email: kengchai.ng@redtone.com

Annie Wong
Company Secretary
Tricor Corporate Services Sdn. Bhd

Telephone : 603 2264 8888
Facsimile : 603 2282 2733
Email: annie.wong@my.tricorglobal.com

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 to ensure completeness, adequacy and accuracy of its financial reporting.

This assessment 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 that provides a reasonable assurance of effective and efficient operations and compliance with laws and regulations, as well as with internal procedures and guidelines.

The Statement on Internal Control furnished on pages 26 to 28 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 22 to 25 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.

Corporate Governance Statement

E. DIRECTORS' RESPONSIBILITY STATEMENT

The Companies Act 1965 ("Act") requires Directors to present the financial statements of the Company and Group in accordance with the Act and approved accounting standards in Malaysia and give a true and fair view of the state of affairs of the Company and Group at the end of the financial year and of the results and cash flows of the Company and Group for the financial year.

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 May 2011, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

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 2011 as set out on pages 31 to 102 of this Annual Report.

F. STATEMENT OF COMPLIANCE

The Group has complied throughout the financial year ended 31 May 2011 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 2011, a total of 13,747,500 options were granted and none of the options were exercised pursuant to the Employees' Share Option Scheme.

During the financial year, the total number of Irredeemable Convertible Unsecured Loan Stocks ("ICULS") converted to ordinary shares are as follows:

No. of ICULS converted	39,935,400
No. of Ordinary Shares issued	15,974,160

There was no exercise of Warrants into ordinary shares during the financial year ended 31 May 2011.

Utilisation of Proceeds raised from issuance of ICULS

Details of Utilisation	Approved Utilisation RM'000	Revised Utilisation RM'000	Actual Utilisation as at 31 May 2011 RM'000	Intended Timeframe for Utilisation	Deviation
Capital expenditure	38,210	23,210	16,208	Within 3 years	NA
Working capital	1,802	16,802	13,722	Within 1 year	NA
Estimated expenses for right issue	600	600	596	Within 1 year	NA
	40,612	40,612	30,526		

Non-Audit Fees

The amount of non-audit fees paid to the external auditors by the Company for the year ending 31 May 2011 was RM108,991. (2010: RM 26,250)

Recurrent Related Party Transactions ("RRPT")

The details of RRPT for the financial year under review are disclosed in Note 35 of the financial statements. The related party transactions are of revenue or trading in nature and are entered into in the ordinary course of business and no shareholder's mandate was required as the amount involved is below the threshold requiring the shareholder's approval.

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.

Additional Compliance Information

Share Buy-Backs

During the financial year under review, the share buy-back transactions were as follows:

Month	No. of REDtone shares purchased and retained as Treasury Shares	Average purchase price per Share (RM)	Total Consideration Paid (RM)
July 2010	326,200	0.176	57,437
August 2010	10,000	0.229	2,294
January 2011	160,000	0.192	30,727
March 2011	431,000	0.203	87,451
May 2011	215,000	0.193	41,590
	1,142,200		219,499

The shares purchased are held as treasury shares. As at 31 May 2011, the number of treasury shares held by the Company is 1,492,200.

Sanctions and/or Penalties

In the financial year ended May 31, 2011, there were no sanctions and / or penalties imposed on the Company and its subsidiaries, directors or management by any regulatory body.

Profit Estimates, Forecasts or Projections

There were no significant variances noted between the reported results and the unaudited results announced. The Company did not make any release on the profit estimates, forecasts or projections for the financial year ended 31 May 2011.

Profit Guarantees

There were no profit guarantees given by the Company during the financial year ended 31 May 2011.

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 2010.

Depository Receipt ("DR") Programme

During the financial year ended 31 May 2011, 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 year ended 31 May 2011.

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 to assist the Board review the adequacy and integrity of the Group's financial administration and reporting and internal control.

TERMS OF REFERENCE

1.0 COMPOSITION

(i) The Committee shall fulfill the following requirements:
- The Committee must be composed of no fewer than 3 members;
- All members of the Committee shall be non-executive directors with a majority of them being independent director; and
- At least one (1) member of the Committee must be a member of the Malaysian Institute of Accountants or have the relevant qualification and experience as specified by the ACE Market Listing Requirement of Bursa Malaysia Securities Berhad ("Listing Requirement").

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

(iii) The Committee is authorised by the Board to investigate any activity of the Company and its subsidiaries. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate as requested by members of the Committee.

(iv) Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements, the Committee shall promptly report such matter to Bursa Malaysia Securities Berhad.

2.0 MEMBERSHIP

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

Mr. Mathew Thomas a/l Vargis Mathews *(Chairman & Independent Non-Executive Director)*
Dato' Suriah Abdul Rahman *(Independent Non-Executive Director)*
Mr. Jagdish Singh Dhaliwal *(Independent Non-Executive Director)*

3.0 ATTENDANCE OF MEETINGS

(i) 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.

(ii) The Committee may require the members of management, the internal auditors and representatives of the external auditors to attend any of its meetings as it determines.

(iii) Other Directors and employees may attend any particular meeting only at the Committee's invitation, specific to the relevant meeting.

(iv) The Company Secretary shall be the Secretary of the Committee or in his absence, another person authorized by the Chairman of the Committee

Audit Committee Report

4.0 FREQUENCY OF MEETINGS

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

(ii) The Committee should meet with the External Auditors without Executive Directors present at least once a year.

The Audit Committee convened a total of five (5) meetings and the attendance of its members during the financial year ended 31 May 2011 is as follows:

Members	Total attendance of meetings
Mr. Mathew Thomas a/l Vargis Mathews - Chairperson	5/5
Dato' Suriah Abdul Rahman	5/5
Mr. Jagdish Singh Dhaliwal	5/5

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.

5.0 AUTHORITY

(i) The Committee shall have explicit authority to investigate any matter within its Terms of Reference.

(ii) The Committee have full access to any information pertaining to the Company and Group and unrestricted access to the senior management of the Company and Group.

(iii) The Committee have direct communication channels with the external auditor and person(s) carrying out the internal audit function or activity.

(iv) The Committee may with the approval of the Board, obtain independent professional or other advice in the performance of its duties.

6.0 DUTIES AND RESPONSIBILITIES

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

(i) To review the quarterly result and year-end financial statements, prior to the approval by the Board of Directors, focusing particularly on
- the going concern assumption;
- changes in or implementation of major accounting policy changes;
- significant and unusual events; and
- compliance with accounting standards and other legal requirements.

(ii) To review any related party transaction that may arise within the Company or Group.

(iii) To discuss problems and reservations arising from the interim and final audits and any matter the auditors wish to discuss (in the absence of management, where necessary).

(iv) To consider the appointment of the External Auditors, the audit fees and any questions of resignation or dismissal of external auditor.

(v) To review the nature and scope of audit of the external auditor.

Audit Committee Report

6.0 DUTIES AND RESPONSIBILITIES (CONT'D)

(vi) In respect of the internal audit function:
- 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;
- to review the internal audit program, processes, the results of the internal audit program, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- approve the appointment of the Internal Auditor and review the nature and scope of audit of the internal auditor

(vii) To carry out such other function as may be agreed to by the Committee and the Board of Directors.

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

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

2. Reviewed the Audit Review Report of the Group for the financial year ended 31 May 2010 with the External Auditors.

3. Reviewed the Audit Planning Memorandum of the Group for the financial year ended 31 May 2011 with the External Auditors.

4. Reviewed the audited financial statements of the Group, the issues arising from the audit, their resolution and the external audit report.

5. Reviewed the role and management of the internal audit function and the continued option to outsource the internal audit function.

6. Reviewed the internal audit findings and recommendations presented on the state of internal control of the Group.

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

8. Reviewed the re-appointment of External Auditors and its Audit Fees.

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.

The Audit Committee and Board of Directors are satisfied with the performance of the Internal Auditors and have in the interest of continuity and greater independence in the Internal Audit function, taken the decision to continue with the outsource of the Internal Audit function.

The amount of internal audit fees paid to the internal auditors by the Company for the year ending 31 May 2011 was RM 191,134.

Audit Committee Report

INTERNAL AUDIT FUNCTION (CONT'D)

In compliance with the decision of the Audit Committee in the financial year under review, the operational compliance reviews are as follows:

- Trade Procurement Management
- Treasury Management
- Inventory Management
- China Operations Management
- Other Assets Management

Further and at the request of the Audit Committee the internal audit reports and recommendations issued in the financial year ended 31 May 2010 were reviewed and reported upon to determine management compliance to the same.

STATEMENT ON EXECUTIVE SHARE OPTION SCHEME BY THE COMMITTEE

The by-laws governing the Company's Executive Share Option Scheme (ESOS) was approved on 30 November, 2010 for a duration of five (5) years commencing 14 January 2011. The Board of Directors and the Options Committee may extend the ESOS for another five (5) years upon expiry of the current validity period.

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

Breakdown of the options offered and exercised by the Non-Executive Directors pursuant to the Company's ESOS in respect the financial year ended 31 May 2011 is as follows:

Name of Directors	Amount of options offered	Amount of options exercised
Dato' Ibrahim bin Che Mat	100,000	–
Mr Mathew Thomas a/l Vargis Mathews	200,000	–
Dato' Suriah Abd Rahman	100,000	–
Mr Jagdish Singh Dhaliwal	50,000	–

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 Rule 15.26(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 the ACE Market Listing Requirement 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.

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 on Internal Control: Guidance for Directors of Public Listed Companies.

3. CONTROL STRUCTURE & RISK MANAGEMENT FRAMEWORK

Day to day operations is monitored by the Managing Director. This control is exercised through Executive Directors and 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.

Risk Management is regarded by the Board to be an integral part of managing the Company's business operations.

There is an on-going process of identifying the major risks that could potentially and significantly impact on the Group's business objectives and has assigned the respective Heads of Department to manage the risks within their departments. Significant risks identified and the corresponding internal controls implemented are discussed at periodic management meetings.

The Board of Directors and 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.

Statement of Internal Control

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, the Company has appointed Messrs Stanco & Ruche Consulting and Audex Governance Sdn Bhd to manage the Company's Internal Audit function on an outsourced basis.

The internal auditors report independently and directly to the Audit Committee in respect of the Internal Audit function. The Audit Committee together with the internal auditors agree 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.

The internal auditors are 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, the internal auditors 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, the internal auditor 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, the following are the internal audit compliance reviews undertook by the auditors:

- Trade Procurement Management
- Treasury Management
- Inventory Management
- China Operations Management
- Other Assets Management

The findings arising from the above reviews have been reported to management for their response and subsequently for Audit Committee deliberation.

Further and at the request of the Audit Committee the internal audit reports and recommendations issued in the financial year ended 31 May 2010 were reviewed and reported upon in respect of management compliance to the same.

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, Remuneration Committee, Loan Stocks & Warrants Committee and Option 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 and 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.

Statement of Internal Control

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

- 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, 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 and Audex Governance Sdn Bhd, 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 30 September 2011

Name of Director	No. of Shares Held			
	Direct	%	Indirect	%
THE COMPANY				
Dato' Ibrahim bin Che Mat	–	–	–	–
Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee	–	–	(1) 93,602,291	20.92
Dato' Wei Chuan Beng	26,259,376	5.87	–	–
Lau Bik Soon	2,196,600	0.49	–	–
Dato' Ismail bin Osman	–	–	–	–
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 Irredeemable Convertible Unsecured Loan Stocks 2010/2020 Held			
	Direct	%	Indirect	%
THE COMPANY				
Dato' Ibrahim bin Che Mat	–	–	–	–
Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee	–	–	(1) 93,602,291	31.02
Dato' Wei Chuan Beng	21,283,000	7.05	–	–
Lau Bik Soon	511,900	0.17	–	–
Dato' Ismail bin Osman	–	–	–	–
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	–	–	–	–
Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee	–	–	(1) 37,440,916	23.05
Dato' Wei Chuan Beng	–	–	–	–
Lau Bik Soon	–	–	–	–
Dato' Ismail bin Osman	–	–	–	–
Mathew Thomas A/L Vargis Mathews	90,000	0.06	–	–
Dato' Suriah Abd Rahman	–	–	–	–
Jagdish Singh Dhaliwal	–	–	–	–

Note:

1. *Deemed interested by virtue of his interest in Indah Pusaka Sdn Bhd via Tema Juara Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.*

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 1965 and the MASB Approved Accounting Standards in Malaysia. The financial statements include the statements of financial position, comprehensive income, changes in equity and cash flows and are made out in accordance with relevant provisions of the Act and applicable accounting standards.

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

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

The Directors have also a general responsibility for taking such steps as 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 2011 as set out on pages 31 to 102 of this annual report.

Directors' Report

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 May 2011.

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 set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	THE GROUP RM	THE COMPANY RM
(Loss)/Profit after taxation for the financial year	(12,260,368)	1,204,582
Attributable to:-		
Owners of the Company	(11,714,151)	1,204,582
Non-controlling interests	(546,217)	–
	(12,260,368)	1,204,582

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.

RESERVES AND PROVISIONS

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

ISSUES OF SHARES AND DEBENTURES

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 RM43,180,487 to RM44,777,903 by the issuance of 15,974,160 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.

The entire new ordinary shares issued during the financial year rank pari passu in all respects with the existing ordinary shares of the Company; and

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

Directors' Report

TREASURY SHARES

During the financial year, the Company purchased 1,142,200 of its issued ordinary shares from the open market at an average price of RM0.19 per share. The total consideration paid for the purchase was RM219,499 including transaction costs. The shares purchased are being held as treasury shares in accordance with Section 67A of the Companies Act 1965 and are presented as a deduction from total equity.

As at 31 May 2011, the Company held as treasury shares a total of 1,492,200 out of its 447,779,025 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM311,163. Relevant details on the treasury shares are disclosed in Note 17 to the financial statements.

OPTIONS GRANTED OVER UNISSUED SHARES

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company except for the share options granted pursuant to the Employee Share Option Scheme.

EMPLOYEE SHARE OPTION SCHEME

The Employee Share Option Scheme of the Company ("ESOS") is governed by the ESOS By-Laws and was approved by shareholders on 30 November 2010. The ESOS is to be in force for a period of 5 years effective from 14 January 2011.

The salient features, other terms of the ESOS and details of the share options granted during the financial year are disclosed in Note 18(f) to the financial statements.

During the financial year, the Company has granted 13,747,500 share options under the ESOS. These options expire on 13 January 2016.

The option prices and the details in the movement of the options granted are as follows:-

		NUMBER OF SHARE OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH			
DATE OF OFFER	EXERCISE PRICE	AT 1 JUNE 2010	GRANTED	EXERCISED	AT 31 MAY 2011
4 MARCH 2011	RM0.165	–	13,747,500	–	13,747,500

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose in this report the names of holders to whom options have been granted to subscribe for less than 250,000 ordinary shares of RM0.10 each. The names of option holders granted options to subscribe for 250,000 or more ordinary shares of RM0.10 each during the financial year, other than directors whose details are disclosed in the section on Directors' Interests in this report, are as follows:-

				<-----NUMBER OF SHARE OPTIONS----->		
NAME	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	GRANTED	EXERCISED	AT 31 MAY 2011
WONG THIM FATT	4 MARCH 2011	13 JANUARY 2016	RM0.165	1,500,000	–	1,500,000
NG KENG CHAI	4 MARCH 2011	13 JANUARY 2016	RM0.165	250,000	–	250,000

Directors' Report

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for impairment losses on receivables, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables.

At the date of this report, the directors are not aware of any circumstances that would require the further writing off of bad debts, or the additional allowance for impairment losses on receivables in the financial statements of the Group and of the Company.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

The contingent liabilities are disclosed in Note 39 to the financial statements. At the date of this report, there does not exist:-

(i) any charge on the assets of the Group and of the Company that 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 and of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

Directors' Report

DIRECTORS

The directors who served since the date of the last report are as follows:-

Dato' Ibrahim Bin Che Mat
Dato' Wei Chuan Beng
Mathew Thomas A/L Vargis Mathews
Lau Bik Soon
Dato' Suriah Abd Rahman
Jagdish Singh Dhaliwal
Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee (Appointed on 28.7.2011)
Dato' Ismail Bin Osman (Appointed on 5.9.2011)
Zainal Amanshah Bin Zainal Arshad (Resigned on 8.7.2011)

DIRECTORS' INTERESTS

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

	NUMBER OF ORDINARY SHARES OF RM0.10 EACH			
	AT 1.6.2010	BOUGHT	SOLD	AT 31.5.2011
DIRECT INTERESTS				
DATO' WEI CHUAN BENG	15,960,400	10,298,976	–	26,259,376
MATHEW THOMAS A/L VARGIS MATHEWS	225,000	–	–	225,000
ZAINAL AMANSHAH BIN ZAINAL ARSHAD	3,131,768	1,116,800	(1,170,000)	3,078,568
LAU BIK SOON	2,196,600	–	–	2,196,600
JAGDISH SINGH DHALIWAL	50,000	–	–	50,000
INDIRECT INTERESTS				
DATO' WEI CHUAN BENG #	10,298,976	–	(10,298,976)	–
ZAINAL AMANSHAH BIN ZAINAL ARSHAD ##	93,902,291	84,000	(300,000)	93,686,291

	NUMBER OF ICULS OF RM0.10 EACH			
	AT 1.6.2010	BOUGHT	SOLD	AT 31.5.2011
DIRECT INTERESTS				
DATO' WEI CHUAN BENG	21,283,000	–	–	21,283,000
MATHEW THOMAS A/L VARGIS MATHEWS	225,000	–	–	225,000
ZAINAL AMANSHAH BIN ZAINAL ARSHAD	2,792,000	–	(2,792,000)	–
LAU BIK SOON	511,900	–	–	511,900
INDIRECT INTEREST				
ZAINAL AMANSHAH BIN ZAINAL ARSHAD ##	93,812,291	–	(210,000)	93,602,291

Directors' Report

DIRECTORS' INTERESTS (CONT'D)

	NUMBER OF WARRANTS			
	AT 1.6.2010	BOUGHT	SOLD	AT 31.5.2011
DIRECT INTERESTS				
MATHEW THOMAS A/L VARGIS MATHEWS	90,000	–	–	90,000
LAU BIK SOON	204,760	–	(204,760)	–
INDIRECT INTEREST				
ZAINAL AMANSHAH BIN ZAINAL ARSHAD ##	37,440,916	–	–	37,440,916

Note:

\# *Deemed interested by virtue of the direct shareholding of his wife, Datin 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*

	NUMBER OF SHARE OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH			
	AT 1.6.2010	GRANTED	EXERCISED	AT 31.5.2011
SHARE OPTIONS OF THE COMPANY				
DATO' IBRAHIM BIN CHE MAT	–	100,000	–	100,000
DATO' WEI CHUAN BENG	–	5,000,000	–	5,000,000
MATHEW THOMAS A/L VARGIS MATHEWS	–	200,000	–	200,000
ZAINAL AMANSHAH BIN ZAINAL ARSHAD	–	1,000,000	–	1,000,000
LAU BIK SOON	–	2,500,000	–	2,500,000
DATO' SURIAH ABD RAHMAN	–	100,000	–	100,000
JAGDISH SINGH DHALIWAL	–	50,000	–	50,000

The other directors holding office at the end of the financial year did not have any interest in shares in the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the 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.

Neither during nor at the end of the financial year was the Group or the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than the options granted to certain directors pursuant to the ESOS of the Company.

Directors' Report

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 41 to the financial statements.

SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

The significant event occurring after the reporting period is disclosed in Note 42 to the financial statements.

AUDITORS

The auditors, Messrs. Crowe Horwath, have expressed their willingness to continue in office.

**SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS
DATED 26 SEPTEMBER 2011**

Dato' Wei Chuan Beng **Lau Bik Soon**

Kuala Lumpur, Malaysia

Statement by Directors

We, Dato' Wei Chuan Beng and Lau Bik Soon, being two of the directors of Redtone International Berhad, state that, in the opinion of the directors, the financial statements set out on pages 40 to 102 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 state of affairs of the Group and of the Company at 31 May 2011 and of their results and cash flows for the financial year ended on that date.

The supplementary information set out in Note 43, which is not part of the financial statements, is prepared in all material respects, in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants and the directive of Bursa Malaysia Securities Berhad.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS
DATED 26 SEPTEMBER 2011

Dato' Wei Chuan Beng **Lau Bik Soon**

Kuala Lumpur, Malaysia

Statutory Declaration

I, Wong Thim Fatt, being the officer primarily responsible for the financial management of Redtone International Berhad, do solemnly and sincerely declare that the financial statements set out on pages 40 to 102 are, to the best of my knowledge and belief, 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
Wong Thim Fatt,
at Kuala Lumpur in the Federal Territory
on this 26 September 2011

Wong Thim Fatt

Before me

Mohd Radzi bin Yasin
No.: W327
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 statements of financial position as at 31 May 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 40 to 102.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act 1965 in Malaysia, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of financial statements that give a true and fair view 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 2011 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 its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 5 to the financial statements.

(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.

Independent Auditors' Report
to the Members of REDtone International Berhad

The supplementary information set out in Note 43 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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
26 September 2011

Statements of Financial Position
At 31 May 2011

		THE GROUP		THE COMPANY	
		2011	2010	2011	2010
	NOTE	RM	RM	RM	RM
ASSETS					
NON-CURRENT ASSETS					
Investments in subsidiaries	5	–	–-	82,798,262	5,707,189
Investments in associates	6	16,501,984	230,962	–	–
Property, plant and equipment	7	34,278,996	32,180,575	288	379
Investment properties	8	1,038,600	870,000	–	–
Deferred tax assets	22	4,667,592	4,930,201	1,138,721	1,401,329
Other investment	9	10,000	–	–	–
Goodwill	10	9,020,434	5,227,807	–	–
Development costs	11	15,751,704	16,381,874	–	–
		81,269,310	59,821,419	83,937,271	7,108,897
CURRENT ASSETS					
Inventories	12	2,308,102	1,998,312	–	–
Trade receivables	13	14,196,528	21,579,254	–	–
Other receivables, deposits and prepayments	14	7,544,031	21,204,542	52,787,560	80,546,668
Tax recoverable		385,871	430,497	200	200
Other investment	9	933,891	1,342,980	–	1,065
Deposits with licensed banks	15	10,040,831	12,492,228	–	–
Cash and bank balances		17,886,076	41,281,531	3,653,532	24,547,927
		53,295,330	100,329,344	56,441,292	105,095,860
TOTAL ASSETS		134,564,640	160,150,763	140,378,563	112,204,757

The annexed notes form an integral part of the financial statements

Statements of Financial Position
At 31 May 2011 (Cont'd)

	NOTE	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
EQUITY AND LIABILITIES					
EQUITY					
Share capital	16	44,777,903	43,180,487	44,777,903	43,180,487
Treasury shares	17	(311,163)	(91,664)	(311,163)	(91,664)
Reserves	18	29,933,022	49,723,178	40,533,327	39,204,974
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		74,399,762	92,812,001	85,000,067	82,293,797
NON-CONTROLLING INTERESTS		7,012,769	475,479	–	–
TOTAL EQUITY		81,412,531	93,287,480	85,000,067	82,293,797
NON-CURRENT LIABILITIES					
Irredeemable convertible unsecured loan stocks ("ICULS")	18(e)	4,554,884	5,605,316	4,554,884	5,605,316
Finance lease payables	19	573,874	2,440,053	–	–
Hire purchase payables	20	69,143	95,908	–	–
Term loans	21	1,865,396	1,974,298	–	–
Deferred taxation	22	147,470	2,496	–	–
		7,210,767	10,118,071	4,554,884	5,605,316
CURRENT LIABILITIES					
Deferred income	23	7,968,058	9,449,699	–	–
Trade payables	24	16,492,659	17,250,503	–	–
Other payables and accruals	25	15,551,866	21,755,667	50,823,612	24,305,644
Finance lease payables	19	1,956,871	3,057,460	–	–
Hire purchase payables	20	26,739	26,739	–	–
Term loans	21	108,902	108,902	–	–
Provision for taxation		613,743	267,543	–	–
Bank overdrafts	26	3,222,504	4,828,699	–	–
		45,941,342	56,745,212	50,823,612	24,305,644
TOTAL LIABILITIES		53,152,109	66,863,283	55,378,496	29,910,960
TOTAL EQUITY AND LIABILITIES		134,564,640	160,150,763	140,378,563	112,204,757

The annexed notes form an integral part of the financial statements

Statements of Comprehensive Income

For the financial year ended 31 May 2011

		THE GROUP		THE COMPANY	
		2011	2010	2011	2010
	NOTE	RM	RM	RM	RM
REVENUE	27	89,573,235	82,211,459	–	–
COST OF SALES		(61,340,637)	(53,895,829)	–	–
GROSS PROFIT		28,232,598	28,315,630	–	–
OTHER INCOME		4,934,865	2,389,969	4,157,248	1,261,043
		33,167,463	30,705,599	4,157,248	1,261,043
GENERAL AND ADMINISTRATIVE EXPENSES		(42,729,888)	(32,180,176)	(1,847,688)	(1,459,004)
SHARE OF LOSSES IN ASSOCIATE		–	(788,488)	–	–
SHARE OF RESULTS IN JOINTLY CONTROLLED ENTITIES		–	(1,491,641)	–	–
FINANCE COSTS		(1,437,629)	(659,124)	(842,370)	(251,683)
(LOSS)/PROFIT BEFORE TAXATION	28	(11,000,054)	(4,413,830)	1,467,190	(449,644)
INCOME TAX EXPENSE	29	(1,260,314)	(584,875)	(262,608)	(287,333)
(LOSS)/PROFIT AFTER TAXATION		(12,260,368)	(4,998,705)	1,204,582	(736,977)
OTHER COMPREHENSIVE INCOME, NET OF TAX					
- Foreign currency translation		(1,435,190)	(1,085,395)	–	–
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE FINANCIAL YEAR		(13,695,558)	(6,084,100)	1,204,582	(736,977)
(LOSS)/PROFIT AFTER TAXATION ATTRIBUTABLE TO:-					
Owners of the Company		(11,714,151)	(5,414,133)	1,204,582	(736,977)
Non-controlling interests		(546,217)	415,428	–	–
		(12,260,368)	(4,998,705)	1,204,582	(736,977)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME ATTRIBUTABLE TO:-					
Owners of the Company		(13,053,516)	(6,400,997)	1,204,582	(736,977)
Non-controlling interests		(642,042)	316,897	–	–
		(13,695,558)	(6,084,100)	1,204,582	(736,977)
LOSS PER SHARE (SEN)					
Basic	30	(2.67)	(1.40)		
Diluted	30	Not applicable	Not applicable		

The annexed notes form an integral part of the financial statements

Statements of Changes in Equity

For the financial year ended 31 May 2011

		<--------------			NON-DISTRIBUTABLE			-------------->	DISTRIBUTABLE			
THE GROUP	**NOTE**	**SHARE CAPITAL RM**	**TREASURY SHARES RM**	**SHARE PREMIUM RM**	**FOREIGN EXCHANGE TRANSLATION RESERVE RM**	**OTHER RESERVES RM**	**ICULS RM**	**EMPLOYEE SHARE OPTION RESERVE RM**	**RETAINED PROFITS RM**	**ATTRIBUTABLE TO OWNERS OF THE COMPANY RM**	**NON-CONTROLLING INTERESTS RM**	**TOTAL EQUITY RM**
Balance at 1.6.2009		38,646,750	–	6,396,054	503,233	343,154	–	1,774,529	12,303,201	59,966,921	5,455,135	65,422,056
Total comprehensive expenses for the financial year		–	–	–	(986,864)	–	–	–	(5,414,133)	(6,400,997)	316,897	(6,084,100)
Issuance of shares, pursuant to conversion of ICULS		2,553,096	–	–	–	–	(2,548,743)	–	–	4,353	–	4,353
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
Treasury shares acquired	17	–	(91,664)	–	–	–	–	–	–	(91,664)	–	(91,664)
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	(5,296,553)	(5,296,553)
Employees' share options:												
- exercised	18	1,980,641	–	2,945,974	–	–	–	(1,219,138)	–	3,707,477	–	3,707,477
- granted		–	–	–	–	–	–	80,258	–	80,258	–	80,258
- expiry		–	–	–	–	–	–	(635,649)	635,649	–	–	–
Balance at 31.5.2010		43,180,487	(91,664)	9,342,028	(483,631)	19,674,292	13,665,772	–	7,524,717	92,812,001	475,479	93,287,480
Balance at 1.6.2010		43,180,487	(91,664)	9,342,028	(483,631)	19,674,292	13,665,772	–	7,524,717	92,812,001	475,479	93,287,480
Effect of dilution arising from investment in subsidiaries		–	–	–	(41,456)	–	–	–	(6,806,042)	(6,847,498)	6,847,498	–
Total comprehensive expenses for the financial year		–	–	–	(1,339,365)	–	–	–	(11,714,151)	(13,053,516)	(642,042)	(13,695,558)
Effect of adopting FRS 3		–	–	–	(12,913)	–	–	–	–	(12,913)	331,834	318,921
Issuance of shares, pursuant to conversion of ICULS	16 & 18	1,597,416	–	60,932	–	–	(1,658,348)	–	–	–	–	–
Treasury shares acquired	17	–	(219,499)	–	–	–	–	–	–	(219,499)	–	(219,499)
Employees' share options:-												
- granted	18	–	–	–	–	–	–	1,721,187	–	1,721,187	–	1,721,187
Balance at 31.5.2011		44,777,903	(311,163)	9,402,960	(1,877,365)	19,674,292	12,007,424	1,721,187	(10,995,476)	74,399,762	7,012,769	81,412,531

The annexed notes form an integral part of the financial statements

Statements of Changes in Equity
For the financial year ended 31 May 2011 (Cont'd)

THE COMPANY	NOTE	SHARE CAPITAL RM	TREASURY SHARES RM	SHARE PREMIUM RM	ICULS RM	OTHER RESERVES RM	DISTRIBUTABLE ACCUMULATED LOSSES RM	TOTAL EQUITY RM
		<-----NON-DISTRIBUTABLE			----->			
Balance at 1.6.2009		38,646,750	–	6,396,054	–	1,774,529	(2,396,987)	44,420,346
Total comprehensive expenses for the financial year		–	–	–	–	–	(736,977)	(736,977)
Treasury shares acquired		–	(91,664)	–	–	–	–	(91,664)
Issuance of shares, pursuant to conversion of ICULS		2,553,096	–	–	(2,548,743)	–	–	4,353
Issuance of ICULS, net of tax		–	–	–	16,214,515	–	–	16,214,515
Issuance of shares, pursuant to ESOS		1,980,641	–	2,945,974	–	(1,219,138)	–	3,707,477
Issuance of warrants		–	–	–	–	19,331,138	–	19,331,138
Employees' share options:								
- expiry	18	–	–	–	–	(635,649)	–	(635,649)
- granted		–	–	–	–	80,258	–	80,258
Balance at 31.5.2010/1.6.2010		43,180,487	(91,664)	9,342,028	13,665,772	19,331,138	(3,133,964)	82,293,797
Total comprehensive income for the financial year		–	–	–	–	–	1,204,582	1,204,582
Issuance of shares, pursuant to conversion of ICULS	16	1,597,416	–	60,932	(1,658,348)	–	–	–
Treasury shares acquired	17	–	(219,499)	–	–	–	–	(219,499)
Employees' share options:								
- granted	18	–	–	–	–	1,721,187	–	1,721,187
Balance at 31.5.2011		44,777,903	(311,163)	9,402,960	12,007,424	21,052,325	(1,929,382)	85,000,067

The annexed notes form an integral part of the financial statements

Statements of Cash Flows
For the financial year ended 31 May 2011

		THE GROUP		THE COMPANY	
		2011	2010	2011	2010
	NOTE	RM	RM	RM	RM
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES					
(Loss)/Profit before taxation		(11,000,054)	(4,413,830)	1,467,190	(449,644)
Adjustments for:-					
Amortisation of intangible assets	11	3,535,911	1,826,421	–	–
Bad debts written off	28	720,427	366,867	–	–
Depreciation of property and equipment	7	4,493,684	3,777,526	91	91
Net gain on conversion of ICULS		(623,274)	(1,057,241)	(623,274)	(1,057,241)
Interest expense		1,437,629	458,110	842,370	147,591
Inventories written off		188,443	115,766	–	–
Universal Service Provision fund contribution		888,233	858,350	–	–
Loss on disposal of property, plant and equipment		–	11,236	–	–
Gain on disposal of other investments		(13,198)	–	–	–
Impairment loss on trade receivables		699,355	4,387,801	–	–
Unrealised gain/(loss) on foreign exchange		(420,801)	396,024	–	–
Provision for annual leave		326,858	13,924	–	–
Investment written off	28	1,334,178	–	–	–
Impairment loss on goodwill	28	1,729,556	–	–	–
Share of losses in an associate		–	788,488	–	–
Share of loss in jointly controlled entity		–	1,491,641	–	–
Share options to employees	28	1,721,187	80,258	56,340	–
Writeback of impairment losses on receivables	28	(757,098)	(42,534)	–	–
Dividend income		–	–	(2,786,467)	–
Fair value gain:					
- investment properties	28	(168,600)	–	–	–
Interest income	28	(775,439)	(502,685)	(317,061)	(199,448)
Operating profit/(loss) before working capital changes		3,316,997	8,556,122	(1,360,811)	(1,558,651)
(Increase)/Decrease in inventories		(517,816)	528,085	–	–
Decrease/(Increase) in receivables		(3,738,761)	(8,334,734)	27,759,108	(42,305,709)
(Decrease)/Increase in payables		(8,120,797)	(962,301)	26,090,810	23,985,004
CASH (FOR)/FROM OPERATIONS		(9,060,377)	(212,828)	52,489,107	(19,879,356)
Interest paid		(595,259)	(310,519)	(842,370)	–
Income tax refunded		(461,905)	385,029	–	280
NET CASH (FOR)/FROM OPERATING ACTIVITIES/ CARRIED FORWARD		(10,117,541)	(138,318)	51,646,737	(19,879,076)

The annexed notes form an integral part of the financial statements

Statements of Cash Flows

For the financial year ended 31 May 2011 (Cont'd)

	NOTE	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
NET CASH (FOR)/FROM OPERATING ACTIVITIES/ BROUGHT FORWARD		(10,117,541)	(138,318)	51,646,737	(19,879,076)
CASH FLOWS FROM/(FOR) INVESTING ACTIVITIES					
Acquisition of subsidiaries,					
- net of cash and cash equivalents acquired	31	(2,526,027)	–	(75,426,226)	–
Net cash outflow on subscription of shares of existing subsidiaries		–	(8,981,000)	–	–
Dividend received		–	–	2,786,467	–
Interest income received		775,439	502,685	317,061	199,448
Purchase of property, plant and equipment	32	(5,058,673)	(6,611,056)	–	–
Purchase of other investments		(943,891)	(2,000,000)	–	–
Proceeds from disposal of property, plant and equipment		–	385,023	–	–
Proceeds from disposal of other investment		22,000	167,000	–	–
Development costs paid		(3,386,941)	(3,804,871)	–	–
NET CASH FROM/(FOR) INVESTING ACTIVITIES		(11,118,093)	(20,342,219)	(72,322,698)	199,448
CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES					
Cash paid from minority interests		–	(98,534)	–	–
Drawdown of term loans		–	1,128,000	–	–
Proceeds from issuance of ICULS and warrants		–	40,611,634	–	40,611,634
Proceeds from exercise of employees' share options		–	3,707,477	–	3,707,477
Purchase of treasury shares		(219,499)	(91,664)	(219,499)	(91,664)
Repayment of finance lease payables		(2,966,768)	(2,034,904)	–	–
Repayment of hire purchase obligations		(26,765)	(11,152)	–	–
Repayment of term loans		(108,902)	(94,801)	–	–
NET CASH (FOR)/FROM FINANCING ACTIVITIES		(3,321,934)	43,116,056	(219,499)	44,227,447
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,557,568)	22,635,519	(20,895,460)	24,547,819
EFFECTS OF EXCHANGE RATE CHANGES		308,609	(825,873)	–	–
CASH AND CASH EQUIVALENT AT BEGINNING OF THE FINANCIAL YEAR		48,953,362	27,144,216	24,548,992	1,173
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	33	24,704,403	48,953,862	3,653,532	24,548,992

The annexed notes form an integral part of the financial statements

Notes to the Financial Statements
For the financial year ended 31 May 2011

1. GENERAL INFORMATION

The Company is a public company limited by shares, incorporated and domiciled in Malaysia, and is listed on the ACE Market of Bursa Malaysia Securities Berhad. The registered office and principal place of business are as follows:-

Registered office	:	Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur
Principal place of business	:	Suite 22-30, 5th Floor, IOI Business Park, 47100 Puchong, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 26 September 2011.

2. 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 set out in Note 5 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

3. 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.

(a) During the current financial year, the Group has adopted the following new accounting standards and interpretations (including the consequential amendments):-

FRSs and IC Interpretations (including the Consequential Amendments)

FRS 4 Insurance Contracts

FRS 7 Financial Instruments: Disclosures

FRS 8 Operating Segments

FRS 101 (Revised) Presentation of Financial Statements

FRS 123 (Revised) Borrowing Costs

FRS 139 Financial Instruments: Recognition and Measurement

Amendments to FRS 1 and FRS 127: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to FRS 2: Vesting Conditions and Cancellations

Amendments to FRS 7, FRS 139 and IC Interpretation 9

Amendments to FRS 101 and FRS 132: Puttable Financial Instruments and Obligations Arising on Liquidation

Notes to the Financial Statements
For the financial year ended 31 May 2011

3. BASIS OF PREPARATION (CONT'D)

(a) **FRSs and IC Interpretations (including the Consequential Amendments) (Cont'd)**

Amendments to FRS 132: Classification of Rights Issues and the Transitional Provision in Relation to Compound Instruments

IC Interpretation 9 Reassessment of Embedded Derivatives

IC Interpretation 10 Interim Financial Reporting and Impairment

IC Interpretation 11: FRS 2 - Group and Treasury Share Transactions

IC Interpretation 13 Customer Loyalty Programmes

IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Annual Improvements to FRSs (2009)

The adoption of the above accounting standards and interpretations (including the consequential amendments) did not have any material impact on the Group's financial statements, other than the following:-

(i) FRS 7 requires additional disclosures about the financial statements of the Group. Prior to 1 June 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 Financial Instruments: Disclosures and Presentation. FRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group has applied FRS 7 prospectively in accordance with the transitional provisions. Accordingly, the new disclosures have not been applied to the comparatives and are included throughout the financial statements for the current financial year.

(ii) FRS 101 (Revised) introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present this statement as one single statement.

The revised standard also separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of comprehensive income as other comprehensive income.

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 classification of items in the statement.

FRS 101 (Revised) also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The new disclosure is made in Note 40(b) to the financial statements.

Comparative information has been re-presented so that it is in conformity with the requirements of this revised standard.

(iii) The adoption of FRS 139 (including the consequential amendments) has resulted in several changes to accounting policies relating to recognition and measurements of financial instruments. However, these changes did not have any financial impact on the financial statements of the Group and of the Company for the current financial year.

Notes to the Financial Statements
For the financial year ended 31 May 2011

3. BASIS OF PREPARATION (CONT'D)

(a) **FRSs and IC Interpretations (including the Consequential Amendments) (Cont'd)**

(iv) The Company has previously asserted explicitly that it regards financial guarantee contracts of banking facilities granted to its subsidiaries as insurance contracts and will apply FRS 4 to such financial guarantee contracts. Accordingly, the adoption of FRS 139 did not have any financial impact on the financial statements in respect of the financial guarantee contracts issued by the Company to its subsidiaries. These financial guarantee contracts issued are disclosed as contingent liabilities under Note 39 to the financial statements.

(b) The Group has adopted in advance of its effective date 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.

FRSs and IC Interpretations (including the Consequential Amendments)

FRS 3 (Revised) Business Combinations

FRS 127 (Revised) Consolidated and Separate Financial Statements

The financial impact to the financial statements is summarised as follows:-

(i) FRS 3 (Revised) 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 be no impact on prior periods in the Group's 2011 consolidated financial statements.

(ii) FRS 127 (Revised) 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 FRS 127 (Revised) prospectively and therefore there will be no financial impact on the financial statements of the Group for the current financial year but may impact the accounting of its future transactions or arrangements.

(c) 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:-

FRSs and IC Interpretations (including the Consequential Amendments)	Effective date
FRS 1 (Revised) First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 124 (Revised) Related Party Disclosures	1 January 2012
Amendments to FRS 1 (Revised): Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 2: Scope of FRS 2 and FRS 3 (Revised)	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

Notes to the Financial Statements
For the financial year ended 31 May 2011

3. BASIS OF PREPARATION (CONT'D)

(c) FRSs and IC Interpretations (including the Consequential Amendments) (Cont'd)

FRSs and IC Interpretations (including the Consequential Amendments) (Cont'd)	Effective date
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 138: Consequential Amendments Arising from FRS 3 (Revised)	1 July 2010
Amendments to IC Interpretation 14: Prepayments of a Minimum Funding Requirement	1 July 2011
Amendments to IC Interpretation 9: Scope of IC Interpretation 9 and FRS 3 (Revised)	1 July 2010
IC Interpretation 4 Determining Whether An Arrangement Contains a Lease	1 January 2011
IC Interprétation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18 Transfers of Assets from Customers	1 January 2011
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Annual Improvements to FRSs (2010)	1 January 2011

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below:-

(i) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Notes to the Financial Statements

For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Critical Accounting Estimates and Judgements (Cont'd)

(ii) 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 measure 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.

(iii) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

(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) Amortisation of Development Costs

Changes in the expected level of usage and technological development could impact the economic useful lives and therefore, future amortisation charges could be revised.

(vi) Allowance for 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.

(vii) Classification between Investment Properties and Owner Occupied Properties

The Group determines whether a property qualifies as an investment property, and has developed a criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Critical Accounting Estimates and Judgements (Cont'd)

(viii) Impairment of Trade and Other Receivables

An impairment loss is recognised when there is objective evidence that a financial asset is impaired. Management specifically reviews its loans and receivables financial assets and analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customer payment terms when making a judgment to evaluate the adequacy of the allowance for impairment losses. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. If the expectation is different from the estimation, such difference will impact the carrying value of receivables.

(ix) 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.

(x) Impairment of Goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires management to estimate the expected future cash flows of the cash-generating unit to which goodwill is allocated and to apply a suitable discount rate in order to determine the present value of those cash flows. The future cash flows are most sensitive to budgeted gross margins, growth rates estimated and discount rate used. If the expectation is different from the estimation, such difference will impact the carrying value of goodwill.

(xi) Fair Value Estimates for Certain Financial Assets and Liabilities

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and/or equity.

(xii) Share-based Payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity investments at the date at which they are granted. The estimating of the fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option volatility and dividend yield and making assumptions about them.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 May 2011.

A subsidiary is defined as a company in which the parent company has the power, directly or indirectly, to exercise control over its financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the purchase method. Under the purchase method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of Consolidation (Cont'd)

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interests in the consolidated statement of financial position consist of the minorities' share of fair values of the identifiable assets and liabilities of the acquiree as at the date of acquisition and the minorities' share of movements in the acquiree's equity.

Minority interests are presented within equity in the consolidated statement of financial position, separately from the Company's shareholders' equity, and are separately disclosed in the consolidated statement of comprehensive income. Transactions with minority interests are accounted for as transactions with owners. Gain or loss on disposal to minority interests is recognised directly in equity.

(c) Functional and 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, which is the functional currency.

The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in the statement of comprehensive income.

(iii) Foreign Operations

Assets and liabilities of foreign operations are translated to RM at the rates of exchange ruling at the end of the reporting period. Revenues and expenses of foreign operations are translated at exchange rates ruling at the dates of the transactions. All exchange differences arising from translation are taken directly to other comprehensive income and accumulated in equity under translation reserve. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is reclassified from equity to the statement of comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

(d) Financial Instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to 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.

Notes to the Financial Statements

For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Financial Instruments (Cont'd)

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial Assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables financial assets, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

- *Financial Assets at Fair Value Through Profit or Loss*

  Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

  Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend income from this category of financial assets is recognised in profit or loss when the Company's right to receive payment is established.

- *Held-to-maturity Investments*

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment loss, with revenue recognised on an effective yield basis.

- *Loans and Receivables Financial Assets*

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

- *Available-for-sale Financial Assets*

  Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the other categories.

  After initial recognition, available-for-sale financial assets are remeasured to their fair values at the end of each reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses. On derecognition, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity into profit or loss.

  Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

  Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any.

Notes to the Financial Statements

For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Financial Instruments (Cont'd)

(ii) Financial Liabilities

All financial liabilities are initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

(iii) Equity Instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(iv) Treasury Shares

When the Company's own shares recognised as equity are bought back, the amount of the consideration paid, including all costs directly attributable, are recognised as a deduction from equity. Own shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

Where such shares are subsequently sold or reissued, any consideration received, net of any direct costs, is included in equity.

(v) 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 profit or loss 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.

(vi) 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 warrant reserve in relation to the unexercised warrants at the expiry of the warrants will be transferred to retained earnings.

(e) Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in statement of comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Investments in Associates

An associate is an entity in which the Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investments in associates are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable.

The investment in an associate is accounted for under the equity method, based on the financial statements of the associate made up to 31 May 2011. The Group's share of the post acquisition profits of the associate is included in the consolidated statement of comprehensive income and the Group's interest in the associate is carried in the consolidated statement of financial position at cost plus the Group's share of the post acquisition retained profits and reserves.

Unrealised gains on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

(g) Property, Plant and Equipment

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 profit or loss 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 is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Freehold office lots	2%
Computers and software	10%
Furniture, fittings and office equipment	10%
Equipment, plant and machinery	10% - 20%
Office renovation	10%
Motor vehicles	20%

The depreciation method, useful life and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period 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 the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset is recognised in the statement of comprehensive income.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Initially investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are recognised in the statement of comprehensive income in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

On the derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income.

(i) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition.

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If, after reassessment, the Group's interest in the fair values of the identifiable net assets of the subsidiaries exceeds the cost of the business combinations, the excess is recognised as income immediately in the statement of comprehensive income.

(ii) Research and development expenditure

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity can demonstrate all of the following:-

(i) its ability to measure reliably the expenditure attributable to the asset under development;

(ii) the product or process is technically and commercially feasible;

(iii) its future economic benefits are probable;

(iv) its ability to use or sell the developed asset; and

(v) the availability of adequate technical, financial and other resources to complete the asset under development.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense is not recognised as assets in the subsequent period.

The development expenditure is amortised on a straight-line method over a period of 1-5 years when the products are ready for sale or use. In the event that the expected future economic benefits are no longer probable of being recovered, the development expenditure is written down to its recoverable amount.

Notes to the Financial Statements

For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Intangible Assets (Cont'd)

(iii) 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 if 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 the end of each reporting period.

Intangible assets with definite useful lives are not amortised but tested for impairment annually or more frequently if the events are 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.

(j) Impairment

(i) Impairment of Financial Assets

All financial assets (other than those categorised at fair value through profit or loss), are assessed at the end of each reporting period whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. For an equity instrument, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

An impairment loss in respect of held-to-maturity investments and loans and receivables financial assets is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the fair value reserve. In addition, the cumulative loss recognised in other comprehensive income and accumulated in equity under fair value reserve, is reclassified from equity to profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss made is recognised in other comprehensive income.

(ii) Impairment of Non-Financial Assets

The carrying values of assets, other than those to which FRS 136 Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in profit or loss immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Impairment (Cont'd)

(ii) Impairment of Non- Financial Assets (Cont'd)

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited to other comprehensive income. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the statements of comprehensive income, a reversal of that impairment loss is recognised as income in the statements of comprehensive income.

(k) Assets under Finance Lease and Hire Purchase

Leases of property, plant and equipment where substantially all the benefits and risks of ownership are transferred to the Company are classified as finance leases.

Property, plant and equipment acquired under finance lease and hire purchase are capitalised in the financial statements.

Each lease or hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding outstanding obligations due under the finance lease and hire purchase after deducting finance charges are included as liabilities in the financial statements.

Finance charges are allocated to the income statement over the periods of the respective lease and hire purchase agreements.

Property, plant and equipment acquired under finance leases and hire purchase are depreciated over the useful lives of the assets. If there is no reasonable certainty that the ownership will be transferred to the Company, the assets are depreciated over the shorter of the lease terms and their useful lives.

(l) Inventories

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

Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

Where necessary, due allowance is made for all damaged, obsolete and slow-moving items. The Group writes down its obsolete or slow moving inventories based on assessment of the condition and the future demand for the inventories. These inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recovered.

(m) Income Taxes

Income tax for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Income Taxes (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise 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 assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are 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 the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is included in the resulting 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.

(n) 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.

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

(p) Employee Benefits

(i) Short-term Benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined Contribution Plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Employee Benefits (Cont'd)

(iii) Share-based Payment Transactions

At grant date, the fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest.

(q) Related Parties

A party is related to an entity if:-

(i) directly, or indirectly through one or more intermediaries, the party:-
- controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the entity that gives it significant influence over the entity; or
- has joint control over the entity;

(ii) the party is an associate of the entity;
(iii) the party is a joint venture in which the entity is a venturer;
(iv) the party is a member of the key management personnel of the entity or its parent;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) 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 (iv) or (v); or
(vii) 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.

(r) 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. 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.

(s) Revenue Recognition

Revenue is recognised to the extent that 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.

Notes to the Financial Statements
For the financial year ended 31 May 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Revenue Recognition (Cont'd)

(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.

(t) Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(u) Borrowing Costs

Borrowing costs, directly attributable to the acquisition and construction of property, plant and equipment 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 recognised in profit or loss as expenses in the period in which they incurred.

5. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2011 RM	2010 RM
Unquoted shares, at cost		
- in Malaysia	7,372,036	5,707,189
Quoted shares, at cost		
- outside Malaysia	75,426,226	–
	82,798,262	5,707,189

Notes to the Financial Statements
For the financial year ended 31 May 2011

5. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:-

Name of Company	Country of Incorporation	Effective Equity Interest 2011 %	Effective Equity Interest 2010 %	Principal Activities
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 ("RMM")	Malaysia	100	100	Investment holding.
REDtone Software Sdn Bhd	Malaysia	100	100	Research, design, develop and experiments in relation to VOIP Customer Premise Equipment.
REDtone Asia Inc. ("RTA") ^ (formerly known as Hotgate Technology Inc.)	United States of America	92.31	19.50	Investment holding.
Held through RTT				
REDtone Mytel Sdn Bhd	Malaysia	60	60	Provision of telecommunication services.
REDtone Mobile 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.
Held through RMM				
DE Multimedia Holding Sdn Bhd ("DEMH")	Malaysia	100	100	Investment holding.

Notes to the Financial Statements
For the financial year ended 31 May 2011

5. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:- (Cont'd)

Name of Company	Country of Incorporation	Effective Equity Interest 2011 %	2010 %	Principal Activities
Held through DEMH				
DE Multimedia Sdn Bhd ("DEM")	Malaysia	90	90	Engaged in research, development, provision and commercialisation of digital television related technology services.
Held through RTA				
RT Communication Ltd ("RTCL") ^	British Virgin Islands	92.31	100	Investment holding.
Held through RTPLS				
VMS Telecommunications (S) Pte Ltd ^	Singapore	100	100	Dormant.
Held through DEM				
DE Content Sdn Bhd	Malaysia	90	90	Engaged in research, development and provision of contents for digital television related services.
Held through RTCL				
VMS Technology Ltd ^	Hong Kong SAR	92.31	100	Provides system design, maintenance services and distance call services.
REDtone Telecommunications (China) Limited ("RTCC") ^	Hong Kong SAR	92.31	100	Investment holding.
Held through RTCC				
REDtone Telecommunications (Shanghai) Ltd ("RTShanghai") ^	The People's Republic of China	92.31	100	Research and development of telecommunication and network technology and marketing of telecommunication technical services.
Shanghai Huitong Telecommunication Company Ltd ^*	The People's Republic of China	92.31	100	Marketing and distribution of IP call and discounted call services.
Held through RTShanghai				
Shanghai Hongsheng Net Communication Company Ltd ("Hongsheng") ^*	The People's Republic of China	92.31	100	Marketing and distribution of discounted call services on consumer products.

Notes to the Financial Statements
For the financial year ended 31 May 2011

5. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:- (Cont'd)

Name of Company	Country of Incorporation	Effective Equity Interest 2011 %	2010 %	Principal Activities
Held through Hongsheng				
Shanghai Jia Mao E-commerce Company Ltd ^*	The People's Republic of China	92.31	100	Marketing and distribution of products on the internet.
Shanghai Qian Yue Business Administration Co., Ltd ^*	The People's Republic of China	92.31	100	Marketing and distribution of products on the internet.

Note:

^ *These subsidiaries were audited by other firms of chartered accountants.*

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

6. INVESTMENTS IN ASSOCIATES

	THE GROUP 2011 RM	2010 RM
Unquoted shares at cost	1,077,794	6,970,097
Share of post-acquisition profits	(1,077,794)	(1,820,059)
Impairment loss on investment	–	(4,919,076)
	–	230,962
Quasi loans	16,501,984	–
	16,501,984	230,962

(a) Quasi loans represent advances and payments made on behalf of which the settlement is neither planned nor likely to occur in the foreseeable future. These amounts are in substance, a part of the Company's net investment in the subsidiaries. The quasi loans are stated at cost less accumulated impairment losses, if any.

Notes to the Financial Statements

For the financial year ended 31 May 2011

6. INVESTMENT IN ASSOCIATES (CONT'D)

(b) The details of the associates are as follows:-

Name of Company	Country of Incorporation	Effective Equity Interest 2011 %	2010 %	Principal Activities
REDtone-CNX Broadband Sdn Bhd	Malaysia	54.5^	54.5	Provision of broadband.
eB Capital Berhad	Malaysia	–	23	Investment holding and provision of management services.
REDtone Asia Inc. (formerly known as Hotgate Technology Inc.)	United States of America	–*	19.5	Investment holding.

* *During the financial year, the Group's equity interest in the associate was increased as a result of the acquisition of additional shares, as disclosed in Note 31 to the financial statements. Consequently, the associate became a subsidiary of the Group.*

^ *The Group does not have control as it only has minority representation in the composition of the Board of Directors in the associate.*

(c) The summarised unaudited financial information of the associates is as follows:-

	THE GROUP 2011 RM	2010 RM
Assets and liabilities		
Total assets	7,013,141	4,150,760
Total liabilities	3,170,522	12,326,346
Results		
Revenue	7,540,259	7,391,491
Profit after taxation	(5,441,280)	(4,012,391)

Notes to the Financial Statements
For the financial year ended 31 May 2011

7. PROPERTY, PLANT AND EQUIPMENT

THE GROUP	AT 1.6.2010 RM	ACQUISITION OF SUBSIDIARIES RM	ADDITIONS RM	RECALSSIFI-CATIONS RM	DEPRECIATION CHARGE RM	EXCHANGE DIFFERENCE RM	AT 31.5.2011 RM
NET BOOK VALUE							
Freehold office lots	4,877,942	–	–	–	(109,500)	–	4,768,442
Computers and software	4,323,103	1,350,656	262,397	(43,913)	(747,031)	(8,579)	5,136,633
Furniture, fittings and office equipment	1,441,700	450,887	47,442	45,905	(211,893)	1,269	1,775,310
Equipment, plant and machinery	19,371,301	47,700	4,001,062	(1,992)	(3,134,358)	(307,458)	19,976,255
Other assets	2,166,529	–	747,772	–	(290,902)	(1,043)	2,622,356
	32,180,575	1,849,243	5,058,673	–	(4,493,684)	(315,811)	34,278,996

THE GROUP	AT 1.6.2009 RM	ADDITIONS RM	DISPOSALS RM	RECALSSIFI-CATIONS RM	EXCHANGE DIFFERENCE RM	DEPRECIATION CHARGE RM	AT 31.5.2010 RM
NET BOOK VALUE							
Freehold office lots	4,987,442	–	–	–	–	(109,500)	4,877,942
Computer and software	4,902,487	95,518	–	–	(17,846)	(657,056)	4,323,103
Furniture, fittings and office equipment	1,354,201	278,374	(5,433)	(35,015)	(6,547)	(178,895)	1,441,700
Equipment, plant and machinery	12,217,988	10,296,642	(686)	12,706	(572,601)	(2,570,042)	19,371,301
Other assets	2,087,008	738,423	(390,140)	22,309	(6,729)	(262,033)	2,166,529
	25,549,126	11,408,957	(396,259)	–	(603,723)	(3,777,526)	32,180,575

THE GROUP	AT COST RM	ACCUMULATED DEPRECIATION RM	NET BOOK VALUE RM
At 31.5.2011			
Freehold office lots	5,474,977	(706,535)	4,768,442
Computers and software	10,193,248	(5,056,615)	5,136,633
Furniture, fittings and office equipment	2,899,650	(1,124,340)	1,775,310
Equipment, plant and machinery	39,077,201	(19,100,946)	19,976,255
Other assets	3,550,699	(928,343)	2,622,356
	61,195,775	(26,916,779)	34,278,996

Notes to the Financial Statements
For the financial year ended 31 May 2011

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

At 31.5.2010	AT COST RM	ACCUMULATED DEPRECIATION RM	NET BOOK VALUE RM
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

THE COMPANY	AT 1.6.2010 RM	DEPRECIATION CHARGE RM	AT 31.5.2011 RM
NET BOOK VALUE			
Furniture and fittings	379	(91)	288

	AT 1.6.2009 RM	DEPRECIATION CHARGE RM	AT 31.5.2010 RM
NET BOOK VALUE			
Furniture and fittings	470	(91)	379

THE COMPANY	AT COST RM	ACCUMULATED DEPRECIATION RM	NET BOOK VALUE RM
At 31.5.2011			
Furniture and fittings	910	(622)	288
At 31.5.2010			
Furniture and fittings	910	(531)	379

(a) Included in the assets of the Group and the Company at the end of the reporting period were motor vehicles with a total net book value of RM101,159 (2010 – RM130,061), which were acquired under hire purchase terms.

(b) The freehold office lots of the Group have been pledged to licensed banks as security for banking facilities granted to the Group.

Notes to the Financial Statements
For the financial year ended 31 May 2011

8. INVESTMENT PROPERTIES

THE GROUP	AT 1.6.2010 RM	FAIR VALUE ADJUSTMENT RM	AT 31.5.2011 RM
Leasehold land and buildings, at fair value	870,000	168,600	1,038,600

	AT 1.6.2009 RM	FAIR VALUE ADJUSTMENT RM	AT 31.5.2010 RM
Leasehold land and buildings, at fair value	870,000	–	870,000

(a) The leasehold land and buildings have been pledged to a licensed bank as security for banking facilities granted to the Group.

(b) Investment properties are stated at fair value, which have been determined based on directors' valuation at the end of the reporting period. The directors estimate the fair values of the investment properties to be approximately RM1,038,600 (2010 – RM870,000) based on recent selling prices of similar properties at locations adjacent to the Group's investment properties.

9. OTHER INVESTMENTS

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
At Cost				
Non-Current:				
Unquoted shares in Malaysia	10,000	–	–	–
Current:				
Quoted securities in Malaysia	–	8,802	–	1,065
Unquoted shares outside Malaysia	933,891	1,334,178	–	–
	933,891	1,342,980	–	1,065
	943,891	1,342,980	–	1,065

(a) Upon adoption of FRS 139 during the financial year, the Group designated its investments in quoted shares that were previously measured using the cost model as available-for-sale financial assets and measured at fair value.

(b) Investments in unquoted shares of the Group, designated as available-for-sale financial assets, are stated at cost as their fair values cannot be reliably measured using valuation techniques due to the lack of marketability of the shares.

Notes to the Financial Statements
For the financial year ended 31 May 2011

10. GOODWILL

	THE GROUP 2011 RM	THE GROUP 2010 RM
At 1 June	5,407,204	1,722,757
Acquisition of subsidiaries	5,627,593	3,684,447
Exchange differences	(105,410)	–
	10,929,387	5,407,204
Accumulated impairment losses	(1,908,953)	(179,397)
At 31 May	9,020,434	5,227,807

(a) The carrying amounts of goodwill allocated to each cash-generating unit are as follows:-

	THE GROUP 2011 RM	THE GROUP 2010 RM
DE Group	684,822	1,369,645
RTA Group	7,206,212	2,728,762
Others	1,129,400	1,129,400
	9,020,434	5,227,807

(b) The Group assessed the recoverable amounts of goodwill allocated and determined that no additional impairment is required. The recoverable amounts of the cash-generating units are determined using the value-in-use approach, and this is derived from the present value of the future cash flows from the operating segments computed based on the projections of financial budgets approved by management covering a period of 4 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

	AVERAGE BUDGETED EBITDA MARGIN 2012 – 2015	AVERAGE GROWTH RATE 2012 – 2015	DISCOUNT RATE 2012 – 2015
DE Group	33%	464%	16%
RTA Group	33%	21%	16%
Others	24%	14%	16%

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 average budgeted EBITDA margin and weighted average growth rate based on past performance and its expectation 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.

Sensitivity to Changes in Assumptions

The management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the goodwill to be materially higher than its recoverable amount.

Notes to the Financial Statements
For the financial year ended 31 May 2011

11. DEVELOPMENT COSTS

	THE GROUP 2011 RM	THE GROUP 2010 RM
At Cost:-		
At 1 June	20,775,233	17,007,917
Acquisition of a subsidiary	136,330	–
Additions during the financial year	3,386,941	3,804,871
Exchange differences	(707,716)	(37,555)
	23,590,788	20,775,233
Accumulated amortisation:-		
At 1 June	(4,393,359)	(2,133,212)
Amortisation for the financial year	(3,535,911)	(1,826,421)
Exchange differences	90,186	(433,726)
	(7,839,084)	(4,393,359)
At 31 May	15,751,704	16,381,874

The development costs included the following expenses:-

	THE GROUP 2011 RM	THE GROUP 2010 RM
Staff costs	2,905,741	3,738,176

12. INVENTORIES

	THE GROUP 2011 RM	THE GROUP 2010 RM
At Cost:-		
Finished goods	2,308,102	1,998,312

None of the inventories are carried at net realisable value.

Notes to the Financial Statements
For the financial year ended 31 May 2011

13. TRADE RECEIVABLES

	THE GROUP 2011 RM	THE GROUP 2010 RM
Trade receivables		
- Third parties	17,448,679	18,307,126
- Associates	91	8,278,240
	17,448,770	26,585,366
Allowance for impairment losses	(3,252,242)	(5,006,112)
	14,196,528	21,579,254
Allowance for impairment losses:-		
At 1 June	(5,006,112)	(2,710,875)
Written back during the financial year	757,098	42,534
Written off during the financial year	1,696,127	14,736
Addition during the financial year	(699,355)	(2,352,507)
At 31 May	(3,252,242)	(5,006,112)

The Group's normal trade credit terms range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
Other receivables:-				
Associates	–	9,514,346	–	–
Amount due from subsidiaries	–	–	52,756,035	80,521,060
	–	9,514,346	52,756,035	80,521,060
Deposits	658,355	617,977	–	–
Prepayments	1,127,645	1,348,696	–	25,608
Sundry receivables	7,793,325	11,758,817	31,525	–
	9,579,325	23,239,836	52,787,560	80,546,668
Allowance for impairment losses:				
At 1 June	(2,035,294)	–	–	–
Addition during the financial year	–	(2,035,294)	–	–
	(2,035,294)	(2,035,294)	–	–
	7,544,031	21,204,542	52,787,560	80,546,668

Notes to the Financial Statements
For the financial year ended 31 May 2011

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONT'D)

(a) The amount owing by the related parties represents machine rental receivable from companies in which certain directors have interests. The amount is repayable on demand.

(b) Included in sundry receivables is an amount of RM1,530,287 (2010 – RM2,440,093) paid to a third party as part of advances for purchases and the security deposit of RM789,690 (2010 – RM789,690) placed in accordance with the requirements of an agreement with a telecommunication company.

15. DEPOSITS WITH LICENSED BANKS

(a) The deposits with licensed banks of the Group at the end of the reporting period bore effective interest rates ranging from 2.2% to 3.3% (2010 – 1.8% to 2.6%) per annum. The deposits have maturity periods ranging from 30 to 365 days (2010 - 30 to 365 days).

(b) The deposits with licensed banks of the Group at the end of the reporting period have been pledged to a licensed bank as security for banking facilities granted to the Group.

16. SHARE CAPITAL

The movements in the authorised and paid-up share capital of the Company are as follows:-

	THE GROUP/ THE COMPANY			
	2011	2010	2011	2010
	NUMBER OF SHARES		RM	RM
AUTHORISED				
Ordinary shares of RM0.10 each	1,000,000,000	1,000,000,000	100,000,000	100,000,000
ISSUED AND FULLY PAID-UP				
Ordinary shares of RM0.10 each				
At 1 June	431,804,865	386,467,500	43,180,487	38,646,750
Issuance of shares pursuant to conversion of ICULS	15,974,160	25,530,960	1,597,416	2,553,096
New shares issued under the employee share option scheme	–	19,806,405	–	1,980,641
At 31 May	447,779,025	431,804,865	44,777,903	43,180,487

17. TREASURY SHARES

During the financial year, the Company purchased 1,142,200 of its issued ordinary shares from the open market at an average price of RM0.19 per share. The total consideration paid for the purchase was RM219,499 including transaction costs. The shares purchased are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 447,779,025 (2010 - 431,804,865) issued and fully paid-up ordinary shares as at the end of the reporting period, 1,492,200 (2010 - 350,000) ordinary shares are held as treasury shares by the Company amounting to RM311,163 (2010: RM91,664). None of the treasury shares were resold or cancelled during the financial year.

Notes to the Financial Statements
For the financial year ended 31 May 2011

18. RESERVES

	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
Share premium	9,402,960	9,342,028	9,402,960	9,342,028
Foreign currency translation reserve	(1,877,365)	(483,631)	–	–
Capital reserve	343,154	343,154	–	–
Warrants reserve	19,331,138	19,331,138	19,331,138	19,331,138
Irredeemable convertible unsecured loan stocks	12,007,424	13,665,772	12,007,424	13,665,772
Employee share option reserve	1,721,187	–	1,721,187	–
(Accumulated losses)/Retained profits	(10,995,476)	7,524,717	(1,929,382)	(3,133,964)
Total	29,933,022	49,723,178	40,533,327	39,204,974

(a) Share Premium

The movements in the share premium of the Group and the Company are as follows:-

	THE GROUP/ THE COMPANY 2011 RM	THE GROUP/ THE COMPANY 2010 RM
At 1 June	9,342,028	6,396,054
Ordinary shares issued pursuant to conversion of ICULS	60,932	–
Ordinary shares issued pursuant to exercise of ESOS options	–	2,945,974
At 31 May	9,402,960	9,342,028

The share premium is not distributable by way of dividends and may be utilised in the manner set out in Section 60(3) of the Companies Act 1965.

(b) Foreign Exchange Translation Reserve

The foreign exchange translation reserve arose from the translation of the financial statements of foreign subsidiaries and is not distributable by way of dividends.

	THE GROUP 2011 RM	THE GROUP 2010 RM
At 1 June	(483,631)	503,233
Foreign currency translation	(1,393,734)	(986,864)
At 31 May	(1,877,365)	(483,631)

Notes to the Financial Statements
For the financial year ended 31 May 2011

18. RESERVES (CONT'D)

(c) Capital Reserve

	THE GROUP 2011 RM	THE GROUP 2010 RM
At 31 May	343,154	343,154

(d) Warrants Reserve

	THE GROUP/ THE COMPANY 2011 RM	THE GROUP/ THE COMPANY 2010 RM
At 1 June	19,331,138	–
Arising from rights issue with warrants during the financial year	–	19,331,138
At 31 May	19,331,138	19,331,138

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 2011.

As at the end of the reporting period, 162,446,534 warrants remain unexercised.

Valuation model	Trinomial
Exercise type	American
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; 30.09.2009,30.6.2009; 31.3.2009; and 31.12.2008

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

Equity	THE GROUP/ THE COMPANY 2011 RM	THE GROUP/ THE COMPANY 2010 RM
At 1 June	13,665,772	–
Arising from rights issue with warrants during the financial year	–	14,525,853
Deferred tax (Note 22)	–	1,688,662
Converted during the financial year	(1,658,348)	(2,548,743)
At 31 May	12,007,424	13,665,772

18. RESERVES (CONT'D)

(e) Irredeemable Convertible Unsecured Loan Stocks ("ICULS") (Cont'd)

	THE GROUP/ THE COMPANY	
	2011	2010
Non-current liabilities	RM	RM
At 1 June	5,605,316	–
Arising from rights issue with warrants during the financial year	–	6,754,642
Converted during the financial year	(623,274)	(1,061,595)
Amortisation charge during the financial year	(427,158)	(87,731)
At 31 May	4,554,884	5,605,316

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 the 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 shares 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.

(f) Employee Share Option Reserve

The employee share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options.

The Employee Share Option Scheme of the Company ("ESOS") is governed by the ESOS By-Laws and was approved by shareholders on 30 November 2010. The ESOS is to be in force for a period of 5 years effective from 14 January 2011.

The main features of the ESOS are as follows:-

(i) Eligible persons are employees and/or directors of the Group, save for companies which are dormant, who have been confirmed in the employment of the Group and have served for at least for a continuous 6 months (which shall include any probation period) before the date of the offer.

(ii) The maximum number of new shares of the Company, which may be available under the scheme, shall not exceed in aggregate 10%, or any such amount or percentage as may be permitted by the relevant authorities of the issued and paid-up share capital of the Company at any one time during the existence of the ESOS.

Notes to the Financial Statements
For the financial year ended 31 May 2011

18. RESERVES (CONT'D)

(f) Employee Share Option Reserve (Cont'd)

(iii) The option price shall be determined by the Option Committee based on the 5-day weighted average market price of shares of the Company immediately preceding the offer date of the option, with a discount of not more than 10%, or at the par value of shares of the Company, whichever is higher.

(iv) The option may be exercised by the grantee by notice in writing to the Company in the prescribed form during the option period in respect of all or any part of the new shares of the Company comprised in the ESOS.

(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, provided always that new ordinary shares so allotted and issued, will not be entitled to any dividends, rights, allotments and/or other distributions declared, where the entitlement date of which is prior to date of allotment and issuance of the new shares.

The option prices and the details in the movement of the options granted are as follows:-

		NUMBER OF OPTIONS OVER ORDINARY SHARES OF RM0.10 EACH			
DATE OF OFFER	**EXERCISE PRICE**	**AT 1 JUNE 2010**	**GRANTED**	**EXERCISED**	**AT 31 MAY 2011**
4 MARCH 2011	RM0.165	–	13,747,500	–	13,747,500

* *During the financial year, the Company has granted 13,747,500 share options under the ESOS. These options expire on 13 January 2016.*

The fair values of the share options granted were estimated using a trinomial model, taking into account the terms and conditions upon which the options were granted. The fair values of the share options measured at grant date and the assumptions used are as follows:-

	AT EXERCISE PRICE OF RM0.165 EACH
Fair value of share options at the grant date (RM)	0.1252
Weighted average share price (RM)	0.183
Exercise price (RM)	0.165
Expected volatility (%)	85.22
Expected life (years)	0.22
Risk free rate (%)	3.86
Expected dividend yield (%)	0

Notes to the Financial Statements
For the financial year ended 31 May 2011

19. FINANCE LEASE PAYABLES

	THE GROUP 2011 RM	THE GROUP 2010 RM
Future minimum lease payments:		
- not later than one year	2,212,203	3,443,403
- later than one year and not later than five years	641,172	2,749,090
	2,853,375	6,192,493
Less: Future finance charges	(322,630)	(694,980)
Present value of finance lease payables	2,530,745	5,497,513
Current portion:		
- not later than one year	1,956,871	3,057,460
Non-current portion:		
- later than one year and not later than five years	573,874	2,440,053
	2,530,745	5,497,513

20. HIRE PURCHASE PAYABLES

	THE GROUP 2011 RM	THE GROUP 2010 RM
Minimum hire purchase payments:		
- not later than one year	30,780	30,780
- later than one year and not later than five years	79,515	110,265
	110,295	141,045
Less: Future finance charges	(14,413)	(18,398)
Present value of hire purchase payables	95,882	122,647
Current portion:		
- not later than one year	26,739	26,739
Non-current portion:		
- later than one year and not later than five years	69,143	95,908
	95,882	122,647

The hire purchase payables at the end of the reporting period bore an interest of 3% (2010: 3%) per annum.

Notes to the Financial Statements
For the financial year ended 31 May 2011

21. TERM LOANS

	THE GROUP	
	2011	2010
	RM	RM
Current portion:		
- not later than one year	108,902	108,902
Non-current portion:		
- later than one year and not later than two years	108,902	108,901
- later than two years and not later than five years	217,802	217,802
- later than five years	1,538,692	1,647,595
	1,865,396	1,974,298
	1,974,298	2,083,200

The term loans are secured by a first party legal charge over the Group's freehold office lots and buildings, investment properties and a corporate guarantee provided by the Company.

The repayment terms of the term loans are as follows:-

Term loan 1 at fixed 3.9% per annum	Repayable in 240 monthly instalments of RM6,308, effective from June 2009.
Term loan 2 at fixed 3.9% per annum	Repayable in 240 monthly instalments of RM6,776, effective from September 2009.

22. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2011	2010	2011	2010
	RM	RM	RM	RM
At 1 June	4,927,705	3,526,376	1,401,329	–
Arising from issuance of ICULS	–	1,688,662	–	1,688,662
Recognised in profit or loss	(407,583)	(287,333)	(262,608)	(287,333)
At 31 May	4,520,122	4,927,705	1,138,721	1,401,329

Presented after appropriate offsetting as follows:

	THE GROUP		THE COMPANY	
	2011	2010	2011	2010
	RM	RM	RM	RM
Deferred tax assets	4,667,592	4,930,201	1,138,721	1,401,329
Deferred tax liabilities	(147,470)	(2,496)	–	–
At 31 May	4,520,122	4,927,705	1,138,721	1,401,329

Notes to the Financial Statements

For the financial year ended 31 May 2011

22. DEFERRED TAXATION (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 costs of capital beyond the 4-year period are extrapolated assuming zero growth rates.

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

Financial budget period	2012 – 2015
Average budgeted EBITDA margin	23.82%
Average growth rate	13.50%
Discount rate	15.51%

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.

Sensitivity to Changes in Assumptions

The management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the deferred taxation to be materially higher than its recoverable amount.

Group	Unused tax losses and unabsorbed capital allowances RM	Provision RM	Property plant and equipment RM	ICULS RM	Others RM	Total RM
At June 2009	5,336,776	1,354,736	(2,890,295)	–	(274,841)	3,526,376
Arising from issuance of ICULS	–	–	–	1,688,662	–	1,688,662
Recognised in profit or loss	(1,992,435)	2,104,194	(454,573)	(287,333)	342,814	(287,333)
At 31 May 2010 and 1 June 2010	3,344,341	3,458,930	(3,344,868)	1,401,329	67,973	4,927,705
Recognised in profit or loss	832,442	308,664	(1,241,926)	(262,608)	(44,155)	(407,583)
At 31 May 2011	4,176,783	3,767,594	(4,586,794)	1,138,721	23,818	4,520,122
Company						
At June 2009	–	–	–	–	–	–
Arising from issuance of ICULS	–	–	–	1,688,662	–	1,688,662
Recognised in profit or loss	–	–	–	(287,333)	–	(287,333)
At 31 May 2010 and 1 June 2010	–	–	–	1,401,329	–	1,401,329
Recognised in profit or loss	–	–	–	(262,608)	–	(262,608)
At 31 May 2011	–	–	–	1,138,721	–	1,138,721

Notes to the Financial Statements
For the financial year ended 31 May 2011

22. DEFERRED TAXATION (CONT'D)

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

	THE GROUP 2011 RM	THE GROUP 2010 RM
Unutilised tax losses	26,851,000	17,807,000
Unabsorbed capital allowances	2,801,000	3,171,000
Unrealised loss on foreign exchange	452,000	1,000
Development cost	2,349,000	2,290,000
Others	1,250,000	868,000
At 31 May	33,703,000	24,137,000

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

23. DEFERRED INCOME

	THE GROUP 2011 RM	THE GROUP 2010 RM
At 1 June	9,449,699	11,477,826
Addition	–	2,926,725
Utilisation	(1,481,641)	(4,954,852)
At 31 May	7,968,058	9,449,699

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

24. TRADE PAYABLES

	THE GROUP 2011 RM	THE GROUP 2010 RM
Third parties	16,492,659	17,213,006
Associates	–	37,497
	16,492,659	17,250,503

The normal trade credit term granted to the Group and the Company is 60 days.

Notes to the Financial Statements

For the financial year ended 31 May 2011

25. OTHER PAYABLES AND ACCRUALS

	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
Other payables:-				
Third parties	5,642,956	8,887,461	133,158	167,946
Associates	–	4,898,080	–	–
USOF contribution	7,004,414	6,116,182	–	–
Amount due to subsidiaries	–	–	50,315,744	23,839,124
	12,647,370	19,901,723	50,448,902	24,007,070
Accruals	2,904,496	1,853,944	374,710	298,574
	15,551,866	21,755,667	50,823,612	24,305,644

The amount owing to the subsidiaries represents unsecured interest-free advances granted to the Group. The amount is repayable on demand.

26. BANK OVERDRAFTS

The bank overdrafts of the Group bore an effective interest rate of 7.1% (2010 – 6.3%) and are 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 a total net book value of RM4,768,442 and deposits with licensed banks as disclosed in Notes 7 and 15 respectively to the financial statements.

27. REVENUE

	THE GROUP 2011 RM	THE GROUP 2010 RM	THE COMPANY 2011 RM	THE COMPANY 2010 RM
Sale of bandwidth	68,611,525	64,714,713	–	–
Sale of telecommunication software, goods and installation charges	3,999,623	3,623,415	–	–
Commission income	16,269,688	13,462,191	–	–
Digital television services	692,399	411,140	–	–
	89,573,235	82,211,459	–	–

Notes to the Financial Statements
For the financial year ended 31 May 2011

28. (LOSS)/PROFIT BEFORE TAXATION

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
(Loss)/Profit before taxation is arrived at after charging/(crediting):-				
Audit fee:				
- statutory audits	508,711	342,670	65,000	30,000
- under/(over)provision in the previous financial year	(13,150)	1,879	(13,150)	(4,500)
- other services	447,586	36,130	176,090	35,000
Depreciation of property, plant and equipment	4,493,684	3,777,526	91	91
Amortisation of development costs	3,535,911	1,826,421	–	–
Interest expense:				
- bank overdrafts	167,811	–	–	–
- hire purchase	4,015	2,496	–	–
- term loans	48,131	41,900	–	–
- finance lease	375,302	266,123	–	–
- ICULS	842,370	251,683	842,370	251,683
Investment written off	1,239,827	–	–	–
Impairment loss on trade receivables	699,355	4,387,801	–	–
Inventories written off	188,443	115,766	–	–
Gain on disposal of other investments	(13,198)	–	–	–
Loss on disposal of property, plant and equipment	–	11,236	–	–
(Gain/)Loss on foreign exchange:				
- realised	155,225	10,382	(3,248)	6,692
- unrealised	(420,801)	396,024	–	–
Rental of computer	234,023	208,205	–	–
Rental of office	698,783	590,929	–	–
Impairment loss on goodwill	1,729,556	–	–	–
Rights issue expenses	–	558,683	–	558,683
Writeback of impairment losses on receivables	(757,098)	(42,534)	–	–
Impairment loss on other investment	1,334,178	–	–	–
Bad debts written off	720,427	366,867	–	–
Lease payment of land and building	–	590,930	–	–
Licence fee	599,939	1,292,080	208	–
Staff costs:				
- salaries, wages, bonuses and allowances	13,883,435	7,353,146	587,220	245,909
- defined contribution plan	1,369,858	1,049,091	22,568	22,568
- share options to employee	1,721,187	80,258	56,340	–
Directors' fee	282,000	244,500	282,000	244,500
Directors' non-fee emoluments	987,198	1,062,380	–	–
Dividend income	–	–	(2,786,467)	–
Fair value gain:				
- investment properties	(168,600)	–	–	–
Interest income from deposit	(775,439)	(502,685)	(317,061)	(199,448)

Notes to the Financial Statements
For the financial year ended 31 May 2011

29. INCOME TAX EXPENSE

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
Income tax:				
- foreign tax	852,731	405,764	–	–
	852,731	405,764	–	–
- overprovision in the previous financial year	–	(108,222)	–	–
	852,731	297,542	–	–
Deferred taxation (Note 21):				
- relating to originating and recognition of temporary differences	407,583	(147,291)	262,608	287,333
- underprovision in the previous financial year	–	434,624	–	–
	1,260,314	584,875	262,608	287,333

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

A subsidiary, REDtone Technology Sdn. Bhd. has been granted MSC Malaysia status, which qualifies the subsidiary for the Pioneer Status incentive under the Promotion of Investments Act 1986. The subsidiary will enjoy full exemption from income tax on its statutory income from pioneer activities for a period of 5 years, from 17 September 2007 to 18 September 2012.

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

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
(Loss)/Profit before taxation	(11,000,054)	(4,413,830)	1,467,151	(449,644)
Tax at the statutory tax rate of 25%	(2,750,014)	(1,103,458)	366,788	(112,411)
Tax effects of:-				
Tax-exempt income	–	(94,397)	–	–
Non-taxable income	(221,098)	(664,181)	(775,882)	(49,862)
Non-deductible expenses	1,757,402	2,264,616	197,362	449,606
Utilisation of previously unrecognised tax losses and unabsorbed capital allowances	–	(1,404,718)	–	–
Deferred tax assets not recognised during the financial year	2,378,650	1,260,611	474,340	–
Others	(2,626)	–	–	–
Overprovision of income tax in the previous financial year	–	(108,222)	–	–
Underprovision of deferred taxation in the previous financial year	98,000	434,624	–	–
Income tax expense for the financial year	1,260,314	584,875	262,608	287,333

Notes to the Financial Statements
For the financial year ended 31 May 2011

30. 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 GROUP	
	2011	**2010**
Loss attributable to owners of the Company (RM)	(11,714,151)	(5,414,133)
Total weighted average number of ordinary shares in issue	439,476,003	400,018,453
Basic loss per share (Sen)	(2.67)	(1.40)

(b) Diluted

The diluted loss per share was not applicable as there were no dilutive potential ordinary shares outstanding at the end of the reporting period.

31. ACQUISITION OF SUBSIDIARIES

During the financial year, the Group acquired 100% equity interest in Shanghai Qian Yue Business Administration Company Ltd.

The fair values of the identifiable assets and liabilities of Shanghai Qian Yue Business Administration Company Ltd as at the date of acquisition were:-

	AT DATE OF ACQUISITION	
	CARRYING AMOUNT RM	**FAIR VALUE RECOGNISED RM**
Property and equipment	1,801,543	1,801,543
Trade and other receivables	1,426,151	1,426,151
Inventories	19,583	19,583
Cash and cash equivalents	1,132,484	1,132,484
Trade payables and accruals	(2,558,631)	(2,558,631)
Net identifiable assets and liabilities	1,821,130	1,821,130
Add: Goodwill on acquisition		1,867,738
Total purchase consideration		3,688,868
Less: Cash and cash equivalents of subsidiary acquired		(1,132,484)
Net cash inflow for acquisition of a subsidiary		2,556,384

Notes to the Financial Statements

For the financial year ended 31 May 2011

31. ACQUISITION OF SUBSIDIARIES (CONT'D)

During the financial year, the Group's equity interest in an associate, REDtone Asia Inc. ("RTA") (formerly known as Hotgate Technology Inc.), was increased as a result of the subscription for additional shares issued. Consequently, RTA became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of RTA as at the date of acquisition were:-

	RM
Equipment	47,700
Intangible assets	136,330
Trade and other receivables	320,813
Cash and cash equivalents	30,357
Trade and other payables	(614,341)
Amount owing to a related party	(3,266,634)
Provision for taxation	(35,939)
Share of reverse of associate	(479,222)
Loss on remeasurement	432,915
Non-controlling interests	(331,834)
Fair value of net liabilities acquired	(3,759,855)
Add: Goodwill on acquisition	3,759,855
Total purchase consideration	–
Less: Cash and cash equivalents of subsidiary acquired	(30,357)
Net cash outflow for acquisition of a subsidiary	(30,357)

The acquired subsidiaries have contributed the following results to the Group:-

	2011 RM
Revenue	536,641
Loss after taxation	16,174

If the acquisition had taken place at the beginning of the financial year, the Group's revenue and loss after taxation would have been RM992,783 and RM961,666 respectively.

32. PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	THE GROUP	
	2011 RM	2010 RM
Cost of property, plant and equipment purchased	5,058, 673	11,408,957
Amount financed through hire purchase and finance lease	–	(4,797,901)
Cash disbursed for purchase of property, plant and equipment	5,058, 673	6,611,056

Notes to the Financial Statements

For the financial year ended 31 May 2011

33. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:-

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
Other investment	–	8,802	–	1,065
Fixed deposits with licensed banks	10,040,831	12,492,228	–	–
Cash and bank balances	17,886,076	41,281,531	3,653,532	24,547,927
Bank overdrafts	(3,222,504)	(4,828,699)	–	–
	24,704,403	48,953,862	3,653,532	24,548,992

34. DIRECTORS' REMUNERATION

(a) The aggregate amounts of emoluments received and receivable by directors of the Group and the Company during the financial year are as follows:-

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
Executive directors:				
- non-fee emoluments	987,198	1,062,380	–	–
Non-executive directors:				
- fee	282,000	244,500	282,000	244,500
	1,269,198	1,306,880	282,000	244,500

(b) Details of directors' emoluments of the Company received/receivable for the financial year in bands of RM50,000 are as follows:-

	THE COMPANY	
	2011	2010
Executive directors:-		
RM200,001 – RM250,000	–	1
RM250,001 – RM300,000	2	1
Above RM300,000	1	1
Non-executive directors:-		
Below RM50,000	3	3
Above RM50,000	1	1
	7	7

Notes to the Financial Statements
For the financial year ended 31 May 2011

35. RELATED PARTY DISCLOSURES

(a) Identities of related parties

The Group has related party relationships with its directors, key management personnel and entities within the same group of companies.

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

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
Dividend from subsidiaries	–	–	2,786,467	–
Key management personnel compensation:				
- short-term employee benefits	1,975,477	1,782,880	282,000	244,500

36. OPERATING SEGMENTS

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Executive Committee as its chief operating decision maker in order to allocate resources to segments and to assess their performance. For management purposes, the Group is organised into business units based on their products and services provided.

The primary segment reporting format is determined to be geographical segment as the Group's risks and rates of return are affected predominantly by the differences in the countries operated.

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

Notes to the Financial Statements
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36. OPERATING SEGMENTS (CONT'D)

GEOGRAPHICAL INFORMATION

2011	MALAYSIA RM	THE REPUBLIC OF SINGAPORE RM	THE PEOPLE'S REPUBLIC OF CHINA RM	GROUP RM
Revenue				
External revenue	73,239,933	63,614	16,269,688	89,573,235
Inter-segment revenue	21,258,027	–	–	21,258,027
	94,497,960	63,614	16,269,688	110,831,262
Adjustments and eliminations				(21,258,027)
Consolidated revenue				89,573,235
Interest income	461,528	–	313,911	775,439
Other material items of income	3,362,407	–	797,019	4,159,426
Depreciation of property and equipment	(3,780,529)	(486)	(712,669)	(4,493,684)
Other material items of expenses	(79,007,683)	(6,814)	(12,021,721)	(91,036,218)
Other non-cash expenses	(6,931,892)	(2,444)	(1,606,287)	(8,540,623)
	(85,896,169)	(9,744)	(13,229,747)	(9,562,425)
Finance costs				(1,437,629)
Income tax expense				(1,260,314)
Consolidated profit after taxation				(12,260,368)
Assets				
Segment assets	76,702,520	100,464	36,592,079	113,395,063
	76,702,520	100,464	36,592,079	113,395,063
Investment in an associate				16,501,984
Deferred tax assets				4,667,593
Consolidated total assets				134,564,640
Liabilities				
Segment liabilities	41,650,548	204,082	11,150,009	53,004,639
	41,650,548	204,082	11,150,009	53,004,639
Deferred taxation				147,470
Consolidated total liabilities				53,152,109

Notes to the Financial Statements
For the financial year ended 31 May 2011

36. OPERATING SEGMENTS (CONT'D)

GEOGRAPHICAL INFORMATION (CONT'D)

2011	MALAYSIA RM	THE REPUBLIC OF SINGAPORE RM	THE PEOPLE'S REPUBLIC OF CHINA RM	GROUP RM
Other segment items				
Additions to non-current assets other than financial instruments:-				
- investment in associates - quasi Loan	16,501,984	–	–	16,501,984
- property and equipment	4,913,230	–	1,678,875	6,592,105
- investment properties	168,600	–	–	168,600
- development costs	2,812,928	–	92,813	2,905,741
Amortisation	3,169,450	–	366,461	3,535,911

2010	MALAYSIA RM	THE REPUBLIC OF SINGAPORE RM	THE PEOPLE'S REPUBLIC OF CHINA RM	GROUP RM
Revenue				
External revenue	67,876,782	99,477	13,462,190	81,438,449
Inter-segment revenue	29,655,626	–	–	29,655,626
	97,532,408	99,477	13,462,190	111,094,075
Adjustments and eliminations				(28,882,616)
Consolidated revenue				82,211,459
Results				
Segment results	97,532,408	99,477	13,462,190	111,094,075
Adjustments and eliminations	(29,655,626)	–	773,010	(28,882,616)
	67,876,782	99,477	14,235,200	82,211,459
Interest income	385,472	–	117,213	502,685
Other material items of income	1,873,827	13,457	–	1,887,284
Depreciation of property, plant and equipment	(3,178,702)	(467)	(598,357)	(3,777,526)
Other material items of expenses	(66,054,501)	(249,692)	(8,579,304)	(74,883,497)
Other non-cash expenses	(6,137,303)	(187,233)	(1,090,446)	(7,414,982)
	(73,111,207)	(423,935)	(10,150,894)	(1,474,577)
Finance costs				(659,124)
Share of results in associate				(788,488)
Share of results in jointly-controlled entities				(1,491,641)
Income tax expense				(584,875)
Consolidated profit after taxation				(4,998,705)

Notes to the Financial Statements
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36. OPERATING SEGMENTS (CONT'D)

GEOGRAPHICAL INFORMATION (CONT'D)

2010	MALAYSIA RM	THE REPUBLIC OF SINGAPORE RM	THE PEOPLE'S REPUBLIC OF CHINA RM	GROUP RM
Assets				
Segment assets	123,211,311	390,689	31,387,600	154,989,600
	123,211,311	390,689	31,387,600	154,989,600
Investment in an associate				230,962
Deferred tax assets				4,930,201
Consolidated total assets				160,150,763
Liabilities				
Segment liabilities	56,304,747	247,945	10,260,910	66,813,602
	56,304,747	247,945	10,436,445	66,813,602
Deferred taxation				2,496
Provision for taxation				47,185
Consolidated total liabilities				66,863,283
Other segment items				
Additions to non-current assets other than financial instruments:-				
- property and equipment	11,378,250	–	30,707	11,408,957
- development costs	3,804,871	–	–	3,804,871
Amortisation	742,556	–	1,083,865	1,826,421

37. CAPITAL COMMITMENTS

	THE GROUP 2011 RM	2010 RM
Approved and contracted for:-		
Purchase of property, plant and equipment	5,878,178	–

Notes to the Financial Statements

For the financial year ended 31 May 2011

38. OPERATING LEASE COMMITMENTS

The future minimum lease payments under the non-cancellable operating leases are as follows:-

	THE GROUP	
	2011 RM	2010 RM
Not more than one year	284,543	307,261
Later than one year and not later than five years	175,087	511,895
	459,630	819,156

39. CONTINGENT LIABILITIES

	THE COMPANY	
	2011 RM	2010 RM
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	4,625,896	4,589,253

40. FINANCIAL INSTRUMENTS

The Group's activities are exposed to a variety of market risks (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Financial Risk Management Policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

(i) Market Risk

(i) Foreign Currency Risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily United States Dollar and Singapore Dollar. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occasion, the Group enters into forward foreign currency contracts to hedge against its foreign currency risk.

Notes to the Financial Statements

For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Market Risk (Cont'd)

(i) Foreign Currency Risk (Cont'd)

The Group's exposure to foreign currency is as follows:-

THE GROUP	UNITED STATES DOLLAR RM	HONG KONG DOLLAR RM	SINGAPORE DOLLAR RM	THAI BAHT RM	STERLING POUND RM	CHINESE RENMINBI RM	RINGGIT MALAYSIA RM	TOTAL RM
2011								
Financial assets								
Other investments	–	–	–	–	–	–	10,000	10,000
Trade receivables	2,069,972	5,442	–	–	5,701	1,944,538	10,170,875	14,196,528
Other receivables and deposits	2,501,735	184,756	12,646	13,069	–	1,018,120	3,813,705	7,544,031
Short-term investments	–	–	–	–	–	933,891	–	933,891
Fixed deposits with licensed banks	–	–	–	–	–	1,191,353	8,849,478	10,040,831
Cash and bank balances	14,602	60,973	27,419	–	–	12,588,836	5,194,246	17,886,076
	4,586,309	251,171	40,065	13,069	5,701	17,676,738	28,038,304	50,611,357
Financial liabilities								
Hire purchase payables	–	–	–	–	–	–	26,739	26,739
Term loans	–	–	–	–	–	–	108,902	108,902
Trade payables	2,892,833	81,088	93,049	–	–	2,763,262	10,662,427	16,492,659
Other payables and accruals	629,898	258,568	13,499	–	–	955,523	13,694,378	15,551,866
Bank overdrafts	–	–	–	–	–	–	3,222,504	3,222,504
	3,522,731	339,656	106,548	–	–	3,718,785	27,714,950	35,402,670
Net financial assets/ (liabilities)	1,063,578	(88,485)	(66,483)	13,069	5,701	13,957,953	323,354	15,208,687
Less: Net financial (assets)/liabilities denominated in the respective entities' functional currencies	65,313	–	271	–	–	(13,957,953)	(323,354)	(14,215,723)
Currency exposure	1,128,891	(88,485)	(66,212)	13,069	5,701	–	–	992,964

Notes to the Financial Statements
For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Market Risk (Cont'd)

(i) Foreign Currency Risk (Cont'd)

THE GROUP	UNITED STATES DOLLAR RM	HONG KONG DOLLAR RM	SINGAPORE DOLLAR RM	STERLING POUND RM	THAI BAHT RM	TOTAL RM
2010						
Currency exposure						
Financial assets						
Trade receivables	475,130	1,038,811	3,424	5,459	–	1,522,824
Other receivables and deposits	2,260,416	942,903	40,345	–	–	3,243,664
	2,735,546	1,981,714	43,769	5,459	–	4,766,488

	UNITED STATES DOLLAR RM	HONG KONG DOLLAR RM	SINGAPORE DOLLAR RM	CHINESE RENMINBI RM	THAI BAHT RM	TOTAL RM
Financial liabilities						
Trade payables	726,585	1,392,287	58,596	–	710	2,178,178
Other payables and accruals	24,323	3,755,744	19,422	15,243	–	3,814,732
	750,908	5,148,031	78,018	15,243	710	5,992,910

The comparative figures for financial assets and financial liabilities in respect of 2010 are not presented as the financial information were not readily available.

<u>Foreign currency risk sensitivity analysis</u>

A 5% strengthening or weakening would have had immaterial effect on the loss after taxation and equity of the Group. This assumes that all other variables remain constant.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favourable interest rates available. Any surplus funds of the Group will be placed with licensed financial institutions to generate interest income.

Information relating to the Group's exposure to the interest rate risk of the financial liabilities is disclosed in Note 40(a)(iii) to the financial statements.

Notes to the Financial Statements
For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(i) Market Risk (Cont'd)

(ii) Interest Rate Risk (Cont'd)

Interest rate risk sensitivity analysis

The following table details the sensitivity analysis to a reasonably possible change in the interest rates as at the end of the reporting period, with all other variables held constant:-

	THE GROUP 2011 Increase/(Decrease) RM
Effects on profit after taxation	
Increase of 100 basis points (bp)	32,225
Decrease of 100 bp	32,225
Effects on profit after taxation	
Increase of 100 bp	32,225
Decrease of 100 bp	32,225

(iii) Equity Price Risk

The Group does not have any quoted investments and hence, it is not exposed to equity price risk.

(ii) Credit Risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including quoted investments, cash and bank balances and derivatives), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

Credit risk concentration profile

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

Notes to the Financial Statements
For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(ii) Credit Risk (Cont'd)

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:-

	THE GROUP		THE COMPANY	
	2011 RM	2010 RM	2011 RM	2010 RM
China	1,944,538	1,038,811	–	–
Singapore	5,440	3,424	–	–
Malaysia	12,246,550	20,537,019	–	–
	14,196,528	21,579,254	–	–

Ageing analysis

The ageing analysis of the Group's trade receivables as at 31 May 2011 is as follows:-

THE GROUP	GROSS AMOUNT RM	INDIVIDUAL IMPAIRMENT RM	CARRYING VALUE RM
2011			
Not past due	7,132,496	–	7,132,496
Past due:-			
- less than 3 months	4,080,547	–	4,080,547
- 3 to 6 months	858,196	–	858,196
- over 6 months	5,377,531	(3,252,242)	2,125,289
	17,448,770	(3,252,242)	14,196,528

At the end of the reporting period, trade receivables that are individually impaired were those in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

Trade receivables that are past due but not impaired

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

Trade receivables that are neither past due nor impaired

A significant portion of trade receivables that are neither past due nor impaired are regular customers that have been transacting with the Group. The Groups uses ageing analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due, which are deemed to have higher credit risk, are monitored individually.

Notes to the Financial Statements

For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Risk Management Policies (Cont'd)

(iii) Liquidity Risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

THE GROUP	WEIGHTED AVERAGE EFFECTIVE RATE %	CARRYING AMOUNT RM	CONTRACTUAL UNDISCOUNTED CASH FLOWS RM	WITHIN 1 YEAR RM	1 – 5 YEARS RM	OVER 5 YEARS RM
2011						
Finance lease payables	3.9	2,530,745	2,530,745	1,956,871	573,874	–
Hire purchase payables	3.0	95,882	110,295	26,739	69,143	–
Term loans	3.9	1,974,298	1,974,298	108,902	326,704	1,538,692
Trade payables	–	16,492,659	16,492,659	–	–	–
Other payables and accruals	–	15,551,866	15,551,866	–	–	–
Bank overdrafts	7.1	3,222,504	3,222,504	–	–	–
		39,867,954	39,882,367	2,092,512	969,721	1,538,692
2010						
Finance lease payables	3.9	5,497,513	5,497,513	3,057,460	2,440,053	–
Hire purchase payables	3.0	122,647	141,045	26,739	95,908	–
Term loans	3.9	2,083,200	2,083,200	108,901	326,703	1,647,596
Trade payables	–	17,250,503	17,250,503	–	–	–
Other payables and accruals	–	21,755,667	21,755,667	–	–	–
Bank overdrafts	6.3	4,828,699	4,828,699	–	–	–
		51,538,229	51,556,627	3,193,100	2,862,664	1,647,596

THE GROUP						
2011						
Other payables and accruals	–	507,868	507,868	–	–	–
2010						
Other payables and accruals	–	466,520	466,520	–	–	–

Notes to the Financial Statements

For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(b) Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support their businesses and maximise shareholders value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents.

The debt-to-equity ratio of the Group as at the end of the reporting period was as follows:-

	THE GROUP	
	2011	**2010**
	RM	**RM**
Hire purchase payables	95,882	122,647
Finance lease payables	2,530,745	5,497,513
Term loans	1,974,298	2,083,200
Trade payables	16,492,659	17,250,503
Other payables and accruals	15,551,866	21,755,667
Bank overdrafts	3,222,504	4,828,699
	39,867,954	51,538,229
Less: Fixed deposits with licensed banks	(10,040,831)	(12,492,228)
Less: Cash and bank balances	(17,886,076)	(41,281,531)
Net debt	11,941,047	(2,235,530)
Total equity	81,412,531	93,287,480
Debt-to-equity ratio	0.147	(0.024)

Under the requirement of Bursa Malaysia Guidance Note No. 3/2006, the Company is required to maintain its shareholders' equity equal to or not less than the 25% of the issued and paid-up share capital (excluding treasury shares) of the Company. The Company has complied with this requirement.

Notes to the Financial Statements
For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(c) Classification Of Financial Instruments

	THE GROUP 2011 RM	THE COMPANY 2011 RM
Financial assets		
Available-for-sale financial assets		
Other investments, at cost	10,000	–
Short-term investments	933,891	–
	943,891	–
Loans and receivables financial assets		
Trade receivables	14,196,528	–
Other receivables and deposits	7,544,031	31,525
Amount owing by subsidiaries	–	52,756,035
Fixed deposits with licensed banks	10,040,831	–
Cash and bank balances	17,886,076	3,653,532
	49,667,466	56,441,092
Financial liabilities		
Other financial liabilities		
Lease payables	2,530,745	–
Hire purchase payables	95,882	–
Term loans	1,974,298	–
Trade payables	16,492,659	–
Other payables and accruals	15,551,866	507,868
Amount owing to a subsidiary	–	50,315,744
Bank overdrafts	3,222,504	–
	39,867,954	50,823,612

Notes to the Financial Statements

For the financial year ended 31 May 2011

40. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair Values Of Financial Instruments

The carrying amounts of the financial assets and financial liabilities reported in the financial statements approximated their fair values except for the following:-

	THE GROUP 2011		THE COMPANY 2010	
	CARRYING AMOUNT RM	FAIR VALUE RM	CARRYING AMOUNT RM	FAIR VALUE RM
THE GROUP				
Other investments – unquoted shares	10,000	10,000*	–	–
Hire purchase payables	95,882	95,882	–	–
	105,882	105,882	–	–
THE COMPANY				
Contingent liabilities	4,625,896	-**	6,889,253	-**

* *The fair value cannot be reliably measured using valuation techniques due to the lack of marketability of the shares.*

** *The net fair value of the contingent liabilities is estimated to be minimal as the subsidiaries and associate are expected to fulfil their obligations to repay their borrowings.*

The following summarises the methods used to determine the fair values of the financial instruments:-

(i) The financial assets and financial liabilities maturing within the next 12 months approximated their fair values due to the relatively short-term maturity of the financial instruments.

(ii) The fair values of the finance lease payables and hire purchase payables are determined by discounting the relevant cash flows using current interest rates for similar instruments as at the end of the reporting period.

(iii) The carrying amounts of the term loans approximated their fair values as these instruments bear interest at variable rates.

41. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(1) During the period from 1 June 2010 to 31 May 2011, the Company issued 15,974,160 new ordinary shares at RM0.10 each pursuant to 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.

(2) 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.

(3) On 16 July 2010, REDtone Technology Pte Ltd, a wholly-owned subsidiary of the Group, disposed of its wholly-owned dormant subsidiary, VMS Telecommunications (S) Pte Ltd to Lu Kan and Lee Chee Keong for a total cash consideration of SGD2.

Notes to the Financial Statements

For the financial year ended 31 May 2011

41. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONT'D)

(4) On 28 July 2010, the Company acquired from REDtone Telecommunications Sdn Bhd ("RTC"), a wholly-owned subsidiary of the Group, 36,322,678 common shares with a par value of USD0.0001 each in REDtone Asia Inc. ("RTA") (formerly known as Hotgate Technology Inc.), representing 12.23% of the issued and paid-up common shares of RTA for a cash consideration of RM973,227.

(5) On 2 August 2010, REDtone Technology Sdn Bhd ("RTT"), a wholly-owned subsidiary of the Group, entered into a Share Sale Agreement ("Agreement") with REDtone Asia Inc. ("RTA") (formerly known as Hotgate Technology Inc.) for the disposal of 58,501,000 ordinary shares of HKD1 each in REDtone Telecommunications (China) Limited to RTA for a total consideration of USD22 million, to be satisfied by the issuance of new common shares of USD0.0001 each in RTA at an issue price of USD0.09 per RTA share.

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

The disposal was completed on 25 October 2010.

(6) On 30 August 2010, RTT and RTC lodged a Notice of Dispute at the Singapore International Arbitration Centre ("SIAC"), 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.

On 25 May 2011, RTT and RTC filed a Statement of Claim with the SIAC. On 18 August 2011, Quantum Global Networks Inc filed a response and counterclaim with the SIAC. The solicitors are of the opinion that RTT and RTC have good prospects of success at the arbitration.

(7) On 30 November 2010, the Company's Shareholders approved the Proposed Employees' Share Option Scheme to eligible employees to subscribe for new REDtone shares according to the terms set out in the ESOS By-Laws.

(8) On 26 April 2011, the Company announced that its wholly-owned subsidiary, REDtone Marketing Sdn Bhd had on 25 April 2011 entered into a Shareholders Agreement with twenty-three (23) other parties to form a consortium under the name of Konsortium Rangkaian Serantau Sdn. Bhd. (formerly known as "My Regional Network Company Sdn Bhd")("Consortium")

The Consortium is formed for the purpose of implementing one of the entry points project ("EPP") titled "Regional Network" to lower the costs of IP Transit and domestic bandwidths by the aggregation of capacity of the Shareholders (as a form of buying power) to secure lower prices from suppliers.

42. SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD

During the period from 1 June 2011 to 26 September 2011, the Company issued 225,000 new ordinary shares at RM0.10 each pursuant to 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.

In addition, the Company also issued 1,000,000 new ordinary shares at RM0.10 each pursuant to the Employees' Share Option Scheme.

Notes to the Financial Statements
For the financial year ended 31 May 2011

43. SUPPLEMENTARY INFORMATION – DISCLOSURE OF REALISED AND UNREALISED PROFITS/LOSSES

The breakdown of the retained profits/(accumulated losses) of the Group and of the Company as at the end of the reporting period into realised and unrealised profits/(losses) are presented in accordance with the directive issued by Bursa Malaysia Securities Berhad and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants, as follows:-

	THE GROUP 2011 RM	THE COMPANY 2011 RM
Total retained profits/(accumulated losses):		
- realised	38,291,314	(1,929,382)
- unrealised	589,401	–
	38,880,715	(1,929,382)
Total share of retained profits of associate:		
- realised	(1,077,794)	–
	37,802,921	(1,929,382)
Less: Consolidation adjustments	(48,798,397)	–
At 31 May	(10,995,476)	(1,929,382)

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 2011	Date of Valuation/ Effective Year of Purchase
RTC/ Unit No: T18/6F/BC6A (12), Storey: 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor	Office/ Vacant	N/A/ 89.37 square meters	Leasehold 99 years expiring on 22.11.2094	12	RM 115,060.38	N/A/ 10 Feb 1999
RTC/ Unit No: T19/6F/BC6B (13), Storey: 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor	Office/ Vacant	N/A/ 93.92 square meters	Leasehold 99 years expiring on 22.11.2094	12	RM 120,920.93	N/A/ 10 Feb 1999
RTC/ Unit No: T27/6F/BC6C (14), Storey: 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor	Office/ Vacant	N/A/ 113.90 square meters	Leasehold 99 years expiring on 22.11.2094	12	RM 146,639.30	N/A/ 10 Feb 1999
RTC/ Unit No: T32/6F/BC7A (16), Storey: 6th, Plaza KLH Business Centre comprised in HS(M) 24969 PT 35937, Mukim and District of Petaling, State of Selangor	Office/ Vacant	N/A/ 116.78 square meters	Leasehold 99 years expiring on 22.11.2094	12	RM 149,029.40	N/A/ 10 Feb 1999
RTC/ Unit No: 26 Storey: 2nd, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 136.29 square meters	Freehold	13	RM 296,457.12	N/A/ 1 Mar 2005
RTC/ Unit No: 27 Storey: 2nd, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 321.63 square meters	Freehold	13	RM 870,000	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 2011	Date of Valuation/ Effective Year of Purchase
RTC/ Unit No: 26 & 27 Storey: 3rd, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 457.92 square meters	Freehold	13	RM 1,209,345.67	N/A/ 16 Feb 2009
RTC/ Unit No: 23 Storey: 4th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 119.66 square meters	Freehold	13	RM 228,139.08	N/A/ 28 Mar 2005
RTC/ Unit No: 24 Storey: 4th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 145.49 square meters	Freehold	13	RM 287,010	N/A/ 21 Jun 2005
RTC/ Unit No: 24, 25, 26, 27, 28, 29 & 30 Storey: 5th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 1,143 square meters	Freehold	13	RM 2,037,619.50	N/A/ 29 Mar 2004
RTC/ Unit No: 28 Storey: 6th, Pusat Perdagangan IOI Bandar Puchong Jaya, Puchong, Selangor Darul Ehsan	Office/ Occupied	N/A/ 142.14 square meters	Freehold	13	RM 287,721.83	N/A/ 7 July 2005

Analysis of Shareholdings
As at 30 September 2011

Authorised share capital	:	RM100,000,000.00
Issued and paid-up share capital	:	RM44,745,912.50
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	112	2.107	5,806	0.001
100 – 1,000 shares	151	2.840	86,542	0.020
1,001 – 10,000 shares	2,387	44.902	12,721,494	2.843
10,001 – 100,000 shares	2,352	44.244	81,805,340	18.282
100,001 – 22,372,955 shares	310	5.832	191,037,652	42.694
22,372,956 and above of shares	4	0.075	161,802,291	36.160
TOTAL	5,316	100.00	447,459,125#	100.00

\# *excluded 1,544,900 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	11.979
2	INDAH PUSAKA SDN BHD	40,000,000	8.939
3	OSK NOMINEES (TEMPATAN) SDN BERHAD PLEDGED SECURITIES ACCOUNT FOR WARISAN JUTAMAS SDN. BHD.	37,800,000	8.447
4	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR HSBC PRIVATE BANK (SUISSE) S.A. (SPORE TST AC CL)	30,400,000	6.793
5	SELAT MAKMUR SDN BHD	19,200,000	4.290
6	BERJAYA SOMPO INSURANCE BERHAD	19,175,800	4.285
7	DATO' WEI CHUAN BENG	15,976,376	3.570
8	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ARSAM BIN DAMIS (AA0023)	13,500,000	3.017
9	HOW BEIK TIN	5,850,800	1.307
10	MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' WEI CHUAN BENG	5,000,000	1.117
11	MAYBAN NOMINEES (TEMPATAN) SDN BHD DATO' WEI CHUAN BENG	5,000,000	1.117
12	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	4,901,550	1.095

Analysis of Shareholdings
As at 30 September 2011

THIRTY (30) LARGEST SHAREHOLDERS (CONT'D)
(without aggregating securities from different securities accounts belonging to the same person)

No.	Name	No. of Shares Held	% of Issued Capital
13	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHUAH SWEE HUAT (E-KLC)	4,550,000	1.016
14	JUARA SEJATI SDN BHD	3,825,000	0.854
15	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	3,000,000	0.670
16	TIEW MING CHING	2,510,341	0.561
17	MAYBAN NOMINEES (TEMPATAN) SDN BHD MOHD ARIFFIN BIN ZAINOL	2,505,000	0.559
18	ZAINAL AMANSHAH BIN ZAINAL ARSHAD	2,354,568	0.526
19	LEE ENG HOCK & CO. SENDIRIAN BERHAD	2,100,000	0.469
20	LAU BIK SOON	1,900,000	0.424
21	ZAINAL AMANSHAH BIN ZAINAL ARSHAD	1,724,000	0.385
22	NG WEE MIAN	1,600,000	0.357
23	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FABULOUS CHANNEL SDN BHD (AF0010)	1,500,000	0.335
24	NG HO FATT	1,458,500	0.325
25	MAYBAN SECURITIES NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM PAIK HONG (REM 156)	1,359,100	0.303
26	PETER YEOW HENG HO	1,252,000	0.279
27	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM BOON JIN @ LIM BAK KIM (E-SPI)	1,000,000	0.223
28	WONG SHWU TIH	1,000,000	0.223
29	HIEW HENG FOO	998,000	0.223
30	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOH NG KWA @ LOH NG KAW	918,200	0.205

Analysis of Shareholdings
As at 30 September 2011

SUBSTANTIAL SHAREHOLDERS

		No. of Shares Held			
No	**Name**	**Direct**	**%**	**Indirect**	**%**
1	INDAH PUSAKA SDN BHD	93,602,291	20.92	–	–
2	OSK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR WARISAN JUTAMAS SDN BHD	37,800,000	8.45	–	–
3	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR HSBC PRIVATE BANK (SUISSE) S.A. (SPORE TST AC CL)	30,400,000	6.79	–	–
4	DATO' WEI CHUAN BENG	26,259,376	5.87	–	–
5	JUARA SEJATI SDN BHD	3,825,000	0.86	(4) 41,375,800	9.25
6	TEMA JUARA SDN BHD	–	–	(1) 93,602,291	20.92
7	DATUK WIRA SYED ALI BIN TAN SRI SYED ABBAS AL HABSHEE	–	–	(2) 93,602,291	20.92
8	ZURAINAH BINTI MUSA	–	–	(3) 93,602,291	20.92
9	MOHAMED SHAH BIN KADIR	–	–	(5) 37,800,000	8.45
10	ABDUL KARIM BIN ABDUL KADIR	–	–	(5) 37,800,000	8.45
11	BERJAYA GROUP BERHAD	–	–	(6) 45,200,800	10.10
12	BERJAYA CORPORATION BERHAD	–	–	(7) 45,200,800	10.10
13	TAN SRI DATO' SERI VINCENT TAN CHEE YIOUN	–	–	(8) 45,200,800	10.10

Notes:

1 *Deemed interested by virtue of its interest in Indah Pusaka Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.*
2 *Deemed interested by virtue of his interest in Indah Pusaka Sdn Bhd via Tema Juara Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.*
3 *Deemed interested by virtue of her interest in Indah Pusaka Sdn Bhd via Tema Juara Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.*
4 *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.*
5 *Deemed interested by virtue of their interests in Warisan Jutamas Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.*
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 interest in Berjaya Corporation Berhad.*

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

As at 30 September 2011

Nominal Amount of ICULS	:	RM30,179,103.50
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 2011	:	39,935,400

Size of ICULS holdings	No. of ICULS Holders	% of Total ICULS Holders	No. of ICULS	% of ICULS
1 – 99 ICULS	12	0.560	565	0.000
100 – 1,000 ICULS	38	1.773	20,472	0.007
1,001 – 10,000 ICULS	811	37.844	4,890,657	1.621
10,001 – 100,000 ICULS	1,078	50.303	37,499,700	12.426
100,001 – 15,089,550 of ICULS	199	9.286	89,551,550	29.673
15,089,551 and above of ICULS	5	0.234	169,828,091	56.273
TOTAL	2,143	100.00	301,791,035	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	17.761
2	INDAH PUSAKA SDN BHD	40,000,000	13.254
3	WARISAN JUTAMAS SDN.BHD	37,800,000	12.525
4	BERJAYA SOMPO INSURANCE BERHAD	19,225,800	6.370
5	SELAT MAKMUR SDN BHD	19,200,000	6.362
6	DATO' WEI CHUAN BENG	11,000,000	3.644
7	MAYBAN NOMINEES (TEMPATAN) SDN BHD DATO' WEI CHUAN BENG	10,000,000	3.313
8	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	4,601,550	1.524
9	JUARA SEJATI SDN BHD	3,825,000	1.267
10	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	3,000,000	0.994
11	LEE ENG HOCK & CO. SENDIRIAN BERHAD	2,900,000	0.960

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

As at 30 September 2011

THIRTY (30) LARGEST ICULS HOLDERS (CONT'D)

(As per Record of Depositors)

No.	Name	No. of ICULS Held	% of ICULS
12	NG HO FATT	2,788,800	0.924
13	OOI BENG LIEW & SONS SDN. BHD.	1,750,000	0.579
14	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FABULOUS CHANNEL SDN BHD (AF0010)	1,500,000	0.497
15	TEO AH SENG	1,300,000	0.430
16	HLG NOMINEE (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHAN BOON YONG	1,190,000	0.394
17	HIEW HENG FOO	998,000	0.330
18	CHENG HON SANG	900,000	0.298
19	LIEW THONG	900,000	0.298
20	ON THIAM CHAI	833,500	0.276
21	NG LAI YIN	765,000	0.253
22	LIM CHOONG KONG	750,000	0.248
23	CHENG HON SANG	700,000	0.231
24	AH KIAN @ TAN KWOK AUN	688,600	0.228
25	JENNIFER TAN BEE LIAN	650,000	0.215
26	LEE KIM SENG	650,000	0.215
27	NAGARATNAM A/P LETCHMANAN	650,000	0.215
28	WONG SWEE YEEN	650,000	0.215
29	LAI MENG CHEE	600,000	0.198
30	YEO KHEE HUAT	598,500	0.198

Analysis of Warrant Holdings

As at 30 September 2011

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 2011	:	Nil

Size of Warrant holdings	No. of Warrant Holders	% of Total Warrant Holders	No of Warrants	% of Warrants
1 – 99 Warrants	160	6.695	7,917	0.005
100 – 1,000 Warrants	117	4.895	76,140	0.047
1,001 – 10,000 Warrants	1,108	46.360	4,906,167	3.020
10,001 – 100,000 Warrants	820	34.309	29,980,139	18.455
100,001 – 8,122,325 Warrants	182	7.615	74,915,255	46.117
8,122,326 and above of Warrants	3	0.126	52,560,916	32.356
TOTAL	2,390	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	JUARA SEJATI SDN BHD	1,530,000	0.941
7	CHO KAM CHOONG	1,400,000	0.861
8	HOW BEIK TIN	1,400,000	0.861
9	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE (SG BR-TST-ASING)	1,340,620	0.825
10	JS NOMINEES (ASING) SDN BHD QUEBEC INVESTMENT LIMITED (QU050)	1,326,800	0.816
11	LEE KIM SENG	1,290,000	0.794
12	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PRIME CREDIT LEASING SDN BHD (49739 HKIU)	1,200,000	0.738
13	LEE ENG HOCK & CO. SENDIRIAN BERHAD	1,160,000	0.714

Analysis of Warrant Holdings
As at 30 September 2011

THIRTY (30) LARGEST WARRANT HOLDERS CONT'D)
(As per Record of Depositors)

No.	Name	No. of Warrants Held	% of Warrants
14	OON LAY TIN	1,100,000	0.677
15	LOH SEM TEN	1,066,000	0.656
16	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOH NG KWA @ LOH NG KAW	1,055,900	0.649
17	LEONG HON WAH	1,000,000	0.615
18	LIM KAM YOKE	970,000	0.597
19	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR ONG BOK LIM (PB)	936,000	0.576
20	TAN YEE SENG	864,000	0.531
21	TIN YONG ZHOU	860,000	0.529
22	TAN YEE KONG	820,000	0.504
23	TEO TUAN KWEE	800,000	0.492
24	RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEE TECK CHOON (CEB)	792,900	0.488
25	TAN KOK KENG	711,600	0.438
26	NG HO FATT	619,720	0.381
27	GOH CHING HWANG	616,700	0.379
28	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH KOK HIONG (T MLKRAYA-CL)	602,000	0.370
29	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FABULOUS CHANNEL SDN BHD (AF0010)	600,000	0.369
30	VOON JYE WAH	597,000	0.367

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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 .... Tel No. ....
(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 Ninth Annual General Meeting of the Company to be held at Manhattan V, Level 14, Berjaya Times Square Hotel & Convention Center, No. 1 Jalan Imbi, 55100 Kuala Lumpur on **Tuesday, 15 November 2011** at 10:00 a.m. and at any adjournment thereof

RESOLUTION		FOR	AGAINST
1.	Receipt of Statutory Financial Statements for the financial year ended 31 May 2011.		
2.	Payment of Directors' fees.		
3.	Re-election of Mr. Lau Bik Soon as Director.		
4.	Election of Datuk Wira Syed Ali Bin Tan Sri Syed Abbas Al Habshee as Director.		
5.	Election of Dato' Ismail Bin Osman as Director.		
6.	Re-appointment of Dato' Ibrahim Che Mat as Director pursuant to Section 129(2) of the Companies Act, 1965		
7.	Re-appointment of Messrs Crowe Horwath as Auditors.		
8.	Authority to Issue Shares pursuant to Section 132D of the Companies Act, 1965.		
9.	Proposed Renewal of Share Buy-Back Authority.		

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 2011

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 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.*

VI) *For the purpose of determining a member who shall be entitled to attend the Ninth Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 61 of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositor as at 8 November 2011. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/or vote on his stead.*

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Stamp

Company Secretary
REDtone International Berhad (596364-U)
Level 18, The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

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