

KANNALTEC BERHAD
(635696-V)

annual report 2005

www.kannaltec.com

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Company's Profile

Kannaltec Berhad was incorporated in Malaysia on 2 December 2003 under the Companies Act 1965 as a private limited company under the name of Dwikarya (M) Sdn Bhd and subsequently changed its name to Kannaltec Sdn Bhd on 14 February 2004. It was converted to a public limited company under the name of Kannaltec Berhad on 4 March 2004. Kannaltec Berhad was successfully listed on the MESDAQ Market of Bursa Malaysia on 4 May 2005.

The principal activity of Kannaltec Berhad is investment holding. It has three wholly-owned subsidiaries namely Kannal Softech Sdn Bhd, Kannal Technologies Sdn Bhd and CDC Control (M) Sdn Bhd.

Kannal Softech Sdn Bhd was incorporated in Malaysia on 16 July 2003 and is a MSC Status Company. It is the research and development arm for Kannaltec Group in developing IT solutions and products.

Kannal Technologies Sdn Bhd, incorporated in October 1987, was principally engaged as an operator of maritime carriage monitoring system.

CDC Control (M) Sdn Bhd, incorporated in May 1998, was principally engaged in implementing the monitoring and collection of container detention charges. CDC Control (M) Sdn Bhd is a wholly-owned subsidiary company of Kannal Technologies Sdn Bhd.

notice of annual general meeting

NOTICE IS HEREBY GIVEN THAT the Second Annual General Meeting of the Company will be held at Serunai Suite 1, 1st Floor, East Wing, Hilton PJ, No: 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Monday, 26 September 2005 at 10.30 a.m. for the following resolutions:-

AGENDA

As Ordinary Business

1. **“THAT**, the Directors' Report and the Audited Financial Statements for the period ended 31 March 2005 and Auditors Reports thereon be and are hereby received and adopted.” **Resolution 1**
2. **“THAT**, the following Directors, who retire under Article 98 of the Company's Articles of Association, be and hereby re-elected Directors of the Company:
 - a) Haji Khalid Izhar Bin Dato' Mahmood
 - b) Datuk Mohan A/L A Kandasamy**Resolution 2**
3. **“THAT**, Messrs Viru, Goona & Associates, who are eligible and have given their consent for re-appointment, be and are hereby re-appointed the Company's Auditors for the period until the conclusion of the next AGM and that the remuneration to be paid to them be fixed by the Board.” **Resolution 3**

As Special Business

To consider and if thought fit, pass with or without modifications the following ordinary resolutions:-

4. **Authority To Allot Shares** **Resolution 4**

“THAT, subject to the Companies Act, 1965, the Articles of Association of the Company and approvals of the relevant governmental and/or regulatory authorities, approval be and is hereby given for the Directors to exercise, pursuant to Section 132D of the Companies Act, 1965, the power to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten per centum (10%) of the total issued capital of the Company and that such approval shall continue to be in force until the conclusion of the next Annual General Meeting of the Company.”
5. **Proposed Shareholders' Ratification For Recurrent Related Party Transactions of A Revenue Or Trading Nature** **Resolution 5**

“THAT, subject to compliance with the Companies Act, 1965, the Company's Memorandum and Articles of Association, the Listing Requirements of Securities Exchange for the MESDAQ Market (“Listing Requirements”), and the regulations, guidelines, guidance notes and/or such approvals as may be issued by Securities Exchange and/or regulatory authorities from time to time, all recurrent related party transactions entered into by the Company and its subsidiary companies as described in Section 2.1.2(i) of the Circular to Shareholders dated 2 September 2005, from 4 May 2005 (the listing date) to the date of passing this ordinary resolution, be and are hereby approved and ratified.

AND THAT, the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Shareholders' Ratification for recurrent related party transactions.”

notice of annual general meeting

(continued)

6. **Proposed Shareholders' Mandate For Recurrent Related Party Transactions of A Revenue Or Trading Nature** **Resolution 6**

“THAT, pursuant to Rule 6.8 and Guidance Note 12 of the Listing Requirements, the Company and its subsidiary companies be and are hereby authorised to enter into and give effect to the recurrent related party transactions with Astra-Link Sdn Bhd as detailed in Section 2.1.2(ii) of the Circular to Shareholders dated 2 September 2005, which are necessary for the Company's and its subsidiary companies' day to day operations in the ordinary course of business on terms not more favourable to the said related party than normal commercial terms and not detrimental to minority shareholders of the Company.

AND THAT, such approval shall continue to be in force until:

- a) the conclusion of the next Annual General Meeting (“AGM”) of the Company following the forthcoming AGM at which the Proposed Shareholders' Mandate is approved, at which time it will lapse, unless, by a resolution passed at the AGM, whereby the authority is renewed; or
- b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earliest.

AND THAT, the Directors of the Company be and are hereby authorised to complete and do all such acts and things as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate for recurrent related party transactions.”

7. To transact any other business that may be transacted at an Annual General Meeting for which due notice have been given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

BY ORDER OF THE BOARD

WAN HASLINDA BT WAN YUSOFF

Company Secretary

Port Klang

Dated : 2 September 2005

NOTES:-

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be signed by the appointor or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
3. Where a member appoints more than one (1) proxy, the member shall specify the proportion of the members' shareholding to be represented by each proxy.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at No: 149A, 149B, 151B, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan not less than 48 hours before the time for holding the meeting or any adjourned thereof.

EXPLANATORY NOTES TO THE SPECIAL BUSINESS:-

NOTE 1

Resolution 4 - Authority to Allot Shares Pursuant to Section 132D of the Companies Act, 1965.

The proposed Ordinary Resolution, under item four (4) if passed, will empower the Directors to issue shares in the Company up to an amount not exceeding 10% of the total issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. In order to avoid any delay and costs involved in convening a general meeting, it is thus appropriate to seek shareholders' approval. This authority unless revoked or varied by the Company at a general meeting will expire at the next annual general meeting.

NOTE 2

Resolution 5 - Proposed Shareholders' Ratification For Recurrent Related Party Transactions of A Revenue or Trading Nature

The detailed information on the Recurrent Related Party Transactions is set out in the Circular to Shareholders of the Company dated 2 September 2005 in relation to the Proposed Shareholders' Ratification which is despatched together with the Annual Report 2005.

Resolution 6 - Proposed Shareholders' Mandate For Recurrent Related Party Transactions of A Revenue or Trading Nature

The detailed information on the Recurrent Related Party Transactions is set out in the Circular to Shareholders of the Company dated 2 September 2005 in relation to the Proposed Shareholders' Mandate which is despatched together with the Annual Report 2005.

statement accompanying notice of *annual general meeting*

1. Directors seeking re-election pursuant to Article 98 of the Articles of Association (retirement by rotation).
 - Haji Khalid Izhar Bin Dato' Mahmood
 - Datuk Mohan A/L A Kandasamy
2. Details of General Meetings held in the period ended 31 March 2005.
 - N/A
3. Details of Directors attendance at Board Meetings during the period ended 31 March 2005.

No	Directors	No. of Meetings Attended
1	Haji Khalid Izhar Bin Dato' Mahmood	3 out of 3
2	Datuk Mohan A/L A Kandasamy	3 out of 3
3	Sukunan A/L Kandasamy	3 out of 3
4	Sangar Nallappan	3 out of 3
5	Sa'edah Binti Jamek	3 out of 3
6	Haji Azhari Bin Mohamed	3 out of 3

BOARD OF DIRECTORS

Haji Khalid Izhar Bin Dato' Mahmood	(Independent Non-Executive Chairman)
Datuk Mohan A/L A Kandasamy	(Managing Director)
Sukunan A/L Kandasamy	(Executive Director)
Sangar Nallappan	(Executive Director)
Sa'edah Binti Jamek	(Executive Director)
Haji Azhari Bin Mohamed	(Independent Non-Executive Director)
Haji Hedzier Bin Haji Ahmad	(Alternate to Sa'edah Binti Jamek)

BOARD COMMITTEES

Audit Committee

Haji Azhari Bin Mohamed (*Chairman*)
Haji Khalid Izhar Bin Dato' Mahmood
Sangar Nallappan

Nomination Committee

Haji Khalid Izhar Bin Dato' Mahmood
(*Chairman*)

Haji Azhari Bin Mohamed

Remuneration Committee

Haji Azhari Bin Mohamed
(*Chairman*)

Haji Khalid Izhar Bin Dato' Mahmood

COMPANY SECRETARY

Wan Haslinda Binti Wan Yusoff

MANAGEMENT TEAM

Lim Han Boon
(*Chief Executive Officer*)

Kan Lai Fun
(*Senior Account Manager*)

Parthiban A/L Muniandy
(*Marketing Manager*)

Ng Han Peng
(*Financial Controller*)

Leng Heong Wai
(*Operations Manager*)

Chan Ming Ming
(*IT Manager*)

Tah Yap Keong
(*Business Development Manager*)

Syarmini A/P Ramasamy
(*HR & Admin Manager*)

corporate information

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SHARE REGISTRAR

Mega-Wan Share Registration Sdn Bhd
(formerly known as Mega-Wan
Corporate Consultants Sdn Bhd) (409016-P)
Suite 19, Level 17 West Block,
Wisma Selangor Dredging, Jalan Ampang
50450 Kuala Lumpur
Tel : 03 2162 3830
Fax : 03 2163 3830

STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Securities

PLACE OF INCORPORATION

Incorporated in Malaysia

COMPANY NO.

635696-V

REGISTERED OFFICE

No. 149A, 149B, 151B
Persiaran Raja Muda Musa
42000 Port Klang
Selangor Darul Ehsan
Tel : 03 3167 3830
Fax : 03 3168 3830

OPERATION OFFICE

Wisma Kannal, No. 111 Persiaran Pegaga
Bayu Perdana, 41200 Klang
Selangor Darul Ehsan
Tel : 03 3324 8111
Fax : 03 3324 9114

CORPORATE OFFICE

Unit A805-7, Level 8, West Wing
Wisma Consplant 2, No. 7 Jalan SS16/1
47500 Subang Jaya
Selangor Darul Ehsan
Tel : 03 5621 8000
Fax : 03 5621 8080

AUDITORS

Viru, Goona & Associates (AF 0879)
No. 43-1, Jalan Thambapillai, Brickfields
50470 Kuala Lumpur
Tel: 03 2273 3510

PRINCIPAL BANKER

Bumiputra-Commerce Bank Berhad (13491-P)
No. 1, Lorong Batu Tiga
Off Jalan Lintang 3
41300 Klang
Selangor Darul Ehsan

SPONSOR

Alliance Merchant Bank Berhad (21605-D)
Level 29, Menara Multi-Purpose
Capital Square, 8 Jalan Munshi Abdullah
50100 Kuala Lumpur
Tel : 03 2692 7788

WEBSITE ADDRESS

<http://www.kannaltec.com>

chairman's statement

“On behalf of the Board of Directors of Kannaltec Berhad, I am pleased to present the Annual Report and Audited Financial Statements of the Group and the Company for the period ended 31 March, 2005.”

This is the first Annual Report after the Official Listing of Kannaltec Berhad on the MESDAQ Market of Bursa Malaysia on 4 May 2005.

The year 2005 marked significant achievement for the Company by obtaining approvals from the relevant authorities and subsequently listed on the MESDAQ Market of Bursa Malaysia. Achieving the listing status is truly a moment of pride and gratification for everyone in the Kannaltec Group. This milestone event and achievement will certainly inspire us to take the Group to greater heights and enable the Group to take its future challenges with confidence.

FINANCIAL PERFORMANCE

For the period ended 31 March 2005, the Group recorded a revenue of RM1.365 million, as well as profit before taxation and profit after taxation of RM379,400 and RM349,550 respectively. The Group profit after taxation shown an increase of 16.9% as compared to the proforma net profit after taxation of RM 299,000, published in the prospectus of the Company dated 13 April 2005. This is mainly due to higher revenue earned from the container monitoring services and sale of software.

STATUS OF UTILISATION OF PROCEEDS

There was no utilisation of proceeds from the public issue during the period ended 31 March 2005 as the proceeds were received by the Company subsequent to the financial year end.

INDUSTRY TREND AND DEVELOPMENT

In tandem with the expected growth in Malaysian Economy in 2005 of 5.5%, the container carriage industry is also expected to have positive growth.

The overseas expansion plan is still in progress. The East Malaysia container monitoring scheme is on schedule to commence in 4th quarter of the year starting with Kota Kinabalu and to be followed by Kuching.

chairman's statement

(continued)

RESEARCH AND DEVELOPMENT (R&D) ACTIVITIES

Kannaltec will continue to invest in R&D to enhance the existing software product and services and to innovate new product and services to keep abreast with the rapid technological change. The Group's ultimate objective is to formulate, research and develop world class solutions such as Container Monitoring Solution, Yard Management Solution, Lease Management Solution and Data Mapping Solution.

Our R&D team had released the new version of Container Monitoring Solution (CMS) for the maritime industry which is a web-base module. The software is able to track the container movements on behalf of the shipping lines, and provide alert, reports and computation of related charges once the equipment is in the custody of the consignee.

PROSPECTS FOR 2006

With the improving Malaysia economy, the Board expects overall financial performance of the Group to improve further for the forthcoming financial year 2006. At the same time, the Group will continue to aggressively embark in promoting its solution both locally and overseas.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere thanks and appreciation to the Management and employees of the Group for the commitment, contribution and dedicated services. My thanks and appreciations are also extended to our esteemed shareholders, customers, suppliers, business associates and brokers for their continuing support, assistance and confidence they have in us. Last but not least, I would like to extend my utmost appreciation to my fellow Board Members for their advice and guidance.

Haji Khalid Izhar bin Dato' Mahmood

Chairman

Dated: 22 August 2005

board of *directors' profile*

Haji Khalid Izhar Bin Dato' Mahmood

Chairman

Aged 60, was appointed to the Board as Chairman on 15 February 2005. He started his career in 1966 as an Executive Trainee at Chemical Company of Malaysia (CCM), a subsidiary of ICI Group of Companies. His 34 years service and consultancy work in the ICI Group of Companies (1966-2000) include holding several key positions in Publicity, Sales, Marketing and Public Affairs portfolios, in ICI Agriculture (M) Sdn Bhd, ICI Agrochemicals (M) Sdn Bhd and CCM Bioscience Bhd. In 1987, he opted for his VSS and rejoined CCM Bioscience Bhd/SYNGENTA (M) Bhd as their Public Affairs Advisor, while at the same time assists his family business in Syarikat Mahmood Ambak and Sons Group of Companies whose business include, supplier of motor vehicle spare parts, Port Ancillary Services, Maritime Industry and Inbound / Outbound Travel Industry. His career with the multinational as well as local companies has established himself as a known figure in the business circle, while having excellent rapport and contact with the relevant Government Ministries and Departments. He is a former student of the Victoria Institution (1957-1961) and the Mara College (now known as UiTM) where he obtained his British Institute of Management Diploma in Business Studies (1963-1965). He is currently serving as director of Maersk Sealand (M) Sdn Bhd, Maersk Logistics Customs Brokerage Sdn Bhd and many other local companies.

Datuk Mohan A/L A Kandasamy

Managing Director

Aged 45, is the Managing Director of the Group. He was appointed to the Board on 15 February 2005. He is responsible for the business direction and strategies of the Group. He possesses more than 22 years experience in the marine industry. He started his career in 1983 as a surveyor in Caleb Bret (M) Sdn Bhd, principally involved in international marine inspection and testing. He left Caleb Bret as a supervisor in 1988 and joined Jardine Surveying Services (M) Sdn Bhd (JSSSB). He was attached to JSSSB for 6 years before he took over the Jardine surveying business via an MBO. He specialized in edible oils, crude and refined oil products surveys. He has served as a consultant to insurance companies on marine claims and pre-underwriting risk assessment. He is also well-versed with all aspects of container handling, damage assessment and claims including demurrage. He is responsible for the initiation and implementation of the scheme known as container monitoring scheme. Through a systematic and technology-based system where data is electronically transferred on a real-time basis, the scheme has saved millions of Ringgit for the local Maritime industry and eradicated malpractices while increasing the efficiency of the container transport system. The scheme is currently used by international shipping conferences and major shipping lines. He is an Associate Member of the Australian Insurance Institute (AII). He is also very active in public service and holds the following positions:

- (i) Secretary General, People's Progressive Party (PPP) of Malaysia
- (ii) Special Representative to YB Datuk Dr. M Kayveas, Deputy Minister in the Prime Minister's Department
- (iii) Committee Member of Barisan Nasional at national level
- (iv) Economic Bureau Chief, PPP Malaysia

board of *directors' profile*

(continued)

Sukunan A/L Kandasamy

Aged 43, was appointed to the Board on 15 February 2005. He was instrumental in the design of the software system for monitoring of containers for major shipping lines, development of solutions for process re-engineering to cater for changing environment and challenges, development of system for online data transmission linking ports in Malaysia for tracking of container movement and implementation of online data transmission linking shipping lines and depot operators for tracking of containers movements. He obtained his Bachelor of Science (Hons) in Computer Science from Universiti of Sains Malaysia in 1986. Before joining Kannaltec Group, he was a project manager of Edaran Komputer Sdn Bhd. During his tenure from 1989 to 1999 in Edaran Komputer Sdn Bhd, he successfully directed completion of large-scale projects. He is currently the Director of Business Development in Kannaltec Group.

Sangar Nallappan

Aged 42, was appointed to the Board on 15 February 2005. He is a Company Secretary, licensed by the Companies Commission of Malaysia. He has more than 19 years of experience in secretarial and corporate consultancy services. He specializes in corporate consultancy, corporate restructuring and business re-engineering. He is currently the Chairman of Mega-Teo Secretarial Services Sdn Bhd and Mega Audit & Corporate Consultants Sdn Bhd which provides a wide spectrum of services including secretarial, consultancy and internal audit advisors. He started his career as an Audit Assistant in Kumpulan Naga in 1982. He is an associate member of the Institute of Company Secretaries, Malaysia. He is currently the Director of Corporate Affairs of Kannaltec Group.

Sa'edah Binti Jamek

Aged 44, was appointed to the Board on 15 February 2005. Her past working experience in maritime work, shipping, company secretarial and corporate services has enriched her knowledge in the business sector. Holder of a certificate in Private Secretarial and Administration, she was part of the team that represented Datuk Mohan in the MBO of JSSSB. She was involved in the area of restructuring and negotiation of the deal and documentation. Her involvement in business is mainly in the maritime and corporate service sector. She began her career as a Secretary and Administrative Executive in Megazain Forwarding & Shipping Co. Currently, she is the Director in Asia Pacific Marine Superintendents (M) Sdn Bhd which is involved in cargo surveying and marine inspection, Astra-Link Sdn Bhd which provides general trading and management services and Sinergi Setia (M) Sdn Bhd which is involved in engineering services and general supplies.

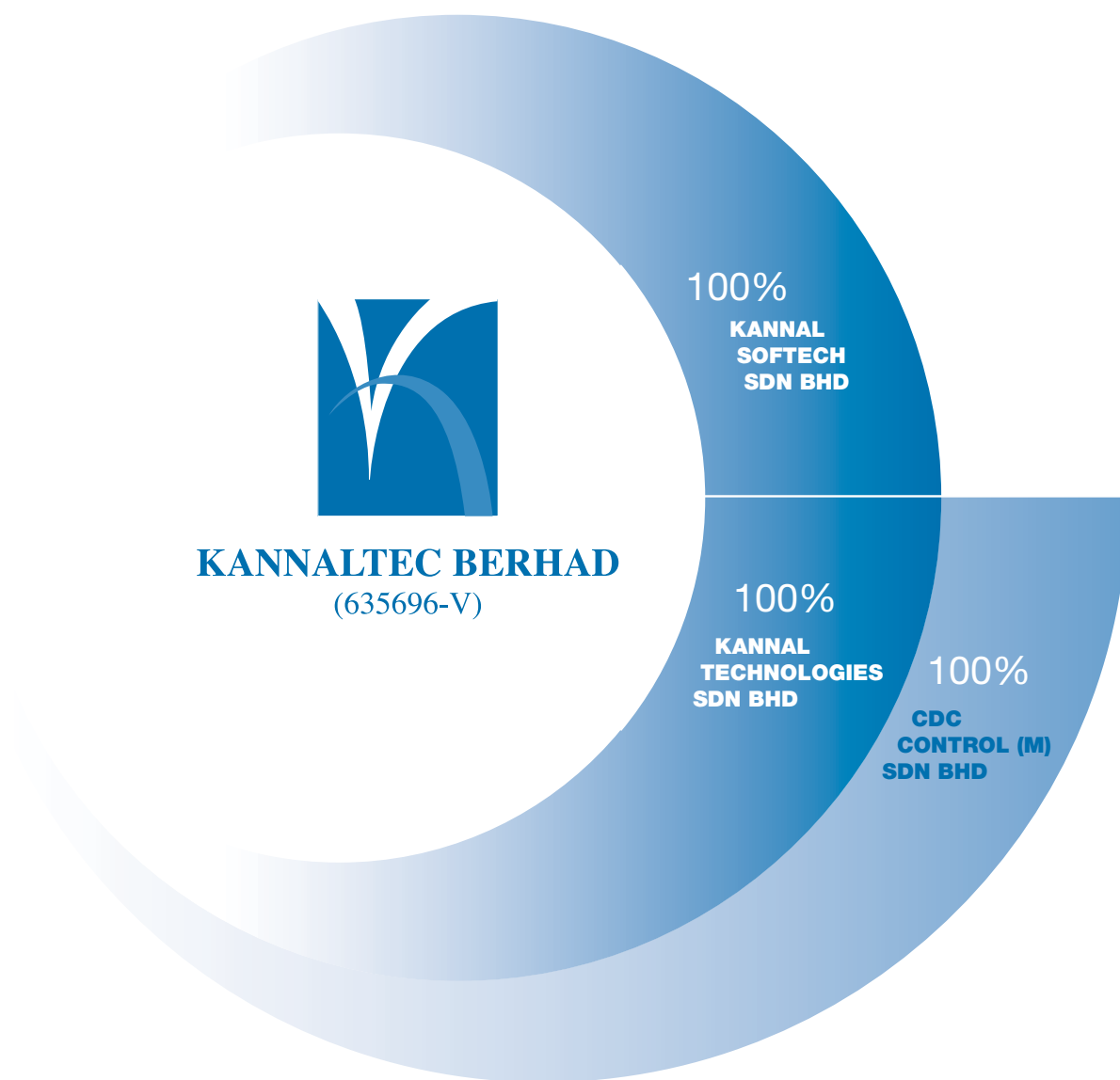
Haji Azhari Bin Mohamed

Aged 44, was appointed to the Board on 15 February 2005 as an Independent Non-Executive Director. He graduated with a Bachelor of Commerce in Accounting from the University of Birmingham, United Kingdom in 1984. He is a Chartered and Fellow member of the Institute of Internal Auditors Malaysia (CFIA) and a Chartered Audit Committee Director (CACD). He is also a past president and a former member of the Board of Governors of the Institute of Internal Auditors Malaysia. From 2000 until 2003, he was attached with the Consultative Group for International Agricultural Research (CGIAR) as an Internal Audit Consultant. CGIAR is headquartered at the World Bank, Washington D.C., USA. Currently, he is the Vice President and Head of Internal Audit Division and a member of the Senior Management Committee of Malaysian National Insurance Bhd (MNI). Prior to joining MNI, he held senior management positions in Melewar Leisure Sdn Bhd and Group General Manager of ATH-Niagabena Sdn Bhd, a company in Brunei Darussalam. From 1998 to 2000, he was the North Pacific District director of the IIA Inc.'s International Board of Directors which is based in Orlando, Florida, USA. He was a member of the Bursa Malaysian Taskforce on Statement on Internal Controls in June 2000 and was a member of the Securities Commission's Industry-led Taskforce on Internal Audit Functions in April 2001.

Haji Hedzier Bin Haji Ahmad

Aged 58, is the alternate director to Sa'edah Binti Jamek. He is an automobile engineer. He started his career as a quality Control Executive in Champion Motor Assemblies. In his 30-year career, he has worked with multinational corporations and big corporate bodies including Tractors Malaysia Bhd. Tatab Industries Sdn Bhd, Scandinavian Motors Sdn Bhd and Pembangunan Jentera Sdn Bhd. He has vast knowledge in marketing and contacts in different industrial segments. Currently, he is a Director of Sinergi Setia (M) Sdn Bhd Prior to joining Sinergi Setia (M) Sdn Bhd he was with Inchcape-Timuran Sdn Bhd as Sales Director from 1996 to 2000. He obtained his Diploma/C&G Intermediate in Automobile Engineering from the Institute of MARA in 1967.

group structure



audit committee report

Members of the Audit Committee

Chairman

Haji Azhari Bin Mohamed (Independent Non-Executive Director)

Members

Haji Khalid Izhar Bin Dato' Mahmood (Independent Non-Executive Director)

Sangar Nallappan (Executive Director)

Terms of Reference and Functions of the Audit Committee of the Board of Directors

Introduction

The Terms of Reference and Functions of the Audit Committee (AC) of the Board of Directors were prepared based on the requirements of the Bursa Malaysia Listing Requirements; and the Malaysian Code on Corporate Governance. Reference was also made to the publications by the Institute of Internal Auditors (IIA) on the best practices and the effective role of the Audit Committees.

1. Composition of the Audit Committee

- 1.1 The Audit Committee (AC), established by the Board shall comprise of not less than three members from amongst the directors; the majority shall be made up of independent directors.
- 1.2 At least one member of the Committee shall be an accountant registered with Malaysia Institute of Accountant; or a member of one of the associations specified in Part 2 of the 1st Schedule of the Accountants Act 1967.
- 1.3 The Chairman of the Committee shall be an independent non-executive director appointed by the Board.
- 1.4 If the numbers are reduced to below three, the Board must fill the vacancy/vacancies within three months from the date position was vacated.

2. Authority

- 2.1 The Committee should have the authority to investigate any matter within its terms of reference and should have unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the insurer.
- 2.2 The Committee should be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by Management. Fraud and irregularities discovered by Management should be referred to the AC for investigation.
- 2.3 The Committee should have access to copies of audit reports (including interim financial audits) on a timely basis and should be kept regularly informed of corrective actions arising from internal and external audit findings.
- 2.4 The Committee should have adequate resources to perform its duties and discharge its responsibilities and should be authorised to obtain independent professional advice as considered necessary.

audit committee report

(continued)

3. Meetings and Minutes

- 3.1 The meetings shall be held not less than four times a year, although the Chairman may call additional meetings.
- 3.2 The quorum for an audit committee meeting shall be at least two members.
- 3.3 The Secretary to the AC shall be the Company Secretary. The Secretary shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to AC members within a reasonable timeframe prior to each meeting. The Secretary shall also be responsible for keeping the minutes of meetings, timely circulation of the minutes to the AC members and following up on outstanding matters in relation to the meetings.
- 3.4 The Chairman of the Committee shall provide reports to the Board on each deliberations of the AC by presenting a summary of all significant matters (highlighting the risks and implications) and resolutions made by the AC at the Board meetings.
- 3.5 The Chief Executive Officer shall attend the meetings. Any other officers shall attend upon invitation by the Chairman of the Committee. The presence of the external auditors will be requested if required. Other board members may attend meetings upon the invitation of the Audit Committee. However, at least once a year the Committee shall meet with the external auditors, on separate occasions without executive board members present.

4. Primary Purposes of the Committee

The Committee shall: -

- 4.1 Provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the corporate accounting and reporting practices of the Company and its subsidiaries;
- 4.2 Comply with the requirements of the listing rules of the Bursa Malaysia and the Malaysian Code on Corporate Governance;
- 4.3 Promote/strengthen confidence of the public in the Company's and its subsidiaries reported results;
- 4.4 Maintain, through regularly scheduled meetings, a direct line of communication with the Board and the external auditors; and
- 4.5 Act upon the Board of Directors' request to investigate and report on any issues or concerns in regard to the management of the Company and its subsidiaries.

5. Duties of the Committee

The duties of the Committee shall be:

- 5.1 To consider the appointment of the external auditor, the audit fee and any questions of resignation and/or dismissal;
- 5.2 To discuss with the external auditor and review before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

5.3 To review the quarterly and year-end financial statements of the Company and its subsidiaries, focusing particularly on:

- Any changes in accounting policies and practices;
- Significant adjustments arising from the audit;
- The going concern assumption;
- Compliance with accounting standards and other legal requirements.

5.4 To discuss problems and reservations arising from the interim and final audits of the Company and its subsidiaries, and any matter the auditor may wish to discuss (in the absence of management where necessary);

5.5 To review the external auditor's management letter and management's response;

5.6 To review and approve any non-audit services by the external auditor, before the commencement of the service, or whenever there is a significant change in the level of services provided.

Other responsibilities

5.7 To review the overall condition, in particular, financial status of the Company, its internal controls and audit programme;

5.8 To ensure prompt publication of annual financial statements of the Company and its subsidiaries. The Board is duty bound to ensure that accounts are timely and accurate, with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts;

5.9 To prepare a report to be set out in the annual report, in each financial year summarising its composition, term of reference, number of meetings held and the attendance of each member and activities of the Committee to discharge its duty for the year;

5.10 To consider any related party transactions that may arise within the Company and its subsidiaries;

5.11 To consider the major findings of internal investigations and management's response of the Company and its subsidiaries;

5.12 To consider any other topics as defined by the Board.

6 Additional Requirements

6.1 The terms of references and functions of the Committee shall also include any other relevant regulatory requirements that are required to be adopted by the Committee.

statement on *internal control*

Introduction

The Malaysian Code on Corporate Governance requires the Board of Directors to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. The Board is pleased to provide the following statement on the nature and scope of the Group's internal controls.

Board Responsibility

The Board of Directors recognizes its responsibility in maintaining the Group's system of Internal Control and effective risk management practices to safeguard shareholders' value and the Group's assets. The Board affirms its responsibility for reviewing the adequacy and integrity of the internal control system. Due to limitations inherent in any system of internal control, it is important to note that the Group's system of internal control is designed to manage rather than eliminate the risk that may impede the achievement of the Group's business objectives. Therefore, the system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

System of Internal Control

The key processes of the Group's internal control system include:

- i) The Group has an established organization structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority.
- ii) A comprehensive annual budget which is approved by the Board. The budget is reviewed and updated if appropriate, with performance monitored and explanations sought for significant variances.
- iii) A clear definition of authorization procedure for major operating functions including purchases, payment, capital expenditures and credit control.
- iv) Weekly management meetings to monitor the business development, discusses and resolves key operational and management issues and review the financial performance against the business plan and budget for each operating units within the Group.
- v) The Audit Committee will review the effectiveness of internal financial and operating control environment of the Group.
- vi) The Group at present does not have an internal audit department. Due to the size of the Group, the Board is of the opinion that the current control mechanism, procedures and policies are adequate for the current level of operations.

Conclusion

In the financial period under review, the Board is satisfied that the system of internal control is well in place and there were no material weaknesses that need to be disclosed separately in the Company's Annual Report.

The statement is made in accordance with a resolution of the Board of Directors dated 22 August 2005.

statement on corporate governance

The Board of Directors of Kannaltec Berhad is committed to ensure the fulfillment of the highest standards of corporate governance within the Group by applying and implementing the principals as set out in the Malaysian Code on Corporate Governance and to the extent of the Group compliance with the Best Practices in Corporate Governance.

The compliance with the Malaysian Code of Corporate Governance by the Board is fundamental in discharging its fiduciary duties and responsibilities to protect and enhance shareholders' value and the financial performance of the Company.

1. The Board

a. Composition and Board Balance

The Board consists of six (6) members, comprising two (2) Independent Directors of which one (1) of them is the Chairman, one (1) Managing Director and three (3) Executive Directors.

The Company is lead and managed by an experienced Board, with wide mix of knowledge, business acumen, management skills and industry expertise from various background and experience for the stewardship of the Company's direction and operation.

b. Board Meeting and Attendance

The Board meets at least four (4) times a year. Additional meetings will be convened when urgent and important decisions need to be taken between the scheduled meeting.

Since the listing date in May 2005, three (3) Board Meetings were held to date. The record of attendance of these meetings by the current Board is as follows:

Directors	Number of Meeting Attended	Percentage
Haji Khalid Izhar Bin Dato' Mahmood	3	100%
Datuk Mohan A/L A Kandasamy	3	100%
Sukunan A/L Kandasamy	3	100%
Sangar Nallappan	3	100%
Sa'edah Binti Jamek	3	100%
Haji Azhari Bin Mohamed	3	100%

c. Supply of Information

The Chairman ensures that each Director is provided with timely notices for each Board meeting to review the papers and agenda items to be discussed in the meeting.

The Board paper consist of financial information such as operating and financial results and non financial information such as corporate development, customer satisfaction, product and services quality, market share and market reaction.

All the Directors have full access to all information of the Group for the purposes of decision making.

statement on corporate governance

(continued)

d. Directors' Training

All Directors of the company have either completed or will be attending the Mandatory Accreditation Programme by Bursa Malaysia Securities Berhad. The Directors will continue to attend the Continuing Education Programme and other relevant training programme from time to time.

e. Appointment to the Board

In compliance with the Malaysian Code of Corporate Governance, the Board has set up a Nomination Committee to advise the Board on the nomination of new Board members and assess the existing Directors performance on an ongoing basis.

f. Re-election

In accordance with Article 98 of the Company's Articles of Association, at least one third (1/3) of the Directors including the Managing Director, shall retire by rotation at least once in every three (3) years and offer themselves for re-election.

2. Directors' Remuneration

The Board has set up a Remuneration Committee to review the policy and make recommendation to the Board on the remuneration packages and benefits annually as accorded to the Executive Directors.

The breakdown of the remuneration of the directors during the financial year which falls within the following band is as follows:-

Band or Remuneration	Executive Directors	Non Executive Directors
RM 50,000 and below	4	-

3. Relation with Shareholders and Investors

The Group recognised the importance of accountability to the shareholders and investors on information such as Group's business, corporate development and performance. Such information is disseminated via the Group's annual reports, announcements, quarterly financial results and press release.

The Chief Executive Officer meets up with Fund Managers and analysts, periodically to update them on the performance of the Group.

4. Accountability and Audit

a. Financial Reporting

The Board aims to provide a balanced and understandable assessment of the Group's financial position and prospects through the annual report as well as quarterly financial results to its shareholders.

The quarterly financial results were reviewed and approved by the Board before releasing to the Bursa Malaysia Securities Berhad.

b. Internal Control

The Board recognised its responsibility for the Group's system of internal control to safeguard shareholders investment and Group's assets.

The statement on internal control is set put on page 16 of the annual report and it provides an overview of the internal control of the Group.

c. Audit Committee and Relationship with Auditors

The Audit Committee has established a transparent professional relationship with the external auditors towards ensuring the compliance with the Financial Reporting Standards and other related regulatory requirements.

5. Statement of Compliance with the Code

The Group is committed towards achieving compliance with the best practices of the good corporate governance and highest level of integrity and ethical standards in all its business dealings.

6. Statement of Directors' Responsibilities in Relation to the Financial Statement

The Directors are responsible in the preparation of the financial statement and to ensure that the financial statements of each financial year are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable accounting standards in Malaysia so as to give a true and fair views of the state of affairs of the Group and the Company as at the end of the financial year and the results of the operations and cash flow of the Group and the Company for that period.

7. Recurrent Related Party Transactions

The breakdown of the aggregate value of the recurrent related party transactions for the period ended 31 March 2005 are as follows:-

Transacting Related Parties	Interested Directors, and Substantial Shareholders	Nature of Transaction	Amount RM
Astra-Link Sdn Bhd	Datuk Mohan A/L A Kandasamy Sangar Nallappan Sa'edah Binti Jamek	Rental of Premises	10,650
Asia Pacific Marine Superintendents (M) Sdn Bhd	Datuk Mohan A/L A Kandasamy	Rental of Premises	2,132

Other Compliance Information

1. Share Buy Back

The Company did not carry out any share buy back for the financial period under review.

2. Options, Warrants, of Convertible Securities

There were no options, warrants or convertible securities issued during the financial period under review.

statement on *corporate governance*

(continued)

3. American Depository Receipts (ADR) or Global Depository Receipts (GDR)

The Company did not sponsor any ADR or GDR programme.

4. Imposition of Sanction and/or Penalty

There were no sanctions and/or penalty imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial period.

5. Non Audit Fees

There was no non-audit fees paid to external auditors by the Company and its subsidiaries for the financial period under review.

6. Profit Guarantee

There was no profit guarantee issued by the Company in respect of the financial period.

7. Material Contract

During the financial period under review, there were no material contracts entered by the Company and/or its subsidiaries companies which involved Directors' and Major Shareholder's interest.

financial *statements*

for the period ended 31 March 2005

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directors' report

The directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the period ended 31 March 2005.

CHANGE OF ACCOUNTING YEAR END

On 16 March 2005, the Company changed its accounting year end from 30 September to 31 March to coincide with that of its subsidiary companies.

Accordingly, income statement and cash flow statements of the Company are in respect of the period of six months ended 31 March 2005 and the comparative figures are in respect of the period of ten (10) months ended 30 September 2004.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are described in Note 4 to the financial statement. There have been no significant changes in these principal activities during the period.

FINANCIAL RESULTS

	Group RM	Company RM
Net profit/(loss) for the period	349,550	(24,392)

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

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period.

DIVIDENDS

No dividends were paid or declared by the Company during the financial period.

CHANGES AND ISSUE OF SHARES AND DEBENTURES

During the financial period, the Company changed and issued the following shares of RM 0.10/- each at par:-

Date	Type	Number of Shares	Terms	Purpose
14.02.2005	Ordinary RM 0.10/-	20	Share split	Listing scheme
14.02.2005	Ordinary RM 0.10/-	12,462,940	Acquisition	Listing scheme
14.02.2005	Ordinary RM 0.10/-	15,618,650	Acquisition	Listing scheme
31.03.2005	Ordinary RM 0.10/-	62,668,390	Cash	Rights issue

There was no issue of debentures during the financial period.

DIRECTORS

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

Haji Khalid Izhar Bin Dato' Mahmood	- Appointed on 15.02.2005
Datuk Mohan A/L A Kandasamy	- Appointed on 15.02.2005
Sukunan A/L Kandasamy	- Appointed on 15.02.2005
Sangar Nallappan	- Appointed on 15.02.2005
Sa'edah Binti Jamek	- Appointed on 15.02.2005
Haji Azhari Bin Mohamed	- Appointed on 15.02.2005
Haji Hedzier Bin Haji Ahmad (Alternate to Sa'edah Binti Jamek)	- Appointed on 15.02.2005
Ahmad Zaihan Bin Baharuddin	- Resigned on 15.02.2005
Krishnaveny A/P Raman	- Resigned on 15.02.2005

Retirement and re-election of the directors at the forthcoming Annual General Meeting will be in accordance with the Articles of Association of the Group and of the Company.

DIRECTORS' INTEREST

The following directors who held office at the end of the financial period had according to the register required to be kept under Section 134 of the Companies Act 1965, an interest in the shares of the Group and of the Company as stated below:-

	Number of Ordinary Shares of RM 0.10/- each			
	At 01.10.2004	Bought	Sold	As at 31.03.2005
Datuk Mohan A/L A Kandasamy	-	1,209,798	-	1,209,798
Sukunan A/L Kandasamy	-	1,209,546	-	1,209,546
<u>Indirect Interest</u>				
Datuk Mohan A/L A Kandasamy	-	40,730,314*	-	40,730,314
Sukunan A/L Kandasamy	-	40,730,566**	-	40,730,566
Sa'edah Binti Jamek	-	30,648,663***	-	30,648,663
Haji Hedzier Bin Haji Ahmad (Alternate to Sa'edah Binti Jamek)	-	30,648,663***	-	30,648,663

* Deemed interest by virtue of his interest in Middle Entity (M) Sdn Bhd, Sukunan A/L Kandasamy and Annadurai A/L A Kandasamy being his brothers' direct interest in Kannaltec.

** Deemed interest by virtue of Datuk Mohan A/L A Kandasamy and Annadurai A/L A Kandasamy being his brothers' direct and indirect interest in Kannaltec.

*** Deemed interest by his/her interest in Juta Imperium (M) Sdn Bhd.

DIRECTORS' BENEFITS

Since the end of the previous financial period, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in the financial statements or the fixed salary of a full time employee of the Group) 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.

directors' *report*

(continued)

DIRECTORS' BENEFITS (CONT'D)

Neither during, nor at the end of the financial period, did there subsist any arrangements to which the Company is a party, whereby directors might acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER FINANCIAL INFORMATION

- (a) Before the income statement and balance sheet of the Group and of the Company were made out, the directors took reasonable steps:-
- (i) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts, and have satisfied themselves that all known bad debts have been written off and that adequate allowance has been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected to realise.
- (b) At the date of this report, the directors are not aware of any circumstances:-
- (i) which would render the amount written off as bad debts or the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
 - (iii) which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and of the Company misleading or inappropriate; or
 - (iv) not otherwise dealt with in this report or financial statements of the Group and of the Company, which would render any amount stated in the financial statements misleading.
- (c) At the date of this report, there does not exist:-
- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial period which secures the liability 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 period.
- (d) In the opinion of the directors:-
- (i) 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 (12) months after the end of financial period which will or may substantially affect the ability of the Group and of the Company to meet its obligations when they fall due.
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial period in which this report is made.

EVENT SUBSEQUENT TO BALANCE SHEET DATE

On 26 April 2005, the company increased its paid up capital from RM9,075,000 to RM12,100,000 by way of issuance of additional 30,250,000 share of RM0.10 per share to Malaysian public.

AUDITORS

The auditors, Viru, Goona & Associates, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors.

DATUK MOHAN A/L A KANDASAMY
Director

SANGAR NALLAPPAN
Director

Klang

Dated: 25 July 2005

balance sheet

as at 31 March 2005

		Group	Company	
	NOTE	31.03.2005	31.03.2005	30.09.2004
		RM	RM	RM
PROPERTY, PLANT AND EQUIPMENT	3	862,500	-	-
INVESTMENT IN SUBSIDIARIES	4	-	2,808,159	-
DEVELOPMENT COST	5	577,639	-	-
CURRENT ASSETS				
Trade receivables		2,664,567	-	-
Other receivables, deposits and prepayments		2,106,743	1,231,836	-
Cash and bank balances		14,728,359	10,643,581	2
		<u>19,499,669</u>	<u>11,875,417</u>	<u>2</u>
CURRENT LIABILITIES				
Other payables and accruals		4,405,964	12,624	6,762
Amount due to subsidiaries	6	-	1,240,319	-
Hire purchase payables	7	78,544	-	-
Taxation		239,451	-	-
		<u>4,723,959</u>	<u>1,252,943</u>	<u>6,762</u>
NET CURRENT ASSETS / (LIABILITIES)		14,775,710	10,622,474	(6,760)
		<u>16,215,849</u>	<u>13,430,633</u>	<u>(6,760)</u>
FINANCED BY:-				
SHARE CAPITAL	8	9,075,000	9,075,000	2
SHARE PREMIUM	9	4,386,787	4,386,787	-
NEGATIVE GOODWILL	10	2,145,843	-	-
RETAINED PROFIT/(ACCUMULATED LOSSES)		349,550	(31,154)	(6,762)
SHAREHOLDERS FUND		<u>15,957,180</u>	<u>13,430,633</u>	<u>(6,760)</u>
LONG TERM LIABILITIES				
Hire purchase payables	7	215,250	-	-
Deferred taxation	11	43,419	-	-
		<u>16,215,849</u>	<u>13,430,633</u>	<u>(6,760)</u>

The annexed notes form an integral part of these financial statements

income statement

for the period ended 31 March 2005

		Group 14.02.2005 to 31.03.2005 RM	Company 01.10.2004 to 31.03.2005 RM	02.12.2003 to 30.09.2005 RM
	NOTE			
REVENUE	12	1,364,734	-	-
DIRECT COST		(350,000)	-	-
GROSS PROFIT		1,014,734	-	-
Operating expenses		(635,334)	(24,392)	(6,762)
PROFIT/ (LOSS) FROM OPERATIONS	13	379,400	(24,392)	(6,762)
Income tax	14	(29,850)	-	-
NET PROFIT/(LOSS) FOR THE PERIOD		349,550	(24,392)	(6,762)
Basic earnings per share (sen)	15	2.37	-	-

The annexed notes form an integral part of these financial statements

statement of changes *in equity* for the period ended 31 March 2005

	Share Capital RM	Share Premium RM	Negative Goodwill RM	Retained Profit RM	Total RM
Group					
As at 14 February 2005	2	-	-	-	2
Shares issued during the period	9,074,998	-	-	-	9,074,998
Share premium	-	4,386,787	-	-	4,386,787
Negative goodwill	-	-	2,145,843	-	2,145,843
Net profit for the period	-	-	-	349,550	349,550
AS AT 31 MARCH 2005	9,075,000	4,386,787	2,145,843	349,550	15,957,180

	Share Capital RM	Share Premium RM	Negative Goodwill RM	Accumulated Losses RM	Total RM
Company					
As at 2 December 2003 (Date of Incorporation)	2	-	-	-	2
Net loss for the period	-	-	-	(6,762)	(6,762)
AS AT 30 SEPTEMBER 2004	2	-	-	(6,762)	(6,760)
As at 1 October 2004	-	-	-	(6,762)	(6,760)
Shares issued during the period	9,074,998	-	-	-	9,074,998
Share premium	-	4,386,787	-	-	4,386,787
Net loss for the period	-	-	-	(24,392)	(24,392)
AS AT 31 MARCH 2005	9,075,000	4,386,787	-	(31,154)	13,430,633

The annexed notes form an integral part of these financial statements

cash flow statement

for the period ended 31 March 2005

	Group	Company	
	14.02.2005	01.10.2004	02.12.2003
	to	to	to
	31.03.2005	31.03.2005	30.09.2004
	RM	RM	RM
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation	379,399	(4,891)	(6,762)
Adjustment for:-			
Depreciation of property, plant and equipment	44,578	-	-
Operating profit/(loss) before working capital changes	423,977	(4,891)	(6,762)
Decrease/(increase) in receivables	3,096,520	(1,251,337)	-
(Decrease)/increase in other payables and accruals	(3,982,794)	5,862	6,762
Increase in amount due to subsidiaries	-	1,240,319	-
Income tax paid	(27,499)	-	-
Net cash used in operating activities	(489,796)	(10,047)	-
CASH FLOW FROM INVESTING ACTIVITIES			
Net cash inflow from acquisition of subsidiary companies	4,824,186	-	-
Development cost incurred	(187,805)	-	-
Purchase of property, plant and equipment	(58,858)	-	-
Net cash generated from investing activities	4,577,523	-	-
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of hire purchase payable	(12,996)	-	-
Proceeds from issue of shares	6,266,839	6,266,839	2
Share premium on right issue	4,386,787	4,386,787	-
Net cash generated from financing activities	10,640,630	10,653,626	2
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,728,357	10,643,579	2
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2	2	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (NOTE 17)	14,728,359	10,643,581	2

The annexed notes form an integral part of these financial statements.

1. BASIS OF PREPARATION

The financial statements of the Group and of the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act 1965.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are described in Note 4 to the financial statement.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and of its subsidiary companies made up to the period ended 31 March 2005. The subsidiaries is consolidated using the acquisition method of accounting. All significant inter-company balances and transactions are eliminated on consolidation.

The results of the assets acquired or disposed off during the period by the subsidiary company are included in the consolidated income statement from the date of acquisition or up to the date of its disposal.

(c) Goodwill or Negative Goodwill on Consolidation

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration.

Goodwill is stated net of negative goodwill and is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement

(d) Trade and Other Receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

Debts considered to be uncollectable are written off, while allowance is made for debts considered to be doubtful of collection.

(e) Liabilities

Borrowings and trade and other payables are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Investment in Subsidiaries

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

(g) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is provided on a straight line method in order to write off the cost of each asset over its estimated useful life at the following rates per annum:-

	<u>Rate</u>
Motor vehicles	20%
Computers	20%
Furniture, fittings and office equipment	20%
Renovation	20%

(h) Provisions

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

(i) Income Taxes

Current tax expense is determined according to the Malaysian tax laws.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for the purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

(j) Software Development Cost

Expenditure on development is charged to the income statements in the period in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activities. Such development costs are recognized as an intangible asset and amortised on a straight line method over the life of the project from the date of commencement of commercial operation, which on average is five periods.

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) 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 charges to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further liabilities in respect of the defined contributions plans.

(l) Revenue Recognition

i) Sale of Goods

Revenue from sale of goods is measured at the fair value of consideration receivable and is recognized in the income statement when significant risks and rewards of ownership have been transferred to the buyer.

Revenue from rental of computer software and hardware is recognised as per agreed basis and terms between interested parties.

ii) Services

Revenue is recognised upon rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses incurred that are recoverable.

(m) Foreign Currency Transaction

Foreign currency transactions are accounted for at exchange rates prevailing at the transactions dates. Exchange differences arising from the settlement of foreign currency transactions are included in the income statement.

(n) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior periods is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Financial Instruments

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

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

(p) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at bank.

3. PROPERTY, PLANT AND EQUIPMENT

Group	Motor Vehicles RM	Computers RM	Furniture Fittings and Office Equipment RM	Renovation RM	Total RM
<u>Cost</u>					
As at 14.02.2005	573,197	473,899	79,826	2,300	1,129,222
Additions	-	1,768	3,820	53,270	58,858
Disposal	-	-	-	-	-
At 31.03.2005	573,197	475,667	83,646	55,570	1,188,080
<u>Accumulated Depreciation</u>					
As at 14.02.2005	97,825	159,227	23,879	71	281,002
Charge for the period	19,107	19,919	2,617	2,935	44,578
Disposal	-	-	-	-	-
At 31.03.2005	116,932	179,146	26,496	3,006	325,580
<u>Net Book Value</u>					
At 31.03.2005	456,265	296,521	57,150	52,564	862,500

The motor vehicles as shown above were acquired under hire purchase instalment scheme (Note 7). Motor vehicle amounting to RM 469,627 is registered under the name of the director.

notes to the financial statements

31 March 2005

(continued)

4. INVESTMENT IN SUBSIDIARIES

	Company	
	2005 RM	2004 RM
Unquoted shares, at cost	2,808,159	-

The subsidiary companies are:-

Name of Company : Kannal Technologies Sdn Bhd
 Company Number : 164878-P
 Place of Incorporation : Malaysia
 Percentage of Equity Held : 100%
 Principal Activities : Maritime carriage monitoring system operator

Name of Company : Kannal Softech Sdn Bhd
 Company Number : 621860 - W
 Place of Incorporation : Malaysia
 Percentage of Equity Held : 100%
 Principal Activities : Research and development of maritime carriage monitoring software applications.

Name of Company : CDC Control (M) Sdn Bhd
 Company Number : 462353 - X
 Place of Incorporation : Malaysia
 Percentage of Equity Held : 100%
 Principal Activities : Implementation of maritime carriage monitoring systems for shipping lines.

CDC Control (M) Sdn Bhd is audited by another firm of auditors.

5. DEVELOPMENT COST

Included in development cost are the following:-

	Group	
	2005 RM	2004 RM
Depreciation of property, plant and equipment	39,969	-
Rental of premises	11,274	-
Directors' remuneration	102,000	-
Staff cost	287,085	-
Others	137,311	-

6. AMOUNT DUE TO SUBSIDIARIES

Company

Amount due to subsidiaries is unsecured, interest free and with no fixed term of repayment.

7. HIRE PURCHASE PAYABLES

	Group	
	2005 RM	2004 RM
Hire purchase payables	342,637	-
Less : Unexpired interest	(48,843)	-
	<u>293,794</u>	<u>-</u>
Due within 12 months	78,544	-
Due after 12 months	215,250	-
	<u>293,794</u>	<u>-</u>

8. SHARE CAPITAL

	Company	
	2005 RM	2004 RM
Authorised :-		
Ordinary shares of RM 0.10/- each		
As at 1 October 2004/2 December 2003	100,000	100,000
Created during the period	24,900,000	-
As at 31 March/30 September	<u>25,000,000</u>	<u>100,000</u>
Issued and fully paid :		
Ordinary shares of RM 0.10/- each		
As at 1 October 2004/2 December 2003	2	2
Issued during the period	9,074,998	-
As at 31 March/30 September	<u>9,075,000</u>	<u>2</u>

notes to the financial statements

31 March 2005

(continued)

9. SHARE PREMIUM

The movement of share premium are as follow:-

	Group	
	2005 RM	2004 RM
Balance as at 14 February 2005 (Date of acquisition)	-	-
Premium arising from the Rights Issue	4,386,787	-
Balance as at 31 March	4,386,787	-

10. NEGATIVE GOODWILL

The negative goodwill arising from the acquisition by the Company of its subsidiaries represents the excess of the fair value of the net asset acquired over the fair value of the purchase consideration. The calculation of the negative goodwill is as follow:-

	Group	
	2005 RM	2004 RM
Fair value of net assets acquired	4,954,002	-
Fair value of purchase consideration	(2,808,159)	-
Negative goodwill	2,145,843	-

11. DEFERRED TAXATION

	Group	
	2005 RM	2004 RM
Balance as at 14 February	-	-
Transfer from income statement	(43,419)	-
Balance as at 31 March	(43,419)	-

Deferred taxation is in respect of the following tax effects provided for in the accounts:-

	Group Deferred Liabilities	
	2005 RM	2004 RM
Temporary difference between depreciation and capital allowance	(43,419)	-

12. REVENUE

The Company did not generate any revenue during the financial period.

Revenue of the subsidiaries represents maritime logistic monitoring system rental and fee earned during the financial period.

13. PROFIT FROM OPERATIONS

The following have been charged in arriving at profit from operations:-

	Group 14.02.2005 to 31.03.2005 RM	Company 01.10.2004 to 31.03.2005 RM	02.12.2003 to 30.09.2004 RM
Audit fees - Current period	7,195	4,000	500
Depreciation of property, plant and equipment	44,578	-	-
Director's remuneration	27,375	-	-
Hire of motor vehicle	4,875	-	-
Provision of bad debts	7,500	-	-
Rental of equipment	3,307	-	-
Rental of premises *	12,782	-	-
Staff cost	84,626	-	-

* Rental of premises is paid to companies in which some directors have interests.

14. INCOME TAX

	Group 2005 RM
Current period's provision	29,850
Reconciliation of Effective Tax Expense.	
	Group 2005 RM
Profit before taxation	<u>379,400</u>
Tax at the applicable tax rate of 20%	75,880
Non-taxable income	(64,113)
Non-allowable expenses	18,083
Tax Expense	<u>29,850</u>

notes to the *financial statements* 31 March 2005

(continued)

15. EARNINGS PER SHARE

The basic earnings per share of the Group and Company has been calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

	Group 2005 RM
Net profit for the period	349,550
Weighted average number of shares in issue	14,737,130
Basic earnings per share (sen)	2.37

16. ACQUISITION OF SUBSIDIARIES

On 14 February 2005, the Company acquired 100% equity interest of Kannal Technologies Sdn Bhd and Kannal Softech Sdn Bhd for a total consideration of RM 2,808,159 by means of issuing 28,081,590 ordinary shares of RM 0.10 each in the Company.

Net assets acquired as at date of acquisition:-

	Group 2005 RM
Property, plant and equipment	848,220
Development cost	389,833
Receivables	7,867,830
Cash and bank balances	4,824,186
Payables	(8,388,758)
Hire purchase payable	(306,790)
Taxation	(237,100)
Deferred taxation	(43,419)
Fair value of net assets acquired	4,954,002
Negative goodwill (Note 10)	(2,145,843)
	2,808,159
Satisfied by:-	
Issuance of shares	2,808,159

17. CASH AND CASH EQUIVALENTS

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

	Group	Company	
	31.03.2005	31.03.2005	30.09.2004
	RM	RM	RM
Cash and bank balances	14,728,359	10,643,581	2

18. SIGNIFICANT NON-CASH TRANSACTIONS

On 14 February 2005, the Company acquired 100% equity interest of Kannal Technologies Sdn Bhd and Kannal Softech Sdn Bhd for a total consideration of RM 2,808,159 by means of issuing 28,081,590 ordinary shares of RM 0.10 each in the Company.

The above acquisition had no cash flow effect on the Group and the Company.

19. FINANCIAL RISK MANAGEMENT

The Company's financial risk management policy is to ensure adequate financial resources are available for the development of the Company's business whilst managing its risk.

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

- Credit Risk

The credit risk is controlled and monitored by the directors of the Company. At the balance sheet date, there was no significant concentrations of credit risk in the Group and the Company.

- Interest Rate Risk

The borrowings of the Group and of the Company are a mix of short term and long term borrowings for working capital and thus the exposure to interest rate risk is minimal.

- Liquidity and Cash Flow Risks

The Group and the Company is substantially supported by directors who are also the major shareholders of the Group and the Company and there is reassurance that the Group and the Company will continue to receive such financial support.

notes to the *financial statements* 31 March 2005

(continued)

20. EMPLOYEES

The number of employees excluding directors as at 31 March 2005 are 58 people (2004 - Nil)

21. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 25 July 2005.

22. EVENT SUBSEQUENT TO BALANCE SHEET DATE

On 26 April 2005, the company increased its paid up capital from RM9,075,000 to RM12,100,000 by way of issuance of additional 30,250,000 share of RM0.10 per share to Malaysian public.

23. COMPARATIVE FIGURES

Company

Certain comparative figures have been reclassified to conform with current period's presentation.

Group

As the consolidated financial statements have been drawn up for the first time no comparative figures are presented.

statement by *directors*

We, **DATUK MOHAN A/L A KANDASAMY** and **SANGAR NALLAPPAN**, being the directors of **KANNALTEC BERHAD** do hereby state that, in the opinion of the directors, the financial statements of the Group and of the Company as set out on pages 26 to 40 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2005 and of its results and cash flows for the period ended on that date.

.....
DATUK MOHAN A/L A KANDASAMY
Director

.....
SANGAR NALLAPPAN
Director

Klang

Dated : 25 July 2005

statutory *declaration*

I, **DATUK MOHAN A/L A KANDASAMY**, being the director primarily responsible for the financial management of **KANNALTEC BERHAD** do solemnly and sincerely declare that the financial statements as set out on pages 26 to 40 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)
the abovenamed **DATUK MOHAN A/L A**)
KANDASAMY at Klang State of)
Selangor Darul Ehsan on 25 July 2005)

.....
DATUK MOHAN A/L A KANDASAMY

Before me, **Chew Kim Swee @ Chew Too Nyaah**
COMMISSIONER FOR OATHS

report of *the auditors* to the members Kannaltec Berhad

We have audited the financial statements of the Group and of the Company as set out on pages 26 to 40 of **KANNALTEC BERHAD** comprising the balance sheet of the Group and of the Company and the notes to the financial statements as at 31 March 2005 and the income statement, the statement of changes in equity and the cash flow statement of the Group and of the Company for the financial period ended on that date.

These financial statements are the responsibility of the Group and of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements.

We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements which have been prepared under the historical cost convention, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
 - (ii) the state of affairs of the Group and of the Company as at 31 March 2005 and of the results of the operations and the cash flow of the Group and of the Company for the period ended on that date ;and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the Act.

report of *the auditors* to the members **Kannaltec Berhad**

(continued)

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's account are in form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for these purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification or any adverse comment made under Section 174 (3) of the Act.

VIRU, GOONA & ASSOCIATES

AF : 0879

Chartered Accountants

VIRUTHASALAM PILLAI A/L MANIAM

1570 / 11 / 06 (J)

Partner

Kuala Lumpur

Dated : 25 July 2005

analysis of shareholdings

as at 15 August 2005

Authorised Share Capital	RM 25,000,000
Issued and Fully Paid-up Share Capital	RM 12,100,000
Class of Shares	Ordinary shares of RM0.10 each
Voting Rights	One vote per share

Size of Shareholdings	No of Shareholders	%	No of Shares Held	%
Less than 100	1	0.11	50	0.00
100 to 1000	252	27.42	240,500	0.20
1001 to 10,000	339	36.89	2,050,150	1.70
10,001 to 100,000	268	29.16	9,102,071	7.52
100,001 to less than 5 %	56	6.09	40,647,344	33.59
5 % and above of issued capital	3	0.33	68,959,885	56.99
Total	919	100.00	121,000,000	100.00

List of twenty Largest Shareholders

NAME OF SHAREHOLDERS	NO OF SHARES	%
1 MIDDLE ENTITY (M) SDN BHD	32,211,222	26.62
2 JUTA IMPERIUM (M) SDN BHD	30,648,663	25.33
3 TASEC NOMINEES (TEMPATAN) SDN BHD TA FIRST CREDIT SDN BHD FOR MIDDLE ENTITY (M) SDN BHD	6,100,000	5.04
4 JUARA FIRUS SDN BHD	4,298,554	3.55
5 TASEC NOMINEES (TEMPATAN) SDN BHD TA FIRST CREDIT SDN BHD FOR TUGU MERIAH (M) SDN BHD	3,600,000	2.98
6 AMSEC NOMINEES (TEMPATAN) SDN BHD AMMERCHANT BANK BHD FOR THANGARAJA A/L A SUBRAMANIAM	3,250,000	2.69
7 FOO CHOON TOW	2,769,000	2.29
8 SUDAKARAN MUKUNDAN	2,596,000	2.15
9 EB NOMINEES (TEMPATAN) SDN BHD PLEGGED SEC FOR SUDAKARAN MUKUNDAN (SFC)	1,980,800	1.64
10 VIGNESWARAN A/L K NAGALINGAM	1,568,546	1.30
11 TAN GUAT POH	1,380,000	1.14
12 DATUK MOHAN A/L A KANDASAMY	1,209,798	1.00
13 ANNADURAI A/L A KANDASAMY	1,209,546	1.00
14 SUKUNAN A/L KANDASAMY	1,209,546	1.00
15 R VASANTHE A/P R RAMAKRISHNAN	1,200,000	0.99
16 LEE SENG KIM	1,019,600	0.84
17 RATINAMAH A/P M SITTARI	1,000,000	0.83
18 YEOH AH TU	1,000,000	0.83
19 PARTHIBAN A/L MUNIANDY	937,000	0.77
20 SUMATHI A/P AMMASI	800,000	0.66

Substantial Shareholders

Name	Direct	No of Ordinary Shares Held		%
		%	Indirect	
1. MIDDLE ENTITY (M) SDN BHD	38,311,222	31.66	-	-
2. JUTA IMPERIUM (M) SDN BHD	30,648,663	25.33	-	-

Statement of Directors' Interests

Name	Direct	No of Ordinary Shares Held		%
		%	Indirect	
1. DATUK MOHAN A/L A KANDASAMY	1,209,798	1.00	40,730,314*	33.66
2. SUKUNAN A/L KANDASAMY	1,209,546	1.00	40,730,566**	33.66
3. SA'EDAH BINTI JAMEK	-	-	30,648,663***	25.33
4. HAJI HEDZIER BIN HAJI AHMAD	-	-	30,648,663***	25.33
5. HAJI AZHARI BIN MOHAMED	200,000	0.17	-	-
6. HAJI KHALID IZHAR BIN DATO, MAHMOOD	200,000	0.17	-	-

Notes:-

- * Deemed interest by virtue of his interest in Middle Entity (M) Sdn Bhd, Sukunan A/L Kandasamy and Annadurai A/L A Kandasamy being his brothers' interests in Kannaltec.
- ** Deemed interest by virtue of Datuk Mohan A/L A Kandasamy and Annadurai A/L A Kandasamy being his brothers' direct and indirect interests in Kannaltec.
- *** Deemed interest by his/her interest in Juta Imperium (M) Sdn Bhd.

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PROXY FORM

KANNALTEC BERHAD

(Company No. 635696-V)
Incorporated in Malaysia

I/We _____ NRIC/Company No: _____
(Full Name in Block Letters)

of _____
being a member/ members of **KANNALTEC BERHAD** hereby appoint

_____ of _____
or failing him / her*, the Chairman of the meeting as my/our* proxy to vote for me/us on my/our behalf at the second Annual General Meeting of the Company will be held at Serunai Suite 1, 1st Floor, East Wing, Hilton PJ, No: 2, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan on Monday, 26 September 2005 at 10.30am and at any adjournments thereof, on the following resolutions referred to in the notice of the Annual General Meeting :-

RESOLUTION	ORDINARY BUSINESS	FOR	AGAINST
1	Adoption of Directors' Report and Financial Statements		
	Re-election of Directors		
2	a) Haji Khalid Izhar Bin Dato' Mahmood		
	b) Datuk Mohan A/L A Kandasamy		
3	Re-appointment of Auditors		
	SPECIAL BUSINESS		
4	Authority to Allot Shares		
5	Proposed Shareholders' Ratification for Recurrent Related Party Transactions of a Revenue or Trading Nature		
6	Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		

Number of Shares Held

Date: _____

Signature: _____

NOTES:-

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the member. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be signed by the appointor or his attorney duly authorised in writing and in the case of a corporation, the instrument appointing a proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
3. Where a member appoints more than one (1) proxy, the member shall specify the proportion of the members' shareholding to be represented by each proxy.
4. The instrument appointing a proxy must be deposited at the Registered Office of the Company at No: 149A, 149B, 151B, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan not less than 48 hours before the time for holding the meeting or any adjourned thereof.

Fold this flap for sealing

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AFFIX
STAMP
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**COMPANY SECRETARY
KANNALTEC BERHAD**

(Company No. 635696 - V)
No. 149A, 149B, 151B
Persiaran Raja Muda Musa
42000 Port Klang
Selangor Darul Ehsan.

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