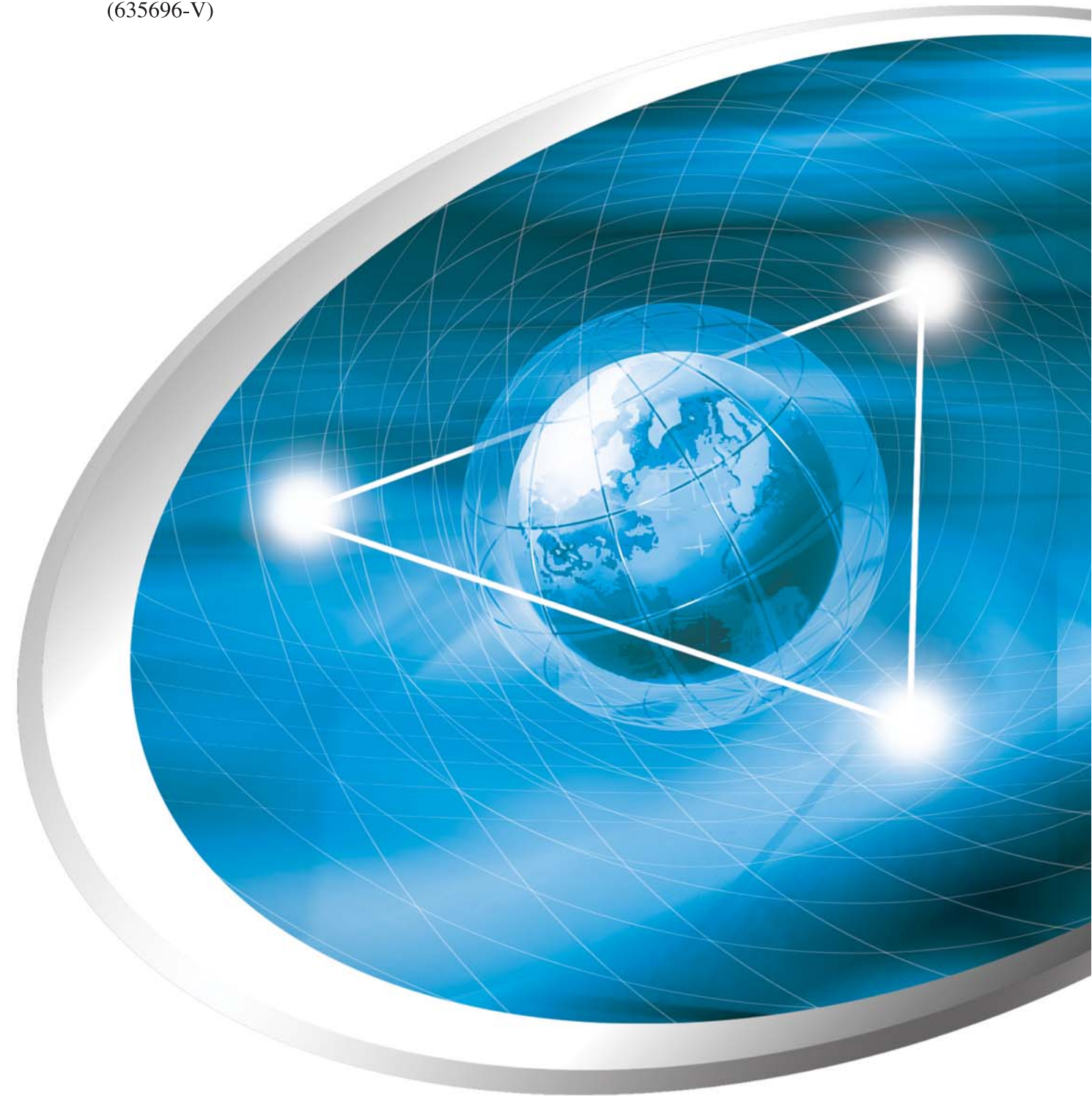


**KANNALTEC BERHAD**  
(635696-V)

KANNALTEC BERHAD (635696-V)

[www.kannaltec.com](http://www.kannaltec.com)

ANNUAL REPORT 2006



annual report 2006

# Company's Profile

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 company. It has four wholly-owned subsidiaries namely Kannal Softech Sdn Bhd, Kannal Technologies Sdn Bhd, CDC Control (M) Sdn Bhd and Kannal Solutions Sdn Bhd.

It has a 49% owned associated company in Thailand under the name of Kannal Solutions (Thailand) Co. Ltd.

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.

Kannal Solutions Sdn Bhd which was incorporated on 15 February 2006 is involved in the data and contact center business.

Kannal Solutions (Thailand) Co. Ltd is incorporated in Thailand on 20 April 2006 to undertake the business of data / contact centre and ICT Services.

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# Notice of Annual General Meeting

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**NOTICE IS HEREBY GIVEN THAT** the third Annual General Meeting of the Company will be held at Crown Hall, Crystal Crown Hotel, No. 127, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan on Monday, 25<sup>th</sup> September 2006 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 year ended 31 March 2006 and Auditors Reports thereon be and are hereby received and adopted." **RESOLUTION 1**
2. **"THAT**, the Directors' fees for the year ended 31<sup>st</sup> March 2006 amounting to RM221,581 be and is hereby approved. **RESOLUTION 2**
3. **"THAT**, the following Director, who retires in accordance with Article 98 of the Company's Articles of Association, be and is hereby re-elected Director of the Company:
  - (a) Tuan Haji Khalid Izhar Bin Dato' Mahmood **RESOLUTION 3**
4. **"THAT**, the following Directors, who retire in accordance with Article 103 of the Company's Articles of Association, be and are hereby re-elected Directors of the Company:
  - (a) Sukunan A/L Kandasamy **RESOLUTION 4**
  - (b) Sangar Nallappan **RESOLUTION 5**
  - (c) Sa'edah Binti Jamek **RESOLUTION 6**
  - (d) Tuan Haji Azhari Bin Mohamed **RESOLUTION 7**
5. **"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 Annual General Meeting and that the remuneration to be paid to them be fixed by the Board." **RESOLUTION 8**

### As Special Business

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

6. **Authority to Allot Shares** **RESOLUTION 9**  
**"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."

## Notice of Annual General Meeting

(continued)

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### As Special Business (continued)

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

7. To transact any other business that may be transacted at an Annual General Meeting for which **RESOLUTION 10** due notice have been given in accordance with the Companies Act, 1965.

### BY ORDER OF THE BOARD

#### WAN HASLINDA BT WAN YUSOFF

Company Secretary  
MAICSA 7055478

Port Klang  
Dated : 30 August 2006

#### 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 authorized.
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 adjournment thereof.

#### EXPLANATORY NOTES TO THE SPECIAL BUSINESS:

##### NOTE 1

#### Resolution 9 - Authority to Allot Shares Pursuant to Section 132D of the Companies Act, 1965.

The proposed Ordinary Resolution, under agenda item six (6) 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.

# Statement Accompanying Notice of Annual General Meeting

## 1. Names of Directors who are standing for re-election

### a. Director seeking re-election pursuant to Article 98 of the Company's Articles of Association.

- Tuan Haji Khalid Izhar Bin Dato' Mahmood

### b. Directors seeking re-election pursuant to Article 103 of the Company's Articles of Association.

- Sukunan A/L Kandasamy
- Sangar Nallappan
- Sa'edah Binti Jamek
- Tuan Haji Azhari Bin Mohamed

Further details of the Directors who are standing for re-election are set out in the Profile of Directors appearing on page 7 to 9 of the Annual Report.

## 2. Details of General Meetings held in the financial year ended 31 March 2006.

- N/A

## 3. Details of attendance of Directors at Board Meetings held during the financial year ended 31 March 2006.

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

# Corporate Information

## ▶ BOARD OF DIRECTORS

TUAN HAJI KHALID IZHAR BIN DATO' MAHMOOD  
(Independent Non-Executive Chairman)

Y. BHG. DATUK MOHAN A/L A KANDASAMY  
(Managing Director)

SUKUNAN A/L KANDASAMY  
(Executive Director)

SANGAR NALLAPPAN  
(Executive Director)

SA'EDAH BINTI JAMEK  
(Non-Executive Director)

TUAN HAJI AZHARI BIN MOHAMED  
(Independent Non-Executive Director)

TUAN HAJI HEDZIER BIN HAJI AHMAD  
(Alternate to Sa'edah Binti Jamek)

## ▶ BOARD COMMITTEES

### Audit Committee

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

### Nomination Committee

Tuan Haji Khalid Izhar Bin Dato' Mahmood (Chairman)  
Tuan Haji Azhari Bin Mohamed  
Sa'edah Binti Jamek

### Remuneration Committee

Tuan Haji Azhari Bin Mohamed (Chairman)  
Tuan Haji Khalid Izhar Bin Dato' Mahmood  
Sa'edah Binti Jamek

## ▶ COMPANY SECRETARY

Wan Haslinda Binti Wan Yusoff (MAICSA 7055478)

## ▶ MANAGEMENT TEAM

Lim Han Boon  
(Chief Executive Officer)

Kan Lai Fun  
(Senior Account Manager)

Parthiban A/L Muniandy  
(Marketing Manager)

Phang Kah Fatt  
(Financial Controller)

Leng Heong Wai  
(Operations Manager)

Chan Ming Ming  
(IT Manager)

Tah Yap Keong  
(Business Development Manager)

Ooi Sin Cheak  
(Manager, Project)

Syarmini A/P Ramasamy  
(HR & Admin Manager)

Chan Fook Yee  
(General Manager Operations, Disaster Recovery Contact Centre)

Goh Eng Choon  
(General Manager Commercial, Disaster Recovery Contact Centre)

## Corporate Information

(continued)

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### ▶ SHARE REGISTRAR

Mega-Wan Share Registration Sdn Bhd (409016-P)  
149A, 149B, 151B,  
Persiaran Raja Muda Musa  
42000, Port Klang  
Selangor Darul Ehsan  
Tel : 03 3167 3830  
Fax : 03 3168 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

### ▶ PRINCIPAL PLACE OF BUSINESS

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 Investment Bank Berhad (21605-D)  
(Formerly known as Alliance Merchant Bank Berhad)  
Level 3, 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

▷ ANNUAL REPORT ▶ 2006

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 year ended 31 March, 2006.

## FINANCIAL PERFORMANCE

For the financial year ended 31 March 2006, the Group recorded a revenue of RM8.585 million, as well as profit before taxation and profit after taxation of RM3.578 million and RM3.567 million respectively. This is mainly due to higher revenue earned from the container monitoring services and sale of software.

## UTILISATION OF PROCEEDS

A sum of RM15.80 million was received from the right issue and public issue of shares in May 2005 pursuant to the listing of the Company shares on the MESDAQ market of Bursa Malaysia Securities Berhad.

To date, a sum of RM7.93 million has been spent on various projects including software development, upgrading of offices, branding & promotion, setting up of a data centre, working capital and listing expenses. The remaining balance of RM7.87 million will be spent over a period of one (1) to four (4) years.

## INDUSTRY TREND AND DEVELOPMENT

In tandem with the expected growth of the Malaysian Economy in 2006 of 5.5%, the container carriage industry is also expected to have positive growth.

To date, we have expanded our business to Kota Kinabalu in Sabah and Kuching in Sarawak.

We have also set up a Data / Contact Centre under a new wholly owned subsidiary namely Kannal Solutions Sdn. Bhd. The Company was incorporated on 15 February 2006 with a paid-up capital of RM200,000.

The Company has also incorporated a 49% owned associated company in Thailand under the name of Kannal Solutions (Thailand) Co. Ltd. The paid up capital of the company is Thai Baht 3,000,000. It is involved in Data / Contact Centre, trading of computer hardware and ICT Services.

## 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.

A sum of RM3.2 million was spent in R & D expenditure during the year mainly in Data Mapping Solution as well as the Demurrage Module of the Container Monitoring Solution.

## PROSPECTS FOR 2007

With the improving Malaysia economy, the Board expects overall financial performance of the Group to improve further for the forthcoming financial year. 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 shareholders, customers, suppliers, mass media and business associates 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.

**TUAN HAJI KHALID IZHAR BIN DATO' MAHMOOD**  
Chairman

Dated: 21 August 2006

# Board of Directors' Profile

## **TUAN HAJI KHALID IZHAR BIN DATO' MAHMOOD** Independent Non Executive Chairman Aged 62, Malaysian

Tuan Haji Khalid Izhar bin Dato' Mahmood 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, supply 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.

Tuan Haji Khalid also serves as Chairman of the Nomination Committee and member of the Audit and Remuneration Committees of the Company.

Tuan Haji Khalid has no family relationship with any of the directors and/or major shareholders of the Company. His shareholding in the Company is 200,000 shares.

Tuan Haji Khalid does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Tuan Haji Khalid has attended four (4) out of the five (5) scheduled meetings of the Board.

## **Y. BHG. DATUK MOHAN KANDASAMY** Managing Director Aged 46, Malaysian

Y. Bhg. Datuk Mohan Kandasamy is the Managing Director of Kannaltec Bhd. He was appointed to the Board on 15 February 2005. He is responsible for the business direction and strategies of Kannaltec Group. He possesses more than 22 years experience in the marine industry. He started his carrier in 1983 as a surveyor in Caleb Bret (M) Sdn Bhd, principally involved in international marine inspection and testing. He was attached to Jardine Surveying Services (M) Sdn Bhd 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 tens of millions of Ringgit for the local maritime industry and eradicated malpractices while increasing the efficiency of the container transport system. The participants of the scheme are over 38,000 consignees, 67 shipping lines, 30 container depots, 1,800 forwarders at 7 major ports in Malaysia. The scheme is currently used by international shipping conference and major shipping lines. He holds a professional marine insurance qualification with Australian Insurance Institute (AII).

Apart from being a prominent corporate figure he is also extensively involved in public service where he was conferred Datukship in 2005 by DYMM Yang Di Pertuan Agung XII Tuanku Syed Sirajuddin Ibni AL-Marhum Tuanku Syed Putra Jamalullail.

Datuk Mohan is an indirect substantial shareholder of the Company by virtue of his ownership in Middle Entity (M) Sdn Bhd, and the direct interest of his brothers Sukunan A/L Kandasamy and Annadurai A/L A.Kandasamy in Kannaltec Berhad. His shareholding in the Company is disclosed in page 23 of the Annual Report.

Datuk Mohan does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Datuk Mohan has attended all the five (5) scheduled meetings of the Board.

## Board of Directors' Profile

(continued)

### SUKUNAN A/L KANDASAMY Executive Director Aged 44, Malaysian

Sukunan A/L Kandasamy was re-appointed to the Board on 26 September 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, shipping lines, depot operators, forwarders and consignees in Malaysia for tracking of container movement. He obtained his Bachelor of Science (Hons) in Computer Science from Universiti 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 Project Director in Kannaltec Group.

Mr. Sukunan is an indirect substantial shareholder of the Company by virtue of the direct and indirect interest of his brothers, Datuk Mohan A. Kandasamy and Annadurai A/L A.Kandasamy in Kannaltec Berhad. His shareholding in the Company is disclosed in page 23 of the Annual Report.

Mr. Sukunan does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Mr. Sukunan has attended all the five (5) scheduled meetings of the Board.

### SANGAR NALLAPPAN Executive Director Aged 43, Malaysian

Sangar Nallappan was re-appointed to the Board on 26 September, 2005. He is a Company Secretary, licensed by the Companies Commission of Malaysia. He has more than 20 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 Malaysian Association of Company Secretaries, Malaysia. He is currently the Director of Corporate Affairs of Kannaltec Group.

Mr. Sangar also serves as a member of the Audit Committee.

He has no family relationship with any of the directors and/or major shareholders of the Company nor have any shareholding in the Company.

Mr. Sangar does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Mr. Sangar has attended all the five (5) scheduled meetings of the Board.

## Board of Directors' Profile

(continued)

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### SA'EDAH BINTI JAMEK Non-Executive Director Aged 45, Malaysian

Sa'edah binti Jamek was re-appointed to the Board on 26 September, 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 Jardine Surveying Services (M) Sdn Bhd. 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 and Gabungan Sinergi Sdn Bhd (formerly known as Sinergi Setia (M) Sdn Bhd) which is involved in engineering services and general supplies.

Currently Puan Sa'edah serves as member of the Nomination and Remuneration Committees.

Puan Sa'edah has no family relationship with any of the directors. She is an indirect substantial shareholder of the Company by virtue of her interest in Juta Imperium (M) Sdn Bhd. Her shareholding in the Company is disclosed in page 23 of the Annual Report.

Puan Sa'edah does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

She also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Puan Sa'edah has attended four (4) out of the five (5) scheduled meetings of the Board.

### TUAN HAJI AZHARI BIN MOHAMED Independent Non-Executive Director Aged 45, Malaysian

Tuan Haji Azhari bin Mohamed was re-appointed to the Board on 26 September 2005. 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 (CFIIA) 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. He was from 2003 until 2006, 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.

Tuan Haji Azhari currently serves as the Chairman of the Audit and Remuneration Committees as well as member of the Nomination Committee of the Company.

Tuan Haji Azhari has no family relationship with any of the directors and/or major shareholders of the Company. He holds 200,000 shares in Kannaltec Berhad.

Tuan Haji Azhari does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

During the financial year, Tuan Haji Azhari has attended all the five (5) scheduled meetings of the Board.

## Board of Directors' Profile

(continued)

▷ ANNUAL REPORT ▶ 2006

### **TUAN HAJI HEDZIER BIN HAJI AHMAD** Alternate Director to Puan Sa'edah Binti Jamek Aged 59, Malaysian

Tuan Haji Hedzier bin Haji Ahmad is the alternate director to Puan 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 Gabungan Sinergi Sdn Bhd (formerly known as Sinergi Setia (M) Sdn Bhd) Prior to that, 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.

Tuan Haji Hedzier has no family relationship with any of the directors. He is an indirect substantial shareholder of the Company by virtue of his interest in Juta Imperium (M) Sdn Bhd His shareholding in the Company is disclosed in page 23 of the Annual Report.

Tuan Haji Hedzier does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

### **LIM HAN BOON** Chief Executive Officer Aged 49, Malaysian

Mr. Lim Han Boon was appointed as Group Chief Executive Officer on 16 April 2005. He is responsible for the overall operation of the Group. He graduated from the Kolej Tunku Abdul Rahman in Kuala Lumpur with a Diploma in Commerce. He is presently a member of the Malaysian Institute of Accountants, the British Institute of Management, fellow of the Chartered Association of Certified Accountants, United Kingdom and Master of Business Administration from the University of South Australia, Australia. He also attended the Harvard Business School Senior Management Development Program in 2002. Prior to joining Kannaltec, he was the General Manager (Corporate Services)/ Company Secretary of Northport (Malaysia) Bhd, a wholly owned subsidiary of NCB Holdings Bhd, a public company listed on the Main Board of the Bursa Malaysia Securities Berhad. He was also the Group Financial Controller of NCB Holdings Bhd. He began his career in Binder Hamlyn, a public accountants firm before joining

Kontena Nasional Bhd as their branch accountant in Port Klang. Subsequently, he joined Klang Container Terminal Bhd (KCT) (now known as Northport (Malaysia) Berhad) as an Accountant after KCT was privatized from the Port Klang Authority in 1986. In 1998, he was promoted to Assistant General Manager (Finance & Engineering Services). He was later promoted to Assistant General Manager (Finance & Corporate Services) before assuming the position he held before joining Kannaltec.

Mr. Lim has no family relationship with any of the directors and/or major shareholders of the Company nor have any shareholding in the Company.

Mr. Lim does not have any personal interest in any business arrangements involving the Company and is not a director of any other public company.

He also does not have any conflict of interest with the Company and has had no conviction for any offences within the past 10 years.

# Group Structure



**KANNALTEC BERHAD**  
(635696-V)

KANNAL  
SOFTECH  
SDN BHD  
100%

KANNAL  
TECHNOLOGIES  
SDN BHD  
100%

CDC CONTROL  
(M) SDN BHD  
100%

KANNAL  
SOLUTIONS  
SDN BHD  
100%

KANNAL  
SOLUTIONS  
(THAILAND)  
CO. LTD  
49%

# Audit Committee Report

## Members of the Audit Committee

### Chairman

TUAN HAJI AZHARI BIN MOHAMED  
(Independent Non-Executive Director)

### Members

TUAN 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)

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### 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.

During the financial year 2006, the Audit Committee met five (5) times to approve the Quarterly Reports before announcement to the Bursa Malaysia Securities Berhad as well as to discuss and approve internal control procedures and processes in the Group.

The record of attendance of the members is follows :-

Name	No. of meetings	
	Held	Attended
Tuan Haji Azhari bin Mohamed	5	5
Tuan Haji Khalid Izhar bin Dato' Mahmood	5	5
Sangar Nallappan	5	4

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 AC. 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 Kannaltec group's 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.

## Audit Committee Report

(continued)

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### 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 In the absence of the Internal Audit Department, the Committee also reviews the internal control process and procedures as practiced by the Company and its subsidiaries.
- 5.13 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 review by the Audit Committee, the current control mechanism, procedures and policies are adequate for the current level of operations.

## Conclusion

In the financial year 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 21 August 2006.

# 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 Kannaltec Group by applying and implementing the principals as set out in Part 1 of the Malaysian Code on Corporate Governance (“the Code”) and had, to their best abilities complied with the best practices as set out in Part 2 of the Code.

The compliance with the Code 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, two (2) Executive Directors and one (1) Non-Executive Director.

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.

During the financial year, five (5) Board Meetings were held. The record of attendance of these meetings are as follows:

Directors	Number of Meeting Attended	Percentage
Tuan Haji Khalid Izhar Bin Dato’ Mahmood	4	(80%)
Y. Bhg. Datuk Mohan A/L A Kandasamy	5	(100%)
Sukunan A/L Kandasamy	5	(100%)
Sangar Nallappan	5	(100%)
Sa’edah Binti Jamek	4	(80%)
Tuan Haji Azhari Bin Mohamed	5	(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.

### d. Directors’ Training

All Directors of the company have attended the necessary seminars and training Programmes to keep themselves updated on the relevant regulatory and corporate governance development as well as keeping abreast with global and local economic developments.

Amongst the training programmes attended by the Board members during the financial year ended 31 March 2006 are the Mandatory Accreditation Programme (MAP) and Financial Reporting Standards.

## Statement on Corporate Governance

(continued)

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### 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 range is as follows:

Salary Remuneration	Directors	Non-Executive
<50,000	0	3
50,000 to 100,000	1	0
100,001 to 200,000	1	0
200,001 to 500,000	1	0
Total	3	3

Type of Remuneration	Executive Directors	Non-Executive Directors
Salaries	468,500	-
Allowances	7,050	3,900
Bonuses	25,948	-
Fees	-	221,581
Other Emoluments	40,800	6,479
Total	542,298	231,960

## 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.

## Statement on Corporate Governance

(continued)

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### 4. Board Committees

To ensure its effectiveness, the Board delegates responsibilities to Board's committees which operate within clearly defined terms of reference to carry out these responsibilities to support the role of the Board and to provide assurance and accountability to its shareholders.

These Committees comprising members from the Board of Directors are empowered to deliberate and examine issues delegated to them and report back to the Board on their recommendations and comments.

The following committees were active under the Board for the year 2006:-

#### Audit Committee

The Audit Committee operates under the clearly defined terms of reference stating its roles and responsibilities in ensuring the quality and integrity of the practices of the Group and the Company.

The Audit Committee comprises three (3) Board members. Two (2) of them including the Chairman are independent non-executive directors and one (1) executive director.

The formation of the Audit Committee is designed to ensure a balance in the members' roles and responsibilities within the Committee.

The principle objective of the committee is to assist the Board of Directors in ensuring the Group's process of assessing internal controls, corporate governance, and other compliance requirements of the Group.

In accordance with the best practices of corporate governance, the Audit Committee presents its report in pages 12 to 14 of this Annual Report.

#### Nomination Committee

The primary responsibility of the Nomination Committee is to ensure proper Board succession for the Group by considering and recommending eligible candidates for directorship in the Board.

The Nomination Committee is made up of three (3) Board members. Two (2) of them including the Chairman are independent non-executive directors and one (1) non-executive director.

Details of the Committee's duties and other responsibilities include: -

- Making appropriate recommendations to the Board on matters of renewal, extension, retiring and appointment and re-appointment of directors.
- To assess and recommend any candidate for directorship and ensure an appropriate plan for Board succession for the Group.
- To review annually the mix of skills and experiences and the effectiveness of the Board as a whole, the committees of the Board and contributions of each individual director to the effective decision making of the Board. Individual directors do not participate in the discussion of their own remuneration.

During the year under review, the Committee met twice to carry out its responsibilities.

## Statement on Corporate Governance

(continued)

### Remuneration Committee

The primary responsibility of the Remuneration Committee is to establish and recommend the structure and policy of remuneration of the executive directors. Further, to also review and recommend to the Board on matters relating to employees share option schemes or any amendments to the existing schemes. The Committee also deals with other related matter which are referred to it by the Board.

The Committee consists of three (3) non-executive directors, two (2) of them including the Chairman are independent non-executive directors and one (1) non-executive director.

During the year under review, the Committee met twice to carry out its responsibilities.

### 5. 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 on page 15 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.

### 6. 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.

### 7. 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.

# Other Compliance Information

## 1. Share Buy Back

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

## 2. Options, Warrants, of Convertible Securities

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

## 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 year.

## 5. Non Audit Fees

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

## 6. Profit Guarantee

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

## 7. Material Contract

During the financial year 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

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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 year ended 31 March 2006.

## 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 year.

## FINANCIAL RESULTS

	Group RM	Company RM
Profit / (loss) for the year	3,567,394	(10,022)

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year 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 year.

## DIVIDENDS

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

## ISSUE OF SHARES AND DEBENTURES

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

Date	Type	Number of Shares	Terms	Purpose
08.04.2005	Ordinary RM 0.10/-	30,250,000	Acquisition	Listing scheme

There was no issue of debentures during the financial year.

## DIRECTORS

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

Tuan Haji Khalid Izhar bin Dato' Mahmood

Y. Bhg. Datuk Mohan A/L A Kandasamy

Sukunan A/L Kandasamy

Sangar Nallappan

Sa'edah binti Jamek

Tuan Haji Azhari bin Mohamed

Tuan Haji Hedzier bin Haji Ahmad

(Alternate to Sa'edah binti Jamek)

- Retired and re-appointed on 26.09.2005

- Retired and re-appointed on 26.09.2005

- Retired and re-appointed on 26.09.2005

- Retired and re-appointed on 26.09.2005

- Retired and re-appointed on 26.09.2005

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

## Directors' Report

(continued)

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### DIRECTORS' INTEREST

The following directors who held office at the end of the financial year 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 01.04.2005	Bought	Sold	As at 31.03.2006	
<u>Direct Interest</u>					
YBhg. Datuk Mohan A/L A Kandasamy	1,209,798	2,250,000	-	3,459,798	
Sukunan A/L Kandasamy	1,209,546	2,307,696	-	3,517,242	
Tuan Haji Khalid Izhar Bin Dato' Mahmood	200,000	-	-	200,000	
Tuan Haji Azhari Bin Mohamed	200,000	-	-	200,000	
<u>Indirect Interest</u>					
YBhg. Datuk Mohan A/L A Kandasamy	*	40,730,314	346,613	-	41,076,927
Sukunan A/L Kandasamy	**	40,730,566	288,917	-	41,019,483
Sa'edah Binti Jamek	***	30,648,663	-	5,257,000	25,391,663
Tuan Haji Hedzier Bin Haji Ahmad (Alternate to Sa'edah Binti Jamek)	***	30,648,663	-	5,257,000	25,391,663

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

\*\* 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 Berhad.

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

### DIRECTORS' BENEFITS

Since the end of the previous financial year, 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.

Neither during, nor at the end of the financial year, 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.

## Directors' Report

(continued)

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### 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 year 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 year.
- (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 months after the end of financial year 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 year 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 year in which this report is made.

## Directors' Report

(continued)

### SUBSEQUENT EVENT

On 20 April 2006, the Company subscribed for 14,694 new ordinary shares of THB 100 per share in Kannal Thailand representing 48.98% equity interest in Kannal Solutions (Thailand) Co. Ltd. for a total cash consideration of THB 1,469,400.

### 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.

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**DATUK MOHAN A/L A KANDASAMY**  
Director

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**SANGAR NALLAPPAN**  
Director

Klang  
Dated : 24 July 2006

# Balance Sheets

As at 31 March 2006

	NOTE	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>PROPERTY, PLANT AND EQUIPMENT</b>	3	1,858,342	862,500	541,550	-
<b>INVESTMENT IN SUBSIDIARIES</b>	4	-	-	3,008,159	2,808,159
<b>DEVELOPMENT COST</b>	5	4,272,475	577,639	-	-
<b>CURRENT ASSETS</b>					
Trade receivables		5,527,463	2,664,567	-	-
Other receivables, deposits and prepayments		1,414,043	2,106,743	213,222	1,231,836
Amount due from subsidiaries	6	-	-	11,847,734	-
Taxation		59,935	-	-	-
Cash, bank balances and short term funds		12,612,541	14,728,359	1,183,146	10,643,581
		19,613,982	19,499,669	13,244,102	11,875,417
<b>CURRENT LIABILITIES</b>					
Other payables and accruals		2,321,651	4,405,964	28,717	12,624
Amount due to subsidiaries	6	-	-	-	1,240,319
Hire purchase payables	7	128,995	78,544	-	-
Taxation		3,000	239,451	3,000	-
		2,453,646	4,723,959	31,717	1,252,943
<b>NET CURRENT ASSETS</b>		17,160,336	14,775,710	13,212,385	10,622,474
		23,291,153	16,215,849	16,762,094	13,430,633
<b>FINANCED BY :-</b>					
<b>SHARE CAPITAL</b>	8	12,100,000	9,075,000	12,100,000	9,075,000
<b>SHARE PREMIUM</b>	9	4,703,270	4,386,787	4,703,270	4,386,787
<b>NEGATIVE GOODWILL</b>	10	2,145,843	2,145,843	-	-
<b>RETAINED PROFIT / (ACCUMULATED LOSSES)</b>		3,916,944	349,550	(41,176)	(31,154)
<b>SHAREHOLDERS FUND</b>		22,866,057	15,957,180	16,762,094	13,430,633
<b>LONG TERM LIABILITIES</b>					
Hire purchase payables	7	409,070	215,250	-	-
Deferred taxation	11	16,026	43,419	-	-
		23,291,153	16,215,849	16,762,094	13,430,633

The annexed notes form an integral part of these financial statements

# Income Statement

For the year ended 31 March 2006

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	NOTE	Group		Company	
		01.04.2005 to 31.03.2006 RM	14.02.2005 to 31.03.2005 RM	01.04.2005 to 31.03.2006 RM	01.10.2004 to 31.03.2005 RM
REVENUE	12	8,584,888	1,364,734	1,907,762	-
DIRECT COST		(313,589)	(350,000)	-	-
GROSS PROFIT		8,271,299	1,014,734	1,907,762	-
Other income	13	3,525	-	-	-
Operating expenses		(4,696,941)	(635,334)	(1,902,784)	(24,392)
PROFIT / (LOSS) FROM OPERATIONS	14	3,577,883	379,400	4,978	(24,392)
Taxation	15	(10,489)	(29,850)	(15,000)	-
NET PROFIT / (LOSS) FOR THE YEAR / PERIOD		3,567,394	349,550	(10,022)	(24,392)
Basic earnings per share (sen)	16	2.99	2.37	-	-

The annexed notes form an integral part of these financial statements

# Statement of Changes in Equity

For the year ended 31 March 2006

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	Share Capital RM	Share Premium RM	Negative Goodwill RM	Retained Profit RM	Total RM
<b>Group</b>					
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
<b>AS AT 31 MARCH 2005</b>	<b>9,075,000</b>	<b>4,386,787</b>	<b>2,145,843</b>	<b>349,550</b>	<b>15,957,180</b>
As at 1 April 2005	9,075,000	4,386,787	2,145,843	349,550	15,957,180
Issued during the year	3,025,000	-	-	-	3,025,000
Share premium	-	2,117,500	-	-	2,117,500
Listing expenses	-	(1,801,017)	-	-	(1,801,017)
Net profit for the year	-	-	-	3,567,394	3,567,394
<b>AS AT 31 MARCH 2006</b>	<b>12,100,000</b>	<b>4,703,270</b>	<b>2,145,843</b>	<b>3,916,944</b>	<b>22,866,057</b>
	Share Capital RM	Share Premium RM	Negative Goodwill RM	Accumulated Loss RM	Total RM
<b>Company</b>					
As at 1 October 2004	2	-	-	(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)
<b>AS AT 31 MARCH 2005</b>	<b>9,075,000</b>	<b>4,386,787</b>	<b>-</b>	<b>(31,154)</b>	<b>13,430,633</b>
As at 1 April 2005	9,075,000	4,386,787	-	(31,154)	13,430,633
Shares issued during the year	3,025,000	-	-	-	3,025,000
Share premium	-	2,117,500	-	-	2,117,500
Listing expenses	-	(1,801,017)	-	-	(1,801,017)
Net loss for the year	-	-	-	(10,022)	(10,022)
<b>AS AT 31 MARCH 2006</b>	<b>12,100,000</b>	<b>4,703,270</b>	<b>-</b>	<b>(41,176)</b>	<b>16,762,094</b>

The annexed notes form an integral part of these financial statements

# Cash Flow Statements

For the year ended 31 March 2006

	Group		Company	
	01.04.2005 to 31.03.2006 RM	14.02.2005 to 31.03.2005 RM	01.04.2005 to 31.03.2006 RM	01.10.2004 to 31.03.2005 RM
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Profit / (loss) before taxation	3,577,883	379,399	4,978	(4,891)
Adjustment for :-				
Amortisation of development costs	394,450	-	-	-
Depreciation of property, plant and equipment	441,609	44,578	91,346	-
Interest revenue	(207,287)	-	-	-
Interest expenses	35,084	-	-	-
Loss on disposal of property, plant and equipment	449	-	-	-
Operating profit / (loss) before working capital changes	4,242,188	423,977	96,324	(4,891)
(Increase) / decrease in receivables	(2,230,131)	3,096,520	1,018,614	(1,251,337)
Increase in amount due from subsidiaries	-	-	(11,847,734)	-
(Decrease) / increase in other payables and accruals	(2,084,312)	(3,982,794)	16,093	5,862
Increase in amount due to subsidiaries	-	-	(1,240,319)	1,240,319
Income tax paid	(274,334)	(27,499)	(12,000)	-
Net cash used in operating activities	(346,589)	(489,796)	(11,969,022)	(10,047)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Net cash inflow from acquisition of subsidiary companies	-	4,824,186	-	-
Development cost incurred	(4,089,286)	(187,805)	-	-
Purchase of property, plant and equipment	(1,086,018)	(58,858)	(632,896)	-
Proceeds from disposal of property, plant and equipment	8,118	-	-	-
Interest revenue	207,287	-	-	-
Net cash (used in) / generated from investing activities	(4,959,899)	4,577,523	(632,896)	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Payment of hire purchase payable	(115,729)	(12,996)	-	-
Proceeds from public issue of shares	3,025,000	6,266,839	2,825,000	6,266,839
Share premium on public issue	2,117,500	4,386,787	2,117,500	4,386,787
Listing expenses	(1,801,017)	-	(1,801,017)	-
Interest expenses	(35,084)	-	-	-
Net cash generated from financing activities	3,190,670	10,640,630	3,141,483	10,653,626
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(2,115,818)	14,728,357	(9,460,435)	10,643,579
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	14,728,359	2	10,643,581	2
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD				
(NOTE 17)	12,612,541	14,728,359	1,183,146	10,643,581

The annexed notes form an integral part of these financial statements

# Notes

## to the Financial Statements

31 March 2006

### 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 year ended 31 March 2006. 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 year 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.

#### (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 year if events or changes in circumstances indicate that their carrying values may not be recoverable.

## Notes to the Financial Statements

(continued)

◀ ANNUAL REPORT ▶ 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Property, Plant and Equipment

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

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 rate per annum. During the year, a reassessment of the useful life of each asset was made and found that the below mentioned change in depreciation rates is necessary as it will reflect a fairer presentation of the assets.

	New Rates	Old Rates
Furniture and fittings	15%	20%
Computer	15%	15% - 20%
Office equipment	15%	20%
Motor vehicle	20%	20%
Renovation	15%	20%

The change in rates has resulted in an increase in the profit before taxation for the Company amounting to RM 28,988 and for the Group amounting to RM 49,652.

#### (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 year 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 years.

## Notes to the Financial Statements

(continued)

▷ ANNUAL REPORT ▶ 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee Benefits

i) **Short Term Benefits**

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year 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 charged to the income statement in the year 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 recognised 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

Transaction in foreign currency are recorded in Ringgit Malaysia at the rates of exchange ruling at the dates of the transactions. All exchange differences are taken to the income statement.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rate ruling at that date. All translated differences arising are taken to the income statement.

The principal closing exchange rate used in translation of foreign currency amounts is as follows -

Foreign Currency	2006 RM	2005 RM
1 US Dollar	3.6780	3.8250

## Notes to the Financial Statements

(continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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 years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

#### (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, cash at bank and short term deposits.

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Motor Vehicles RM	Computers RM	Furniture, Fittings and Office Equipment RM	Renovation RM	Total RM
Cost					
As at 01.04.2005	573,197	475,667	83,646	55,570	1,188,080
Additions	456,639	162,707	375,629	451,043	1,446,018
Disposal	-	(9,345)	-	-	(9,345)
At 31.03.2006	<b>1,029,836</b>	<b>629,029</b>	<b>459,275</b>	<b>506,613</b>	<b>2,624,753</b>

## Notes to the Financial Statements

(continued)

### 3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Motor Vehicles RM	Computers RM	Furniture, Fittings and Office Equipment RM	Renovation RM	Total RM
Accumulated Depreciation					
As at 01.04.2005	116,932	179,146	26,496	3,006	325,580
Charge for the year	183,135	116,274	66,760	75,440	441,609
Disposal	-	(778)	-	-	(778)
<b>At 31.03.2006</b>	<b>300,067</b>	<b>294,642</b>	<b>93,256</b>	<b>78,446</b>	<b>766,411</b>
Net Book Value					
<b>At 31.03.2006</b>	<b>729,769</b>	<b>334,387</b>	<b>366,019</b>	<b>428,167</b>	<b>1,858,342</b>
At 31.03.2005	456,265	296,521	57,150	52,564	862,500
Depreciation charge for the period ended 31.03.2005					
	19,107	19,919	2,617	2,935	44,578
Company	Office Equipment RM	Computers and Softwares RM	Furniture, and Fittings RM	Renovation RM	Total RM
Cost					
As at 01.04.2005	-	-	-	-	-
Additions	28,954	32,513	207,437	363,992	632,896
Disposal	-	-	-	-	-
<b>At 31.03.2006</b>	<b>28,954</b>	<b>32,513</b>	<b>207,437</b>	<b>363,992</b>	<b>632,896</b>
Accumulated Depreciation					
As at 01.04.2005	-	-	-	-	-
Charge for the year	3,631	4,376	30,705	52,634	91,346
Disposal	-	-	-	-	-
<b>At 31.03.2006</b>	<b>3,631</b>	<b>4,376</b>	<b>30,705</b>	<b>52,634</b>	<b>91,346</b>
Net Book Value					
<b>At 31.03.2006</b>	<b>25,323</b>	<b>28,137</b>	<b>176,732</b>	<b>311,358</b>	<b>541,550</b>

The motor vehicles as shown above were acquired under hire purchase instalment scheme (Note 7). Motor vehicle amounting to RM 469,627 (2005 : RM 469,627) is registered under the name of a director.

## Notes to the Financial Statements

(continued)

◀ ANNUAL REPORT ▶ 2006

### 4. INVESTMENT IN SUBSIDIARIES

	Company	
	2006 RM	2005 RM
Unquoted shares, at cost	3,008,159	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 : Kannal Solutions Sdn Bhd  
 Company Number : 723874 - V  
 Place of Incorporation : Malaysia  
 Percentage of Equity Held : 100%  
 Principal Activities : Data and call centre  
 (Accounts has not been audited as it was incorporated on 15 February 2006).

#### Subsidiary through Kannal Technologies Sdn Bhd

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	
	2006 RM	2005 RM
Depreciation of property, plant and equipment	81,147	39,969
Rental of premises	24,025	11,274
Directors' remuneration	102,000	102,000
Staff cost	516,275	287,085
Amortisation of development cost	(394,450)	-

## Notes to the Financial Statements

(continued)

▷ ANNUAL REPORT ▷ 2006

### 6. AMOUNT DUE FROM / (TO) SUBSIDIARIES

Company

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

### 7. HIRE PURCHASE PAYABLES

	Group	
	2006 RM	2005 RM
Hire purchase payables	595,024	342,637
Less : Unexpired interest	(56,959)	(48,843)
	<u>538,065</u>	<u>293,794</u>
Due within 12 months	128,995	78,544
Due after 12 months	409,070	215,250
	<u>538,065</u>	<u>293,794</u>

### 8. SHARE CAPITAL

	Company	
	2006 RM	2005 RM
<b>Authorised :-</b>		
Ordinary shares of RM 0.10/- each		
As at 1 April 2005 / 1 October 2004	25,000,000	100,000
Created during the year	-	24,900,000
	<u>25,000,000</u>	<u>25,000,000</u>
<b>Issued and fully paid :-</b>		
Ordinary shares of RM 0.10/- each		
As at 1 April 2005 / 1 October 2004	9,075,000	2
Issued during the year	3,025,000	9,074,998
	<u>12,100,000</u>	<u>9,075,000</u>

## Notes to the Financial Statements

(continued)

### 9. SHARE PREMIUM

The movement of share premium are as follow :-

	Group	
	2006 RM	2005 RM
Balance as at 1 April / 14 February 2005	4,386,787	-
Premium arising from the Public and Rights Issues	2,117,500	4,386,787
Listing expenses	(1,801,017)	-
Balance as at 31 March	<u>4,703,270</u>	<u>4,386,787</u>

### 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	
	2006 RM	2005 RM
Fair value of net assets acquired	4,954,002	4,954,002
Fair value of purchase consideration	(2,808,159)	(2,808,159)
Negative goodwill	<u>2,145,843</u>	<u>2,145,843</u>

### 11. DEFERRED TAXATION

	Group	
	2006 RM	2005 RM
Balance as at 1 April / 14 February	(43,419)	-
Transfer to / (from) income statement	27,393	(43,419)
Balance as at 31 March	<u>(16,026)</u>	<u>(43,419)</u>

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

	Group Deferred Liabilities	
	2006 RM	2005 RM
Temporary difference between depreciation and capital allowance	<u>27,393</u>	<u>(43,419)</u>

## Notes to the Financial Statements

(continued)

### 12. REVENUE

Revenue of the Company is recognised as services are rendered and interest are incurred.

Revenue of the Subsidiaries represents maritime logistic monitoring system rental and fee earned during the financial year.

### 13. OTHER INCOME

	Group	
	2006 RM	2005 RM
Interest income	3,525	-

### 14. PROFIT / (LOSS) FROM OPERATIONS

The following have been charged in arriving at profit / (loss) from operations :-

	Group		Company	
	01.04.2005 to 31.03.2006 RM	14.02.2005 to 31.03.2005 RM	01.04.2005 to 31.03.2006 RM	01.10.2004 to 31.03.2005 RM
Audit fees - Current year	15,000	7,195	6,000	4,000
Depreciation of property, plant and equipment	441,609	44,578	91,346	-
Director's fee	221,581	-	221,581	-
Director's remuneration	522,677	27,375	522,677	-
Hire of motor vehicles	20,650	4,875	-	-
Provision of bad debts	-	7,500	-	-
Rental of equipment	40,180	3,307	7,700	-
Rental of premises *	279,705	12,782	144,768	-
Staff cost	1,472,563	84,626	527,537	-

\* Includes rental of RM 96,300 paid to a company in which certain directors have interests.

## Notes to the Financial Statements

(continued)

◀ ANNUAL REPORT ▶ 2006

### 15. TAXATION

	Group	
	2006 RM	2005 RM
Current year's provision	37,882	(13,569)
Deferred taxation (Note 11)	(27,393)	43,419
	10,489	29,850

#### Reconciliation of Effective Tax Expense.

	Group	
	2006 RM	2005 RM
Profit before taxation	3,577,883	379,400
Tax at the applicable tax rate of 28%	1,001,807	106,232
Non taxable income	(963,925)	(119,801)
Deferred taxation	(27,393)	43,419
Tax Expense	10,489	29,850

### 16. EARNINGS PER SHARE

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

	Group	
	2006 RM	2005 RM
Net profit for the year	3,567,394	349,550
Weighted average number of shares in issue	118,928,082	14,737,130
Basic earnings per share (sen)	2.99	2.37
Diluted earnings per share (sen)	2.99	2.37

## Notes to the Financial Statements

(continued)

▷ ANNUAL REPORT ▷ 2006

### 17. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	01.04.2005 to 31.03.2006 RM	14.02.2005 to 31.03.2005 RM	01.04.2005 to 31.03.2006 RM	01.10.2004 to 31.03.2005 RM
Cash and bank balances	7,947,541	14,728,359	1,183,146	10,643,581
Short term deposits	4,665,000	-	-	-
	<b>12,612,541</b>	<b>14,728,359</b>	<b>1,183,146</b>	<b>10,643,581</b>

Short term deposits refer to Repurchase Agreements (Repos) placed with a licensed bank.

### 18. ACQUISITION OF SUBSIDIARIES

Net assets acquired as at date of acquisition :-

	Group	
	2006 RM	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)
	-	<b>2,808,159</b>
Satisfied by :-		
Issuance of shares	-	2,808,159

## Notes to the Financial Statements

(continued)

### 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 Group's exposure to credit risks arises mainly from receivables. The maximum credit risks exposure is best represented by the total carrying amount of these financial assets in the balance sheet. The Group manages its exposure to credit risk by assessing counter parties financial standings on an ongoing basis, monitoring credit limits and terms. 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's exposure to liquidity and cash flow risks arises mainly from general funding and business activities. The Group practices prudent liquidity risk management by maintaining sufficient funds at all times.

### 20. EMPLOYEES

The number of employees excluding directors as at 31 March 2006 are 66 people (2005 : 52).

### 21. SUBSEQUENT EVENT

On 20 April 2006, the Company subscribed for 14,694 new ordinary shares of THB 100 per share in Kannal Thailand representing 48.98% equity interest in Kannal Solutions (Thailand) Co. Ltd. for a total cash consideration of THB 1,469,400.

### 22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 24 July 2006.

# 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 41 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 2006 and of its results and cash flows for the year ended on that date.

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**Y. BHG. DATUK MOHAN A/L A KANDASAMY**

Director

Klang

Dated : 24 July 2006

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**SANGAR NALLAPPAN**

Director

## Statutory Declaration

I, PHANG KAH FATT, being the financial controller 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 41 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 )  
**PHANG KAH FATT** at Klang State of Selangor )  
 Darul Ehsan on 24 July 2006 )

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**PHANG KAH FATT**

Before me,

**RAJA SHAHARUDDIN BIN RAJA HAMZAH**

Commissioner for Oaths

# Report of the Auditors

To the Members of Kannaltec Berhad

◀ ANNUAL REPORT ▶ 2006

We have audited the financial statements of the Group and of the Company as set out on pages 26 to 42 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 2006 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 year 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 2006 and of the results of the operations and the cash flow of the Group and of the Company for the year 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.

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 : 24 July 2006

# Analysis of Shareholdings

As at 21 August 2006

▷ ANNUAL REPORT ▶ 2006

Authorised Share Capital	:	RM 25,000,000.00
Issued and Paid-up capital	:	RM 12,100,000.00
Class of Shares	:	Ordinary Shares of RM 0.10 each
Voting Rights	:	One vote per share

## SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares Held	% of Shares
Less Than 100	1	0.11	50	0.00
100 - 1,000	205	22.58	191,900	0.16
1,001 - 10,000	346	38.10	2,186,900	1.81
10,001 - 100,000	292	32.16	11,108,921	9.17
100,001 to less than 5% of issued shares	61	6.72	45,777,427	37.83
5% and above of issued shares	3	0.33	61,741,802	51.03
<b>TOTAL</b>	<b>908</b>	<b>100.00</b>	<b>121,000,000</b>	<b>100.00</b>

## THIRTY (30) LARGEST SHAREHOLDERS

Name of Shareholders	No. of Shares Held	% of Shares
1. MIDDLE ENTITY (M) SDN BHD	30,250,139	25.00
2. JUTA IMPERIUM (M) SDN BHD	25,391,663	20.99
3. TASEC NOMINEES (TEMPATAN) SDN BHD TA FIRST CREDIT SDN BHD FOR MIDDLE ENTITY (M) SDN. BHD.	6,100,000	5.04
4. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR THANGARAJA A/L A SUBRAMANIAM	5,108,858	4.22
5. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SUDAKARAN MUKUNDAN	3,888,500	3.21
6. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SUKUNAN A/L KANDASAMY	3,517,242	2.91
7. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PARTHIBAN A/L MUNIANDY	3,510,554	2.90
8. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR VIGNESWARAN A/L K NAGA LINGAM	2,961,729	2.45
9. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR R VASANTHE A/P R RAMAKRISHNAN	2,570,000	2.12
10. CIMSEC NOMINEES (TEMPATAN) SDN BHD BCB FOR MOHAN A/L A KANDASAMY (MY0231)	2,531,000	2.09
11. EB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SUDAKARAN MUKUNDAN (SFC)	1,980,800	1.64
12. TASEC NOMINEES (TEMPATAN) SDN BHD TA FIRST CREDIT SDN BHD FOR TUGU MERIAH (M) SDN. BHD.	1,760,000	1.46
13. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MOHAN A/L A KANDASAMY	1,453,598	1.20
14. TAN TEO ANG	1,386,500	1.15

## Analysis of Shareholdings

(continued)

### THIRTY (30) LARGEST SHAREHOLDERS (continued)

Name of Shareholders	No. of Shares Held	% of Shares
15. ANNADURAI A/L A. KANDASAMY	1,209,546	1.00
16. YEOH AH TU	1,000,000	0.83
17. HOOI TUNG YUEN	888,500	0.73
18. CIMSEC NOMINEES (TEMPATAN) SDN BHD BCB FOR FONG WAI LEONG (MM0748)	708,000	0.59
19. NG CHEE KEONG	665,000	0.55
20. CHONG AH HIM @ CHONG KUM KWAN	633,600	0.52
21. KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SII LIK KUNG	586,000	0.48
22. ONG SENG KHEK	530,000	0.44
23. LIM SOO CHIN	505,000	0.42
24. MAYBAN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR FONG WAI LEONG (14589MK0139)	500,000	0.41
25. LIM ENG HOCK	426,600	0.35
26. LIM ENG CHEE	400,000	0.33
27. PUKANA SUNTHATI A/P SUNDRAMPILLAY	400,000	0.33
28. RATINAMAH A/P M.SITTARI	355,000	0.29
29. WONG FUIT MEAN	340,000	0.28
30. KE-ZAN NOMINEES (ASING) SDN. BHD KIM ENG SECURITIES PTE. LTD. FOR CUBE CAPITAL GROUP LIMITED	333,500	0.28
<b>TOTAL</b>	<b>101,891,329</b>	<b>84.21</b>

## Analysis of Shareholdings

(continued)

### DIRECTORS' SHAREHOLDINGS

No.	Name of Director	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
1.	Y. Bhg. Datuk Mohan A/L A Kandasamy	3,984,598	3.29	*41,076,927	33.95
2.	Sukunan A/L Kandasamy	3,517,242	2.91	**41,544,283	34.33
3.	Tuan Haji Khalid Izhar Bin Dato' Mahmood	200,000	0.17	-	-
4.	Tuan Haji Azhari Bin Mohamed	200,000	0.17	-	-
5.	Sa'edah Binti Jamek	-	-	***25,391,663	20.99
6.	Tuan Haji Hedzier Bin Haji Ahmad (Alternate to Sa'edah Binti Jamek)	-	-	***25,391,663	20.99

\* 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 interests in Kannaltec Berhad.

\*\* 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 Berhad.

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

### SUBSTANTIAL SHAREHOLDERS AS AT 21 AUGUST 2006

	No. of shares	%
1. MIDDLE ENTITY (M) SDN BHD	36,350,139	30.04
2. JUTA IMPERIUM (M) SDN BHD	25,391,663	20.99

# Proxy Form



**KANNALTEC BERHAD**  
(635696-V)

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 third Annual General Meeting of the Company to be held on Monday, 25th September 2006 at Crystal Crown Hotel, No: 127, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan at 10.30 am 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	To receive and adopt the Directors' Report and Audited Financial Statements For The Year Ended 31 March 2006 and the Auditor's Report thereon.		
2	To approve the payment of Directors' Fees amounting to RM221,581		
3	<b>Re-election of Director under Article 98 of the Company's Articles of Association</b>		
	Tuan Haji Khalid Izhar Bin Dato' Mahmood		
4	<b>Re-election of Directors under Article 103 of the Company's Articles of Association</b>		
	Sukunan A/L Kandasamy		
5	Sangar Nallapan		
6	Sa'edah Binti Jamek		
7	Tuan Haji Azhari Bin Mohamed		
8	<b>Re-appointment of Messrs Viru, Goona &amp; Associates as Auditors of the Company</b>		
	To authorise in Directors to fix their remuneration		
<b>SPECIAL BUSINESS</b>			
9	Authority to Allot Shares		
10	To transact any other business for which due notice shall have been given		

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 adjournment thereof.

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AFFIX  
STAMP  
HERE

**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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