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KANNALTEC BERHAD

(Company No.: 635696-V)
(Incorporated in Malaysia)

INFORMATION CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED ACQUISITION OF 3,500,000 ORDINARY SHARES OF RM1.00 EACH IN INTELLIGENT EDGE SOLUTIONS SDN BHD (“IESSB”) REPRESENTING APPROXIMATELY 73.68% EQUITY INTEREST IN IESSB AND 1,500,000 REDEEMABLE PREFERENCE SHARES OF RM1.00 EACH IN IESSB FROM ABANG MADZHI BIN ABG HJ DAHLAN AND KUMPULAN DARUL EHSAN BERHAD BY VIRTUALNET SECURESPEED SDN BHD, A WHOLLY OWNED SUBSIDIARY OF KANNALTEC BERHAD, FOR A TOTAL CASH CONSIDERATION OF RM4.0 MILLION

Prepared by



MIMB INVESTMENT BANK BERHAD (10209-W)

(formerly known as Malaysian International Merchant Bankers Berhad)
A Participating Organisation of Bursa Malaysia Securities Berhad

This Information Circular is dated 13 March 2007

DEFINITIONS

For the purpose of this Information Circular, except where the context otherwise requires, the following definitions shall apply:-

Abang SPA	:	The SPA dated 18 October 2006 in relation to the Proposed Abang Acquisition
Act	:	Companies Act, 1965.
Abang Madzhi	:	Abang Madzhi Bin Abg Hj Dahlan
Board	:	Board of Directors of Kannaltec
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
EPS	:	Earnings per share
FIC	:	Foreign Investment Committee
FIC Guidelines	:	Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests, 2003
FYE	:	Financial year ended
IESSB	:	Intelligent Edge Solutions Sdn Bhd (423095-H)
IESSB RPS or RPS	:	Redeemable preference shares of RM1.00 each in IESSB
IESSB Share(s) or Shares(s)	:	Ordinary share(s) of RM1.00 each in IESSB
Jaluriang	:	Jaluriang Sdn Bhd (660145-V)
Kannaltec or the Company	:	Kannaltec Berhad (635696-V)
KDEB	:	Kumpulan Darul Ehsan Berhad (148040-T)
KDEB SPA	:	The SPA dated 18 October 2006 in relation to the Proposed KDEB Acquisition
Kannaltec Group	:	Kannaltec and subsidiary companies
MIMB	:	MIMB Investment Bank Berhad (10209-W) (<i>Formerly known as Malaysian International Merchant Bankers Berhad</i>)
MMLR	:	Listing Requirements of Bursa Securities for the MESDAQ Market
NA	:	Net assets
NTA	:	Net tangible assets
Proposed Abang Acquisition	:	Proposed acquisition of 1,500,000 IESSB Shares and 1,500,000 IESSB RPS by VNS representing 31.58% interest in the ordinary shares of IESSB and 54.55% interest in the RPS of IESSB respectively from Abang Madzhi for a purchase consideration of RM2,000,000

Definitions (cont'd)

- Proposed Acquisitions : Proposed acquisition of 3,500,000 ordinary shares of RM1.00 each in IESSB representing approximately 73.68% equity interest in IESSB and 1,500,000 redeemable preference shares of RM1.00 each in IESSB for a total cash consideration of RM4.0 million (i.e the Proposed Abang Acquisition and Proposed KDEB Acquisition, collectively)
- Proposed KDEB Acquisition : Proposed acquisition of 2,000,000 IESSB Shares by VNS representing 42.10% interest in the ordinary shares of IESSB from KDEB for a purchase consideration of RM2,000,000
- SPA : Conditional sale and purchase agreements
- Vendors : Abang Madzhi and KDEB, collectively
- VNS : Virtualnet Securespeed Sdn Bhd (738165-I)

Words denoting the singular number only shall include the plural and also vice-versa and words denoting the masculine gender shall, where applicable, include the feminine gender, neuter gender and vice versa. Reference to persons shall include a body of persons, corporate or unincorporated (including a trust). Any reference to a time of day shall be a reference to Malaysian time, unless otherwise stated. Any reference to any enactment is a reference to that enactment as for the time being amended or re-enacted.

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KANNALTEC BERHAD
(Company No.: 635696-V)
(Incorporated in Malaysia)

Registered Office:

No. 149A, 149B, 151B
Persiaran Raja Muda Musa
42000 Port Klang
Selangor Darul Ehsan

13 March 2007

Board of Directors:

Y. Bhg. Datuk Mohan A/L A Kandasamy (Executive Chairman)
Tuan Haji Hedzier Bin Haji Ahmad (Executive Deputy Chairman)
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 Khalid Izhar Bin Dato' Mahmood (Independent Non-Executive Director)

To: The Shareholders of Kannaltec

Dear Sir/Madam,

PROPOSED ACQUISITION OF 3,500,000 IESSB SHARES REPRESENTING APPROXIMATELY 73.68% EQUITY INTEREST IN IESSB AND 1,500,000 IESSB RPS FROM ABANG MADZHI AND KDEB FOR A TOTAL CASH CONSIDERATION OF RM4.0 MILLION

1. INTRODUCTION

On 18 October 2006, the Board of Directors of Kannaltec had announced that VNS, a wholly-owned subsidiary of Kannaltec, had on 18 October 2006 entered into the Abang SPA and KDEB SPA to acquire a total of 3,500,000 IESSB Shares and 1,500,000 IESSB RPS representing 73.68% interest in the ordinary shares of IESSB and 54.55% interest in the RPS of IESSB respectively, from Abang Madzhi and KDEB for a total cash consideration of RM4.0 million.

On 29 January 2007, MIMB, on behalf of the Board of Directors of Kannaltec, had announced that the FIC had via their letter dated 26 January 2007 stated that it has no objection to the Proposed Acquisitions.

The purpose of this Information Circular is to provide you with further information on the Proposed Acquisitions. No action is required to be taken.

2. PROPOSED ACQUISITIONS

2.1 Details of the Proposed Acquisitions

VNS had entered into the Abang SPA and KDEB SPA for the proposed acquisition of: -

- (i) 1,500,000 IESSB Shares and 1,500,000 IESSB RPS representing 31.58% interest in the ordinary shares of IESSB and 54.55% interest in the RPS of IESSB respectively from Abang Madzhi for a purchase consideration of RM2,000,000 ; and

- (ii) 2,000,000 IESSB Shares representing 42.10% interest in the ordinary shares of IESSB from KDEB for a purchase consideration of RM2,000,000.

In addition, VNS has an option pursuant to the Abang SPA to subscribe for an additional 250,000 new IESSB Shares at RM1.00 each and 2,250,000 IESSB RPS at RM1.00 each.

The IESSB Shares to be acquired by VNS pursuant to the Abang SPA and KDEB SPA shall be acquired:-

- (i) free from any interest or equity of any person including without prejudice to the generality of the foregoing, any right to acquire, option or right of pre-emption, any charge, mortgage, pledge, lien, caveat, prohibitory order, priority or security interest or arrangement or encumbrance of whatsoever nature over or in the IESSB Shares; and
- (ii) with all rights, benefits and advantages attached thereto except for any dividends and other distributions which may be declared, made or paid in respect of the IESSB Shares prior to the completion dates of the Abang SPA and KDEB SPA.

There is no liabilities, contingent liabilities or guarantees to be assumed by Kannaltec or VNS arising from the Proposed Acquisitions.

The Proposed Acquisitions are estimated to be completed in the first quarter of 2007.

2.2 **Basis of Arriving at the Purchase Consideration**

The purchase consideration for the Proposed Acquisitions was arrived at on a willing buyer-willing seller basis after taking into consideration the following:-

- (i) the potential future profits of IESSB after taking into account its 20-years concession agreement with the Selangor State Government; and
- (ii) IESSB's unaudited net assets of RM6,304,685 as at 31 July 2006.

2.3 **Information on IESSB**

IESSB was incorporated in Malaysia on 14 March 1997 under the Act as a private limited company and its principal activities are the provision of telecommunication services and as consultants, designer and adviser relating to the development and implementation of computer system, trading in all kinds of computer hardware, software and all related electronic equipment components and accessories.

IESSB has an authorised share capital of RM10,000,000 divided into 5,000,000 IESSB Shares and 5,000,000 IESSB RPS. The present issued and fully paid-up share capital of IESSB is RM7,500,000 comprising 4,750,000 IESSB Shares and 2,750,000 IESSB RPS.

IESSB has a 100%-owned subsidiary SelNet Broadband Sdn Bhd, which has not commenced any activity.

IESSB incurred a loss after taxation of RM144,858 for the FYE 31 December 2005 and NA value of IESSB as at 31 December 2005 stood at RM5,920,894, based on the audited financial statements of IESSB for the FYE 31 December 2005.

Further details on the audited financial information of IESSB for the past five (5) financial years ended 31 December 2005 and the unaudited results for the seven (7) months ended 31 July 2006 are disclosed in Appendix I of this Information Circular.

IESSB and the Selangor State Government had on 10 October 2003, entered into an agreement for the provision of broadband and application services ("Selangor Private Network Access Agreement") whereby IESSB undertakes to:-

- (a) design, supply, install, operate and maintain the broadband infrastructure at the designated site(s) in the state of Selangor at its own costs; and
- (b) deliver and install all related structure for the provision of the broadband services and application at the designated site(s) inside the government buildings, the costs whereof shall be paid by the respective department, statutory bodies and municipalities.

In consideration of IESSB's undertaking, the Selangor State Government agreed to subscribe for the broadband services and applications offered by IESSB at agreed upon rates and will expire on 22 September 2025. Thereafter the Selangor State Government and IESSB may negotiate for an extension of the services under the Selangor Private Network Access Agreement.

2.4 **Information on the Vendors**

The vendor pursuant to the Abang SPA is Abang Madzhi Bin Abg Hj Dahlan.

The vendor pursuant to the KDEB SPA is KDEB. KDEB was incorporated in Malaysia on 12 August 1985 under the Companies Act, 1965 as a limited company. KDEB was established by the Selangor State Government with the role of being the commercial arm of the state's administration.

KDEB has an authorised share capital of RM300,000,000 divided into 300,000,000 ordinary shares of RM1.00 each, of which 262,408,163 ordinary shares of RM262,408,163 each have been issued and fully paid-up as at 15 February 2007.

As at 15 February 2007, Menteri Besar Incorporated is the sole shareholder in KDEB holding the entire paid-up share capital of 262,408,163 shares of RM1.00 each in KDEB.

The Directors of KDEB are as follows:-

- (i) Dato' Seri Dr Mohamad Khir Toyo
- (ii) Dato' Haji Ramli Mahmud
- (iii) Dato' Haji Abd Karim Munisar
- (iv) Dato' Mohd Arif Ab Rahman
- (v) Dato' Haji Mohamad Satim Diman
- (vi) Datin Paduka Juma'ah Moktar; and
- (vii) Dato' Dr Haji Karim Haji Mansor

2.5 **Original Cost of Investment to the Vendors**

The cost of investment of Abang Madzhi in IESSB is approximately RM3.0 million which was invested between March 2004 and December 2005.

The cost of investment of KDEB in IESSB is approximately RM2.0 million which was invested between December 2005 and February 2006.

2.6 **Sources of funding for the Proposed Acquisitions by Kannaltec**

The Proposed Acquisitions are expected to be funded via the internally generated funds of the Kannaltec Group.

2.7 **Capital and Investment Outlay**

The total estimated additional outlay in IESSB is approximately RM27.5 million which is expected to be raised via bank borrowings to finance the working capital and capital expenditure of IESSB.

2.8 **Salient Terms of the Abang SPA and KDEB SPA**

2.8.1 The purchase consideration for the Proposed Acquisitions was arrived at on a willing buyer willing seller basis after taking into consideration the following:

- (i) the future profits of IESSB after taking into account its 20-years concession agreement with the Selangor State Government; and
- (ii) IESSB's unaudited net assets of RM6,304,685 as at 31 July 2006.

2.8.2 The purchase consideration for the Abang SPA will be fully satisfied by cash in the following manner:-

- (i) RM30,000 upon the execution of the Abang SPA;
- (ii) RM270,000 to be paid immediately after the expiry of one (1) calendar month from the date of the Abang SPA;
- (iii) RM700,000 to be paid on the expiry of six (6) calendar months from the date of the Abang SPA or such extended date as may be agreed by Abang Madzhi; and
- (iv) RM1,000,000 to be paid immediately after the expiry of eighteen (18) calendar months from the date of the Abang SPA.

2.8.3 The purchase consideration for the KDEB SPA will be fully satisfied by cash in the following manner:

- (i) RM200,000 upon the execution of the KDEB SPA;
- (ii) RM300,000 to be paid on the expiry of six (6) months from the date of the KDEB SPA;
- (iii) RM500,000 to be paid on the expiry of twelve (12) months from the date of the KDEB SPA;
- (iv) RM500,000 to be paid twenty-four (24) months from the date of the KDEB SPA; and
- (v) RM500,000 to be paid thirty (30) months from the date of KDEB SPA.

2.8.4 **Conditions Precedent of the Abang SPA**

The Abang SPA is conditional upon the following:-

- (i) the approval of the FIC;
- (ii) the issuance by the Registrar of Companies of the Certificate of Registration of release of a charge created on 25 January 2003 by IESSB in favour of Alliance Bank Berhad;
- (iii) the approval of the shareholders of Kannaltec at an extraordinary general meeting to be convened, if necessary;
- (iv) the grant by:-
 - (a) Jaluriang of its written unconditional consent/approval to the sale by Abang Madzhi and KDEB of all of their respective IESSB Shares to VNS and the waiver by Jaluriang of its rights requiring each of the vendors to offer their IESSB Shares to the other shareholders of IESSB; and

- (b) Abang Madzhi of his written unconditional consent/approval to the sale by KDEB of all of its IESSB Shares to VNS and the waiver by Abang Madzhi of his rights requiring KDEB to offer its IESSB Shares to the other shareholders of IESSB;
- (v) the execution of the relevant agreements/documents, which is acceptable to VNS and Abang Madzhi, for the termination by mutual agreement between IESSB and each of its co-party of certain existing agreements ("IESSB's Agreement Termination");
- (vi) the execution of the relevant agreements/documents, which is acceptable to VNS and Abang Madzhi, for the settlement by IESSB with all relevant parties of the contingent liabilities of IESSB ("IESSB's Settlement Liabilities");
- (vii) the fulfillment of all of the conditions precedent under the KDEB SPA in accordance with the terms of the KDEB SPA; and
- (viii) a due diligence being conducted by VNS and/or its adviser(s) on IESSB and VNS being satisfied with the results of such due diligence.

2.8.5 Conditions Precedent of the KDEB SPA

The KDEB SPA is conditional upon the following::

- (i) the approval of the FIC;
- (ii) KDEB shall have notified the Selangor State Government of its sale of IESSB Shares to VNS pursuant to the KDEB SPA;
- (iii) the approval of the shareholders of Kannaltec at an extraordinary general meeting to be convened; and
- (iv) the grant by :-
 - (a) KDEB of its written unconditional consent/approval (upon terms acceptable to the Kannaltec) to the sale by Abang Madzhi of all of his shares in IESSB to VNS; and
 - (b) KDEB of the waiver of its rights requiring Abang Madzhi to comply with its obligations under clause 9 of the IESSB Shareholders Agreement dated 19 July 2005 to make a written offer in writing to sell IESSB Shares to the other shareholders of IESSB.

2.8.6 Other Salient Terms of the Abang SPA

The Abang SPA is premised on the basis that all of the following critical considerations are fulfilled and if any of them is not fulfilled, VNS shall be entitled to terminate the Abang SPA:

- (i) Jaluriang's agreement, undertakings and indemnity upon terms provided in the Abang SPA;
- (ii) that following the IESSB's Agreement Termination and IESSB's Settlement Liabilities, IESSB's disclosed liabilities shall not exceed RM3,300,000 (with the exception of a service access agreement between a IESSB and a service vendor, as further provided in the Abang SPA);
- (iii) that save for the payment by IESSB to any party or creditors of IESSB of an amount up to RM750,000 towards settlement of IESSB's Settlement Liabilities, which shall be advanced by VNS to IESSB when necessary, Abang Madzhi and Jaluriang shall jointly and severally be responsible to contribute and pay for all IESSB's undisclosed liabilities which exceeds RM750,000;
- (iv) that following the IESSB Agreement Termination, IESSB has no contractual arrangement or transactions with any party in respect of IESSB's business other than with the Selangor State Government under the Selangor Private Network Access Network (as defined in Section 4 herein) and for the employment of three (3) identified employees;

- (v) that the value given to all intangible assets and property of IESSB, including the development expenditure amounting to RM5,575,000 be written off or provided for impairment immediately prior to completion; and
- (vi) that the net tangible assets of IESSB as at the date of completion shall not be worse off by more than RM250,000 as compared to its net tangible assets as at 31 July 2006.

2.9 Details of any Other Conditional Corporate Exercises/Scheme

There are no other intended corporate exercises/scheme which have been announced by Kannaltec but not yet completed prior to the printing of this Information Circular and that the Proposed Acquisitions is conditional upon any such corporate exercises/scheme.

3. RATIONALE FOR THE PROPOSED ACQUISITIONS

With the concession under the Selangor Private Network Access Agreement, the Proposed Acquisitions are in line with Kannaltec's strategy to increase the scope of its services to include the provision of information communication technology ("ICT") infrastructure and services. The Proposed Acquisitions are also expected to improve the Kannaltec Group's earnings in the future.

4. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITIONS

The effects of the Proposed Acquisitions on Kannaltec Group's share capital, substantial shareholdings, earnings and NA are set out below.

4.1 Share Capital and Substantial Shareholding

The Proposed Acquisitions will not have any effect on the share capital and substantial shareholdings of Kannaltec as the purchase consideration shall be wholly satisfied in cash.

4.2 NA, NA per share and Gearing

The Proposed Acquisitions are not expected to have any material effects on the NA, NA per share and gearing of Kannaltec.

4.3 Earnings

The Proposed Acquisitions are expected to be completed in the first quarter of 2007, and as such is not expected to have any material effect on the EPS of the Kannaltec Group for the financial year ending 31 March 2007.

With the concession under the Selangor Private Network Access Agreement (as explained in Section 2.3 herein), the Proposed Acquisitions are expected to enhance the future earnings and EPS of the Kannaltec Group after the commencement of operations of IESSB.

5. INDUSTRY OVERVIEW AND PROSPECTS

5.1 The Malaysian Economy

The Malaysian economy continued to sustain steady growth in the fourth quarter, with real gross domestic product expanding by 5.7% in the quarter (3rd quarter: 5.8%). The expansion was more broad-based with all sectors of the economy now recording positive growth. Underpinned by stronger consumer sentiment and sustained business confidence, the private sector was the main contributor to growth which was supported by the external and public sectors. For the whole year, real gross domestic product (“GDP”) expanded by 5.9%.

The services and agriculture sectors continued to expand strongly at a rate faster than the overall economy. Led by consumption, tourism, finance and business activities, the services sector expanded by 7% in the fourth quarter. In particular, the finance, insurance, real estate and business services; and the transport, storage and communication sub-sectors performed favourably. Growth in the agriculture sector strengthened to 6.5% underpinned by the strong performance of crude palm oil and rubber, and to a lesser extent, food output, in particular, fish and livestock.

Domestic demand strengthened further in the fourth quarter, registering a growth of 7.5%. Gross fixed capital formation recorded a robust growth of 9.8% during the quarter. Investment spending by the public sector increased in line with the higher disbursement of Federal Government funds for on-going projects, new development starts and the provision of public services and utilities. Private sector capital spending remained strong spurred by the resilient business outlook and sustained high capacity utilisation. Imports of capital goods and loans approved to businesses, especially in the manufacturing and construction sectors, were supportive of the upward trend in private investment activities. Private consumption also remained strong, increasing by 6.6%, supported by the steady increase in household disposable income, year-end bonus payments and favourable commodity prices. Meanwhile, public consumption increased by 6.9% due mainly to higher expenditure on emoluments.

For the fourth quarter, headline inflation, as measured by the Consumer Price Index (CPI), moderated further to 3% (3rd Quarter: 3.6%), in line with market and official expectations. The lower inflation rate was broad-based with all the major categories of the CPI basket registering slower inflation rates. Demand induced inflation was relatively subdued during the quarter. For the year as a whole, the headline inflation rate averaged at 3.6% (2005: 3.0%). In the labour market, conditions continued to remain stable supported by the gains in labour productivity.

In the financial account, foreign direct investment (FDI), as monitored by Bank Negara Malaysia’s Cash BOP system, recorded a larger net inflow of RM12 billion. These inflows were broad based and channelled mainly into the manufacturing, oil and gas, and services sectors. The FDI data on cash basis captures new financial flows and does not include retained earnings and investment in the form of imported machinery and equipment. During the quarter, there was a net inflow of portfolio investment amounting to RM7.8 billion. For overseas investment, there was a net outflow of RM1.4 billion.

The international reserves of Bank Negara Malaysia amounted to RM290.4 billion (USD82.5 billion) as at 31 December 2006. As at 15 February 2007, the reserves amounted to RM299.8 billion (USD85.1 billion), sufficient to finance 8 months of retained imports and was 6.6 times the short-term external debt.

Going forward, global economic expansion is expected to be sustained at above 4% in 2007. While there may be some moderation in the external sector, it is expected to be modest. The broader US economy is expected to sustain its underlying growth despite some weakness in the housing and automotive sectors. There will however, be more broad-based global growth with the strengthening of recovery in Japan, the improved growth prospects in the Euro area and the sustained growth in the Asian region. The economic growth prospects for Malaysia are expected to remain favourable for 2007. While any moderation in the external economic conditions can affect the export sector, domestic demand, including both the private sector and public sector activity is expected to support the growth momentum of the Malaysian economy. Sustained private consumption and continued expansion in investment activity are expected to provide solid support for the growth. This will be reinforced by the implementation of the Ninth Malaysia Plan projects which have already commenced in the fourth quarter of 2006.

The diversified economic structure and the strengthened macroeconomic fundamentals, the more developed domestic financial markets and the sound financial sector are important factors that continue to support Malaysia's economic flexibility and resilience to withstand external shocks. The developments in the global, regional and domestic financial markets reflect the potential for contagion. As a highly open and liberalized economy, Malaysia is not insulated from these developments. While the financial markets can be expected to experience volatility from time to time, the resilience of the underlying domestic economy continues to be the fundamental factor that will support the performance of the financial markets.

The strong corporate balance sheets and the favorable prospects for the economy remain important factors that will support this trend. Of greater significance, these external developments that have occurred have not had any material impact on the other domestic financial markets. Relatively stable conditions have prevailed in the foreign exchange market with two way flows moderating any significant movements in the market. The impact on the bond market has also been negligible, demonstrating the depth and maturity of the market. Thus, the preconditions prevailing in Malaysia would continue to support the growth momentum of the Malaysian economy.

(Source: Bank Negara Malaysia Quarterly Bulletin: 4th Quarter 2006)

5.2 **Information, Communication and Technology (“ICT”) Industry**

During the Eighth Malaysia Plan (8MP) period, Malaysia made significant progress in increasing the information and knowledge content in all sectors of the economy as well as ensuring that the ensuing benefits accrued to all segments of society including the rural communities.

Investment by both the public and private sectors was directed at building the essential ICT infrastructure. This was part of the efforts to establish speedy and efficient network of facilities and services in order to encourage greater diffusion of ICT in the economy. The Multimedia Super Corridor (MSC) continued to provide the platform and enabling environment to further promote the development of ICT industry. The increased usage of ICT was further enhanced through its wider adoption in commerce, industry, education and health as well as in the mainstream of daily life.

Increased investments were undertaken to enhance accessibility to ICT infrastructure, in terms of basic telephony, public payphones and Internet services, particularly to underserved areas, through Government allocations as well as the Universal Service Provision (USP) Fund contributed by the industry.

In order to accelerate infrastructure deployment and improve ICT penetration to the general public, including rural and underserved areas, the industry leveraged on wired and wireless technologies to provide broadband services throughout the country. These efforts were part of the overall implementation framework contained in the National Broadband Plan (NBP), to provide for planned operationalisation of the broadband nationwide.

In moving forward towards a knowledge-based economy, the country will leverage on the networked environment alongside the next wave of the MSC expansion including the development of cybercities and where feasible, cybercentres. This is with a view to harnessing ICT as a new source of growth and wealth creation, and sustaining Malaysia's position as a competitive global multimedia hub destination particularly in shared services and outsourcing (SSO).

Further initiatives will be undertaken to attract investments in existing and new areas. These will include provision of improved incentives, review of investment-related laws and regulations, with a view to provide a more conducive environment for investment as well as making available adequate funding.

(Source: 9th Malaysia Plan 2006-2010)

5.3 **Prospects**

Based on the positive outlook of the Malaysian economy and the ICT industry as mentioned in Section 5.1 and 5.2 above, the Board believes that, with the Proposed Acquisitions, the Kannaltec Group will be able to benefit from part of the Government's initiative to improve the existing ICT infrastructure in Malaysia and is expected to contribute positively to the overall profitability of the Kannaltec Group.

6. RISK FACTORS

There are various risk factors such as economic risks, interest rate risk, investment risk and business risk inherent in the investment in IESSB via the Proposed Acquisitions of which shareholders should be aware. Among the pertinent risks relating to the investment in IESSB are as follows:-

6.1 Obsolescence of Technology

The ICT industry is a rapidly growing and changing industry, in which new technologies and products are being introduced to the market constantly. As such, the emergence of other new technologies or introduction of new products and services by competitors may render the technologies, products and services offered by IESSB obsolete or uncompetitive.

6.2 Business Risks

As IESSB is principally involved in the provision of network and communication services, it is subject to risks inherent in such services. These include, amongst others, demand for the services and applications using the network infrastructure, changes in general economic conditions, availability of technical staff and experts, government regulations, inflation and technological developments.

6.3 Termination of the Selangor Private Network Access Agreement

The prospects of IESSB depend on its successful provision of services under the Selangor Private Network Access Agreement. In the event the said agreement is terminated as a result of the inability of IESSB to provide such infrastructure and services or otherwise, IESSB will not be able to achieve the desired earnings and may continue to bear any financial commitments which it had undertaken.

7. APPROVALS REQUIRED

The Proposed Acquisitions are subject to the approval of FIC and any other relevant authorities/parties, if required. On 29 January 2007, MIMB had announced on behalf of Kannaltec that the FIC had, via its letter dated 26 January 2007, stated that it has no objection to the Proposed Acquisitions on the condition that IESSB shall have at least thirty percent (30%) Bumiputera equity interest at any point of time.

The Proposed Acquisitions is not subject to the approval of the shareholders of Kannaltec.

8. CONDITIONALITY

The Proposed Abang Acquisition is conditional upon the Proposed KDEB Acquisition but not vice-versa.

9. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' AND/OR PERSONS CONNECTED WITH DIRECTORS' OR SUBSTANTIAL SHAREHOLDERS' INTERESTS

None of the Directors' and/or substantial shareholders' or persons connected to them has any interest, direct and/or indirect, in the Proposed Acquisitions.

10. DIRECTORS' OPINION

After taking into consideration all aspects of the Proposed Acquisitions, the Board is of the opinion that the Proposed Acquisitions is in the best interest of the Kannaltec Group.

11. FURTHER INFORMATION

Shareholders are requested to refer to the Appendices for further information.

Yours faithfully,
For and on behalf of the Board of Directors of
KANNALTEC BERHAD

DATUK MOHAN A/L A KANDASAMY
Executive Chairman

INFORMATION ON IESSB**1. History and Business**

IESSB was incorporated in Malaysia on 14 March 1997 under the Companies Act, 1965.

IESSB's principal activities are the provision of telecommunication services and as consultants, designer and adviser relating to the development and implementation of computer system, trading in all kinds of computer hardware, software and all related electronic equipment components and accessories.

IESSB was incorporated to provide ICT services and products. In 2003, IESSB re-focused its business of telecommunications solutions to government organizations.

IESSB and the Selangor State Government had on 10 October 2003, entered into an agreement for the provision of broadband and application services ("Selangor Private Network Access Agreement") whereby IESSB undertakes to:

- (a) design, supply, install, operate and maintain the broadband infrastructure at the designated site(s) in the state of Selangor at its own costs; and
- (b) deliver and install all related structure for the provision of the broadband services and application at the designated site(s) inside the government buildings, the costs whereof shall be paid by the respective department, statutory bodies and municipalities.

In consideration of IESSB's undertaking, the Selangor State Government agreed to subscribe for the broadband services and applications offered by IESSB at agreed upon rates and will expire on 22 September 2025. Thereafter the Selangor State Government and IESSB may negotiate for an extension of the services under the Selangor Private Network Access Agreement.

2. Share Capital

IESSB has an authorised share capital of RM10,000,000 divided into 5,000,000 IESSB Shares and 5,000,000 IESSB RPS. The issued and fully paid-up share capital of IESSB is RM7,500,000 comprising 4,750,000 IESSB Shares and 2,750,000 IESSB RPS.

The IESSB RPS bears a coupon rate of eight percent (8%) per annum (on a non cumulative basis) commencing only from the second year of the issuance of the relevant IESSB RPS. Such coupon accrued on the IESSB RPS shall (if declared by the Company) be payable by the Company in yearly intervals in arrears commencing from the second year of the issuance of the relevant IESSB RPS.

The holders of the IESSB RPS are not entitled to any right to attend and vote either in person or by proxy at any general meeting of the company.

The IESSB RPS can be redeemed by the Company at the rate of RM1.00 for each IESSP RPS at any time, in any event before the expiry of five (5) years from the issuance of the relevant IESSB RPS.

The IESSB RPS are not convertible to IESSB Shares.

The movements in the issued and paid-up share capital of IESSB Shares since its incorporation are as follows:-

Date of allotment	No. of shares allotted	Par value RM	Consideration	Cumulative No. of Shares	Cumulative Issued and Paid-up Share Capital RM
14 March 1997	2	1.00	Cash	2	2
23 June 1997	12,602	1.00	Cash	12,604	12,604
26 April 2001	196	1.00	Cash	12,800	12,800
5 March 2004	267,200	1.00	Cash	280,000	280,000
24 November 2004	220,000	1.00	Cash	500,000	500,000
8 December 2005	3,250,000	1.00	Cash	3,750,000	3,750,000
22 February 2006	1,000,000	1.00	Cash	4,750,000	4,750,000

The movements in the issued and paid-up share capital of IESSB RPS since its incorporation are as follows:-

Date of allotment	No. of shares allotted	Par value RM	Consideration	Cumulative No. of Shares	Cumulative Issued and Paid-up Share Capital RM
8 December 2005	2,750,000	1.00	Cash	2,750,000	2,750,000

3. Subsidiary and Associated Companies

As at 15 February 2007, IESSB has a 100%-owned subsidiary, SelNet Broadband Sdn Bhd, which was incorporated in Malaysia on 27 January 2005, under the Act. SelNet Broadband Sdn Bhd has an authorised share capital of RM100,000 divided into 100,000 ordinary shares of RM 1.00 each of which RM2.00 comprising 2 ordinary shares of RM1.00 is fully paid-up.

Selnet Broadband Sdn Bhd has not commenced any activity.

4. Board of Directors

The directors of IESSB and their respective shareholdings as at 15 February 2007 are as follows:-

Name	No. of ordinary shares	%
Abang Madzhi	1,500,000	31.58
Mohammad Yazid Bin Suria	-	-
Sukunan A/L Kandasamy*	-	-

* Mr. Sukunan A/L Kandasamy has been appointed as a Director of IESSB on 28 January 2007 to represent and act on behalf of Kannaltec's interest in IESSB, via Kannaltec's Board resolution dated 26 January 2007.

5. Substantial Shareholders

The direct and indirect interests of the substantial shareholders of IESSB (holding 5% or more in the issued and paid-up capital of IESSB) as at 15 February 2007 are as follows:-

Name	<-----No of ordinary shares held----->			
	Direct	%	Indirect	%
Abang Madzhi	1,500,000	31.58	1,250,000*	26.32
Jaluriang	1,250,000	26.32	-	-
KDEB	2,000,000	42.10	-	-

* Deemed interest by virtue of his substantial shareholding interest in Jaluriang pursuant to Section 6A of the Act.

6. Profit and Dividend Record

The profit and dividend record of IESSB based on the audited accounts for the past five (5) financial years ended 31 December 2005 and the unaudited results for the seven (7) months ended 31 July 2006 are as follows:-

FYE 31 December	2001 RM	2002 RM	2003 RM	2004 RM	2005 RM	Unaudited results for the seven (7) months ended 31 July 2006 RM
Revenue	-	2,625,253	10,000	-	-	-
Profit/(loss) before taxation	(2,715)	29,940	(340,738)	(101,370)	(144,858)	(616,208)
Income tax benefit/ (expense)	-	(7,050)	32	-	-	-
Profit/(loss) after taxation	(2,715)	22,890	(340,706)	(101,370)	(144,858)	(616,208)
No. of ordinary shares of RM1.00 each	12,800	12,800	12,800	500,000	3,750,000	4,750,000
Net earnings/(loss) per share	(0.21)	1.79	(26.62)	(0.20)	(0.04)	(0.22)*
Dividend rate (%)	-	-	-	-	-	-

Notes:

* On an annualised basis

- (i) There were no exceptional items and extraordinary items incurred during the five (5) financial years ended 31 December 2005.
- (ii) There were no minority interests during the five (5) financial years ended 31 December 2005 and for the seven (7) months ended 31 July 2006.
- (iii) For the FYE 31 December 2001, the company incurred a loss after taxation of RM2,715 while no revenue was generated during the financial year since it has temporarily ceased business operations since 1998.
- (iv) For the FYE 31 December 2002, IESSB reported a revenue of RM2,625,253 and a profit after taxation of RM22,890 after the company re-commenced its principal activity during the financial year.
- (v) For the FYE 31 December 2003, IESSB reported a revenue of RM10,000 but incurred a loss after taxation of RM340,706. The decline in revenue was a result of a decline in business activity.
- (vi) For the FYE 31 December 2004, no revenue was generated as there were no projects being executed. As a result, IESSB incurred a loss after taxation of RM101,370 which mainly consist of overhead costs.
- (vii) For the FYE 31 December 2005 no revenue was generated as there were no projects being executed. As a result, IESSB incurred a loss after taxation of RM144,858 which mainly consist of overhead costs.
- (viii) For the seven (7) months ended 31 July 2006, no revenue was generated as there were no projects being executed. As a result, IESSB incurred a loss after taxation of RM616,208 which mainly consist of overhead costs.

APPENDIX II

**AUDITED FINANCIAL STATEMENTS OF IESSB FOR THE FINANCIAL YEAR ENDED 31
DECEMBER 2005 TOGETHER WITH THE AUDITOR'S REPORT RELATING THERETO**

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2005
(In Ringgit Malaysia)

TAN CHIN HUAT & CO
Chartered Accountants (M)

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

Registered Office

17th Floor Plaza Perangsang
Persiaran Perbandaran
40000 Shah Alam
Selangor Darul Ehsan

Principal Place of Business

No. 103 1st Floor
Block C Damansara Intan
No. 1 Jalan SS20/27
47400 Petaling Jaya
Selangor Darul Ehsan

FINANCIAL STATEMENTS

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Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of telecommunication services and also engaged as consultants, designer and adviser relating to the development and implementation of computer system, trading in all kinds of computer hardware, software and all related electronic equipment, components and accessories.

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

FINANCIAL RESULTS

The results of operations of the Company for the financial year are as follows:-

	RM
Loss before tax	(144,858)
Income tax expense	-
Net loss for the financial year	<u>(144,858)</u>

DIVIDENDS

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

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

As approved by the shareholders at the Extraordinary General Meeting held on 5th December 2005, the authorised share capital of the Company was increased from RM500,000 to RM10,000,000 by the creation of additional 4,500,000 new ordinary shares of RM1 each and 5,000,000 new preference shares of RM1 each. Pursuant to the authority given to the shareholders at the said Extraordinary General Meeting, the issued and paid-up share capital of the Company was increased from RM500,000 to RM6,500,000 by the allotment of 3,250,000 new ordinary shares of RM1 each and 2,750,000 new preference shares of RM1 each by way of cash of RM1,000,000 and capitalisation of advances amounting to RM5,000,000 for working capital purposes.

The Company has not issued any debentures during the financial year.

SHARE OPTIONS

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As of the end of the financial year, there were no unissued shares of the Company under options.

Company No:
423095-H

DIRECTORS

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

Abang Madzhi Bin Abg Hj Dahlan	
Dato' Haji Abdul Karim Bin Munisar	(Appointed on 19.09.2005)
Lai Che Fu	(Appointed on 17.06.2005; resigned on 22.05.2006)
Mohamad Yazid Bin Suria	(Resigned on 17.06.2005; reappointed on 29.06.2006)
Azril Bin Aliuddin	(Resigned on 17.06.2005)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

	Balance as of <u>01.01.2005</u>	<u>Bought</u>	<u>Sold</u>	Balance as of <u>31.12.2005</u>
Registered in name of director				
Number of ordinary shares of RM1 each				
Abang Madzhi Bin Abg Hj Dahlan	416,000	1,084,000	-	1,500,000
Number of preference shares of RM1 each				
Abang Madzhi Bin Abg Hj Dahlan	-	1,500,000	-	1,500,000

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

- a) Before the income statement and balance sheet of the Company were made out, the directors took reasonable steps:
- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that no known bad debts need to be written off and that no allowance for doubtful debts is necessary; and
 - to ensure that any current assets which were unlikely to realise in the ordinary course of business their values as shown in the financial statements of the Company 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:
- which would require the writing off of bad debts or the setting up of allowance for doubtful debts in the financial statements of the Company; or

Company No:
423095-H

- (ii) which would render the values attributable to current assets in the financial statements of the Company misleading; or
 - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- c) At the date of this report, there does not exist:
- (i) any charge on the assets 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 Company which has arisen since the end of the financial year.
- d) No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which in the opinion of the directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due other than those as disclosed in Note 10 to the Financial Statements.

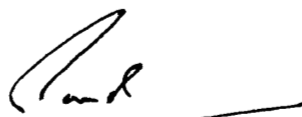
OTHER STATUTORY INFORMATION

- a) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.
- b) In the opinion of the directors,
- (i) the results of operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
 - (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of operations of the Company for the financial year in which this report is made.

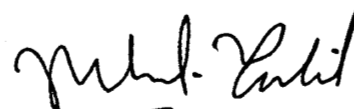
AUDITORS

The auditors, Messrs. Tan Chin Huat & Co., have indicated their willingness to continue in office.

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



ABANG MADZHI BIN ABG HJ DAHLAN
Director



MOHAMAD YAZID BIN SURIA
Director

Petaling Jaya

Date: 29 JUL 2006

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

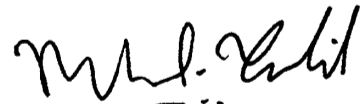
STATEMENT BY DIRECTORS

We, Abang Madzhi Bin Abg Hj Dahlan and Mohamad Yazid Bin Suria, being two of the directors of Intelligent Edge Solutions Sdn. Bhd., do hereby state that, in the opinion of the directors, the accompanying balance sheet and statements of income, cash flows and changes in equity, together with the notes thereto, are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as of 31st December 2005 and of the results and cash flows of the Company for the year then ended.

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



~~ABANG MADZHI BIN ABG HJ DAHLAN~~
Director



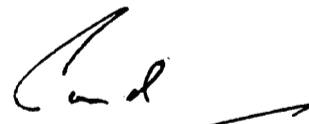
MOHAMAD YAZID BIN SURIA
Director

Petaling Jaya

Date : 29 JUL 2006

STATUTORY DECLARATION

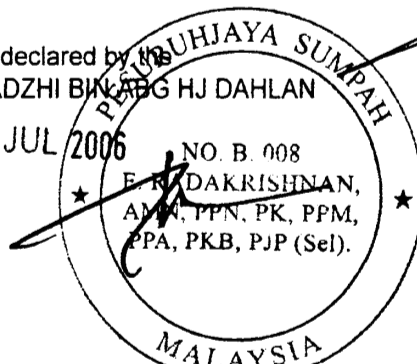
I, Abang Madzhi Bin Abg Hj Dahlan, being the director primarily responsible for the financial management of Intelligent Edge Solutions Sdn. Bhd., do solemnly and sincerely declare that the accompanying balance sheet and statements of income, cash flows and changes in equity, together with the notes thereto, 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.



ABANG MADZHI BIN ABG HJ DAHLAN

Subscribed and solemnly declared by the
abovenamed ABANG MADZHI BIN ABG HJ DAHLAN
at Petaling Jaya on 29 JUL 2006

Before me :



Company No:
423095-H

TAN CHIN HUAT & CO.

AF 1395
Chartered Accountants (M)

No: 232 2nd Floor Block A Damansara Intan
1 Jalan SS 20/27 47400 Petaling Jaya
Tel: 03-77268992
Fax: 03-77284992

REPORT OF THE AUDITORS TO THE MEMBERS OF INTELLIGENT EDGE SOLUTIONS SDN. BHD. (Incorporated in Malaysia)

We have audited the accompanying balance sheet as of 31st December 2005 and the related statements of income, cash flows and changes in equity, together with the notes thereto, for the year then ended. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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 reasonable assurance about whether 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 assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In common with many businesses of similar size and organisation, the Company's system of control is dependant upon the close involvement of the directors who are representatives of the shareholders. Where independent confirmation of completeness of accounting transactions was not available, we have accepted assurances from the directors that all the Company's transactions have been reflected in the financial statements.

Except for the comments as mentioned in the third paragraph, in our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the 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 Company; and
 - (ii) the state of affairs of the Company as of 31st December 2005 and of the results and cash flows of the Company for the year then ended; 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 said Act.



TAN CHIN HUAT & CO.
Firm No. AF 1395
Chartered Accountants (M)



TAN CHIN HUAT
Approval No: 2037/06/08(J)
Proprietor

Petaling Jaya

Date: 29 JUL 2006

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

BALANCE SHEET AS OF 31ST DECEMBER 2005

	Note	2005 RM	2004 RM
ASSETS			
Development expenditure	5	6,009,977	5,393,000
CURRENT ASSETS			
Refundable deposits		3,000	-
Bank balances		244,647	493
		247,647	493
Less:			
CURRENT LIABILITIES			
Other payables and accrued expenses	6	12,720	10,251
Amount owing to directors	7	324,010	-
		336,730	10,251
NET CURRENT LIABILITIES		(89,083)	(9,758)
		<u>5,920,894</u>	<u>5,383,242</u>
Financed by:			
Issued capital	8	6,500,000	500,000
Accumulated loss		(579,106)	(434,248)
SHAREHOLDERS' EQUITY		<u>5,920,894</u>	<u>65,752</u>
LONG TERM LIABILITY			
Amount owing to directors	7	-	5,317,490
		<u>5,920,894</u>	<u>5,383,242</u>

The above balance sheet is to be read in conjunction with the accompanying notes to the financial statements.

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005 RM	2004 RM
Revenue		-	-
Staff costs		(16,800)	-
Other operating expenses		(128,058)	(101,370)
Loss before tax		<u>(144,858)</u>	<u>(101,370)</u>
Loss before tax is stated after charging:-			
Audit fee		<u>4,000</u>	<u>4,000</u>
Income tax expense	9	-	-
Net loss for the financial year		<u>(144,858)</u>	<u>(101,370)</u>

The above income statement is to be read in conjunction with the accompanying notes to the financial statements.

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2005

	<u>Issued capital</u> RM	<u>Accumulated loss</u> RM	<u>Total</u> RM
Balance as of 1st January 2004	12,800	(332,878)	(320,078)
Issuance of shares	487,200	-	487,200
Net loss for the financial year	-	(101,370)	(101,370)
Balance as of 31st December 2004	<u>500,000</u>	<u>(434,248)</u>	<u>65,752</u>
Issuance of shares	6,000,000	-	6,000,000
Net loss for the financial year	-	(144,858)	(144,858)
Balance as of 31st December 2005	<u><u>6,500,000</u></u>	<u><u>(579,106)</u></u>	<u><u>5,920,894</u></u>

The above statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

Company No:
423095-H

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2005

	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(144,858)	(101,370)
Changes in working capital:		
Increase in refundable deposits	(3,000)	-
Decrease in trade payables	-	(85,115)
Increase in other payables and accrued expenses	2,469	5,474
Increase in amount owing to director	6,520	5,534,641
Cash generated from/(used in) operations	<u>(138,869)</u>	<u>5,353,630</u>
Development expenditure incurred	(616,977)	(5,393,000)
Net Cash Used In Operating Activities	<u>(755,846)</u>	<u>(39,370)</u>
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds from issuance of shares	1,000,000	-
Net Cash From Financing Activity	<u>1,000,000</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	244,154	(39,370)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	493	39,863
CASH AND CASH EQUIVALENTS CARRIED FORWARD	<u>244,647</u>	<u>493</u>
 Cash and cash equivalents carried forward consists of:		
Bank balances	<u>244,647</u>	<u>493</u>

Note : During the financial year, the increase in the issued and paid-up share capital of the Company from RM500,000 to RM6,500,000 was by way of cash of RM1,000,000 and capitalisation of advances owing to director amounting to RM5,000,000.

The above cash flow statement is to be read in conjunction with the accompanying notes to the financial statements.

INTELLIGENT EDGE SOLUTIONS SDN. BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1) PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of telecommunication services and also engaged as consultants, designer and adviser relating to the development and implementation of computer system, trading in all kinds of computer hardware, software and all related electronic equipment, components and accessories.

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

2) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared under the historical cost convention.

The financial statements comply with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The operations of the Company are subject to a variety of financial risks, including market risk, liquidity risk and cash flow risk. The Company has in place a financial risk management framework whose principal objective is to minimise the Company's exposure to risks and/or costs associated with the financing, investing and operating policies of the Company.

Market risk

The Company has in place policies to manage its competitive risks from its competitors in providing better alternatives in terms of better services.

Liquidity risk

The Company practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient funds for the contingent funding requirement of the working capital.

Cash flow risk

The Company reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Fair values

The fair values of the financial assets and financial liabilities reported in the balance sheet as of 31st December 2005 approximate the carrying amounts of these assets and liabilities because of the immediate or short-term maturity of these financial instruments.

4) SIGNIFICANT ACCOUNTING POLICIES

a) Development Expenditure

Expenditure on development is charged to the income statement 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 activity. Such development costs are recognised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operations, which is on average five years.

b) Provisions

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

c) Employee Benefits

(i) Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contributions plans

As required by law, companies in Malaysia make contributions to the state pension scheme, Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

d) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Revenue from goods sold and services rendered is recognised when the goods are delivered and services are rendered. Revenue represents the invoiced value of goods sold and services rendered net of discounts and returns.

e) Income Tax

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

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f) Cash Flow Statement

The Company adopts the indirect method in the preparation of the cash flow statement.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

5) DEVELOPMENT EXPENDITURE

	2005 RM	2004 RM
Balance as of beginning of year	5,393,000	
Additions during the year	<u>616,977</u>	<u>5,393,000</u>
Balance as of end of year	<u><u>6,009,977</u></u>	<u><u>5,393,000</u></u>

6) OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses consist of :-

	2005 RM	2004 RM
Other payables	1,977	6,251
Accrued expenses	<u>10,743</u>	<u>4,000</u>
	<u><u>12,720</u></u>	<u><u>10,251</u></u>

7) AMOUNT OWING TO DIRECTORS

The amount owing to directors in 2005 arose mainly from interest-free advances given and expenses paid on behalf, is unsecured and bears no fixed terms of repayment. The amount owing to directors in 2004 arose mainly from unsecured, interest-free advances given. The advances given are not expected to be repaid within the next 12 months.

8) SHARE CAPITAL

	Number of shares of RM1 each		Amount	
	2005	2004	2005 RM	2004 RM
a) Authorised:				
At beginning of year	500,000	100,000	500,000	100,000
Created during the year	<u>9,500,000</u>	<u>400,000</u>	<u>9,500,000</u>	<u>400,000</u>
At end of year	<u><u>10,000,000</u></u>	<u><u>500,000</u></u>	<u><u>10,000,000</u></u>	<u><u>500,000</u></u>
b) Issued and fully paid:				
At beginning of year	500,000	12,800	500,000	12,800
Issued during the year	<u>6,000,000</u>	<u>487,200</u>	<u>6,000,000</u>	<u>487,200</u>
At end of year	<u><u>6,500,000</u></u>	<u><u>500,000</u></u>	<u><u>6,500,000</u></u>	<u><u>500,000</u></u>

As approved by the shareholders at the Extraordinary General Meeting held on 5th December 2005, the authorised share capital of the Company was increased from RM500,000 to RM10,000,000 by the creation of additional 4,500,000 new ordinary shares of RM1 each and 5,000,000 new preference shares of RM1 each. Pursuant to the authority given to the shareholders at the said Extraordinary General Meeting, the issued and paid-up share capital of the Company was increased from RM500,000 to RM6,500,000 by the allotment of 3,250,000 new ordinary shares of RM1 each and 2,750,000 new preference shares of RM1 each by way of cash of RM1,000,000 and capitalisation of advances amounting to RM5,000,000 for working capital purposes.

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Pursuant to the authority given to the directors by the shareholders at the Extraordinary General Meeting held on 5th March 2004, the authorised share capital of the Company in 2004 was increased from RM100,000 to RM500,000 by the creation of additional 400,000 new ordinary shares of RM1 each. Also, the issued and paid-up share capital of the Company in 2004 was increased from RM12,800 to RM280,000 by the allotment of 267,200 new ordinary shares of RM1 each at par through capitalisation of an amount of RM267,200 owing to the directors.

Pursuant to the authority given to the directors by the shareholders at the Annual General Meeting held on 30th June 2004, the issued and paid-up share capital of the Company in 2004 was further increased from RM280,000 to RM500,000 by an issue of 220,000 new ordinary shares of RM1 each at par through capitalisation of an amount of RM220,000 owing to a director to increase the working capital of the Company.

9) INCOME TAX EXPENSE

No provision for income tax has been made in 2005 and 2004 as the Company incurred operating losses.

As of 31st December 2005, the tax benefits which have not been recognised in the financial statements arising from unutilised tax losses and unabsorbed capital allowances amounted to approximately RM133,200 (2004: 84,900).

10) CONTINGENT LIABILITIES

As of 31st December 2005, the Company is contingently liable for the following:-

- i) A third party has filed a claim against the Company for a sum of RM593,343 for non payment of installation charges, access fee and leaseline rental charges. The directors are of the opinion that the Company has an arguable defence against the claim and the Company has not accrued or provided for this loss. The outcome of the case is not presently known;
- ii) There are two claims by two other parties for service fees totalling RM379,000 in respect of two service agreements entered into by the Company. No litigation action has yet been brought against the Company thus far. Management is disputing the claims and, accordingly, has not made any provision for possible losses that may arise from these claims in the financial statements; and
- iii) Another claim has been filed by one other party amounting to RM1,416,837 for the installation and supply of equipment. No litigation action has yet been brought against the Company thus far. Management is also disputing the claim and, accordingly, has not made any provision for possible losses that may arise from this claim in the financial statements.

The above claims arose pertaining to the implementation of a pilot project.

11) GENERAL INFORMATION

The financial statements of the Company have been authorised by the Board of Directors for issuance on 29th July 2006.

The total number of employees of the Company (including service directors) at year end were 3 (2004: 3).

ADDITIONAL INFORMATION**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Information Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy of the information given in this Information Circular and confirm that after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other material facts the omission of which would make any statement herein misleading.

The information pertaining to IESSB, Abang Madzhi and KDEB have been obtained from documents provided by and representations made by IESSB, Abang Madzhi and KDEB, as the case may be. The responsibility of the Board is therefore limited to the accurate reproduction of such relevant information in this Information Circular.

2. CONSENT

MIMB has given and has not subsequently withdrawn their written consent for the inclusion of their names and all references to them in the form and context in which they appear in this Information Circular.

No conflict of interest (as prescribed in Section 28(b) (ii), Appendix 10 B of the MMLR) exists, or is likely to exist in relation to MIMB's role as the adviser to Kannaltec pursuant to the Proposed Acquisitions.

3. MATERIAL LITIGATION, CLAIMS OR ARBITRATION**3.1 Kannaltec Group**

Save for the following, as at 7 March 2007, the Kannaltec Group is not engaged in any material litigation, claims and arbitration either as plaintiff or defendant, and the Directors of Kannaltec are not aware of any proceedings pending or threatened against Kannaltec and/or its subsidiaries or of any other facts likely to give rise to any proceedings which may materially or adversely affect the financial position or business of the Group:-

On 28 November 2006, ISL Services Sdn Bhd and Basis Bay Sdn Bhd (collectively referred to as "Plaintiffs") had filed a suit against Kannaltec, Kannaltec Solutions Sdn Bhd, a wholly owned subsidiary of Kannaltec, Chan Fook Yee and Goh Eng Choon (collectively referred to as "Defendants") at the Kuala Lumpur High Court (D6-22-1723-2006) for alleged copyright infringement. The claim includes prayers for declarations, injunctions, and unquantified damages. The Defendants have filed an application to expunge parts of the Statement of Claim and to strike out the suit respectively and the hearings for both are fixed for decision on 30 March 2007. On the same date, the Plaintiffs' application for a confidentiality order against both Kannal Solutions Sdn Bhd and Kannaltec is fixed for hearing on 16 May 2007. The Plaintiff's application for inter-parties injunction is fixed on 28 March 2007. The Board of Directors of Kannaltec has been advised by their solicitors that there are good grounds for Kannaltec to succeed in the application to strike out the suit.

3.2 IESSB

Save for the following, as at 7 March 2007, IESSB and its subsidiary company are not engaged in any material litigation, claims or arbitration either as plaintiff or defendant and the Directors of IESSB are not aware of any proceedings pending or threatened against IESSB and its subsidiary or of any facts likely to give rise to any proceedings which may materially affect the financial position or business of IESSB and its subsidiary:-

- (i) On 28 March 2005, TT Dot Com Sdn Bhd ("Plaintiff") had filed a suit against IESSB ("Defendant") at Kuala Lumpur High Court (S4-22-315-2005) for a sum of RM593,343.33 for

non payment of installation charges and rental fees for broadband services in respect of the Selangor Broadband Project. IESSB has filed its defence on 20 May 2005. The Plaintiff's application for summary judgement has been dismissed by the Court. The Plaintiff also filed the Notice to attend pre-trial case management whereby the next hearing of the said notice has been fixed by the Court on 30 January 2007. On 14 February 2007, both parties have agreed to settle amicably whereby the Defendant is to pay the Plaintiff a sum of RM206,000 as full and final settlement to this matter. On the said date, the consent judgement had been recorded.

- (ii) On 19 June 2006, Koperasi Belia Islam Malaysia Berhad ("Plaintiff") had filed a suit against IESSB ("Defendant") at Kuala Lumpur High Court (S2-22-579-2006) for a sum RM1,416,837 for alleged non-payment of the installation charges and rental fees for broadband services in respect of the Selangor Broadband Project. IESSB has filed a Defence on 6 September 2006 and the Plaintiff has filed its Reply to Defence on 12 October 2006. The Plaintiff is yet to proceed with the filing of their Summary Judgement application or their Notice to attend pre-trial case management. The Defendant has proposed amicable terms of settlement to which the Plaintiff offered a settlement sum of RM724,308 to be paid by an upfront payment of 50% and the balance thereof in ten (10) installments. The Defendant has yet to confirm its agreement to the sum.

4. MATERIAL CONTRACTS

4.1 Kannaltec Group

Save for the above-mentioned Abang SPA and KDEB SPA, the Kannaltec Group has not entered into any material contracts (other than contracts entered into in the ordinary course of business) during the past two (2) years preceding the date of this Information Circular.

4.2 IESSB

IESSB and its subsidiary company have not entered into any material contracts (other than contracts entered into in the ordinary course of business) during the past two (2) years preceding the date of this Information Circular.

5. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the Registered Office of Kannaltec at No. 149A, 149B, 151B Persiaran Raja Muda Musa 42000 Port Klang Selangor Darul Ehsan from Mondays to Fridays (except public holidays) during business hours for a period of two (2) weeks from the date of this Information Circular:-

- a) the Memorandum and Articles of Association of Kannaltec and IESSB;
- b) the audited financial statements of the Kannaltec Group for the financial period 14 February 2004 to 31 March 2005, the FYE ended 31 March 2006 and the unaudited financial statements of the Kannaltec Group for the nine (9) months period ended 31 December 2006;
- c) the audited financial statements of IESSB for the five (5) financial years ended 31 December 2005 and the unaudited management accounts of IESSB for seven (7) months period ended 31 July 2006;
- d) the duly signed Abang SPA and KDEB SPA;
- e) letter of consent referred to in paragraph 2 above; and
- f) the relevant cause papers in respect of material litigation referred to in paragraph 3 above for the Kannaltec Group.

KANNALTEC BERHAD (635696-V)

If undelivered, please return to the registrar:

Mega-Wan Share Registration Sdn. Bhd. (409016-P)

149A, 149B, 151B

Persiaran Raja Muda Musa

42000 Port Klang ,

Selangor Darul Ehsan

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