

# 2006

annual report



# OUR VISION

Be the partner of choice for organisations seeking to realise their employee potential through technology.

# OUR MISSION

To enable organisations to help people learn and perform beyond expectations through creative learning approaches, high powered delivery and innovative use of technology.

# OUR VALUES

- Customer Delight
- Ownership
- Respect for Individuals
- Innovation
- Life Long Learning





# CONTENTS

2	Notice of Annual General Meeting
5	Statement Accompanying Notice of Annual General Meeting
6	Corporate Information
7	Group Structure
8	Corporate Achievements
9	Directors' Profile
14	Chairman's Message
21	Statement of Corporate Governance
28	Other Compliance Information
30	Audit Committee Report
33	Statement on Internal Control
35	Directors' Report
	<b>Financial Statements</b>
39	Balance Sheets
40	Income Statements
41	Statements of Changes in Equity
42	Cash Flow Statements
44	Notes to the Financial Statements
66	Statement by Directors
66	Statutory Declaration
67	Report of the Auditors
68	Analysis of Shareholdings
69	List of Properties
	Enclosed Proxy Form

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Third Annual General Meeting of SMR Technologies Berhad ("the Company") will be held at Sime Darby Convention Centre, Ground Floor, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 18 June 2007 at 10.00 a.m. to transact the following business:-

## AGENDA

### AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2006 and the Reports of Directors' and Auditors' thereon. **RESOLUTION 1**
2. To approve the payment of Directors' Fees amounting to RM385,600 for the financial year ended 31 December 2006. **RESOLUTION 2**
3. To re-elect the following Directors who shall retire pursuant to Article 90 of the Company's Articles of Association:-
  - (i) Ajay Kumar Arya **RESOLUTION 3**
  - (ii) Nadarajah A/L Manickam **RESOLUTION 4**
4. To re-elect Choong Khuat Hock who was appointed during the year and who shall retire pursuant to Article 97 of the Company's Articles of Association. **RESOLUTION 5**
5. To re-appoint Messrs. Monteiro & Heng as Auditors of the Company for the ensuing year and to authorize the Directors to fix their remuneration. **RESOLUTION 6**

### AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:-

6. **AUTHORITY FOR ALLOTMENT OF SHARES** **RESOLUTION 7**

"**THAT**, subject always to the Companies Act, 1965 and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price, upon such terms and conditions, for such purposes and to such person and persons whomsoever as the Directors may deem fit provided that the aggregate number of shares issued in any one financial year of the Company pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be also empowered to obtain the approval for the listing and the quotation of the additional shares so issued on Bursa Malaysia Securities Berhad ("BMSB") and that such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company."
7. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE** **RESOLUTION 8**

"**THAT**, the Company and its subsidiaries shall be mandated to enter into the category of recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations as set out in Part A, Section 2.2 (l) of the Circular to shareholders dated 25 May 2007 subject to the following:-

  - (a) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders; and



## NOTICE OF ANNUAL GENERAL MEETING (cont'd)

- (b) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year including amongst others, the following information:-
- (i) the type of recurrent related party transaction and;
  - (ii) the names of the related parties involved in each recurrent party transaction entered into and their relationship with the Company;

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

- (a) the conclusion of the next AGM of the Company; or
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(l) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by ordinary resolution passed by the shareholders at a General Meeting

whichever is the earlier,

**AND FURTHER THAT** the Directors of the Company be authorized to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or give effect to the transactions contemplated and/or authorized by this ordinary resolution."

8. **PROPOSED NEW MANDATE FOR ADDITIONAL RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE** **RESOLUTION 9**

**"THAT**, the Company and its subsidiaries shall be mandated to enter into the category of additional recurrent related party transactions of a revenue or trading nature which are necessary for the day-to-day operations as set out in Part A, Section 2.2 (II) of the Circular to shareholders dated 25 May 2007 subject to the following:-

- (a) the transactions are in the ordinary course of business and are on normal commercial terms which are not more favourable to the related parties than those generally available to the public and not to the detriment of the minority shareholders; and
- (b) disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year including amongst others, the following information:-
  - (i) the type of recurrent related party transaction and;
  - (ii) the names of the related parties involved in each recurrent party transaction entered into and their relationship with the Company;

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

- (a) the conclusion of the next AGM of the Company; or

# NOTICE OF ANNUAL GENERAL MEETING (cont'd)

- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 143(l) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or
- (c) revoked or varied by ordinary resolution passed by the shareholders at a General Meeting;

whichever is the earlier,

**AND FURTHER THAT** the Directors of the Company be authorized to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or give effect to the transactions contemplated and/or authorized by this ordinary resolution."

## 9. SPECIAL RESOLUTION

### PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

RESOLUTION 10

"**THAT**, pursuant to the issuance by BMSB of the revamped Listing Requirements of BMSB for MESDAQ Market dated 8 May 2006, amendments be made to the Articles of Association of the Company as set out in the Annexure of Part B of the Circular to Shareholders dated 25 May 2007."

- 10. To transact any other business of which due notice has been given in accordance with the Articles of Association of the Company and the Companies Act, 1965.

By Order of the Board,

**CHIN KIM FUNG** (LS:00234)  
Secretary

Kuala Lumpur  
26 May 2007

#### Notes:-

- 1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- 2. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
- 3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing, or if the appointor is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorized.
- 4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Registered Office of the Company at 149A, Jalan Aminuddin Baki, Taman Tun Dr. Ismail, 60000 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjourned meeting, as the case may be.
- 5. **Explanatory note on Special Business:-**
  - a) The ordinary resolution 7 proposed under item No. 6, if passed, will authorize the Directors of the Company to issue shares up to a maximum ten per cent (10%) of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company. This authority unless revoked or varied by the Company at a general meeting will expire at the next Annual General Meeting.
  - b) For ordinary resolutions 8 and 9, further information on the Recurrent Related Party Transactions are set out in the Circular to Shareholders of the Company dated 25 May 2007 which is dispatched together with the Company's 2006 Annual Report.
  - c) For special resolution 10, if passed, will enable the Company to update the Articles to be in line with the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market. For further information, please refer to the Circular to Shareholders of the Company dated 25 May 2007.

# STATEMENT ACCOMPANYING NOTICE OF AGM

## 1. The Directors standing for re-election at the 3<sup>rd</sup> AGM

The Directors retiring by rotation and standing for re-election pursuant to Article 90 of the Company's Articles of Association are:-

- (a) Ajay Kumar Arya
- (b) Nadarajah A/L Manickam

The Directors retiring and standing for re-election pursuant to Article 97 of the Company's Articles of Association is:-

- (a) Choong Khuat Hock

The profiles of the above 3 directors and the record of their attendances at Board Meetings in the financial year ended 31 December 2006 are set out in the "Directors' Profile" section on pages 9 to 13. Their securities holdings in the Company are disclosed in the "Statement of Directors' Interests" section on page 68

## 2. Place, date and time of the 3<sup>rd</sup> AGM

Place : Sime Darby Convention Centre  
Ground Floor  
1A, Jalan Bukit Kiara 1  
60000 Kuala Lumpur

Date : Monday, 18 June 2007

Time : 10.00 a.m.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Dr. Palaniappan a/l Ramanathan Chettiar ("Dr. Palan")  
Chairman & Chief Executive Officer

Kamatchi @ Valliammai a/p Malayandi ("Madam Kamatchi")  
Executive Director

Dr. Nadarajah a/l Manickam ("Dr. Nat")  
Executive Director

Ajay Kumar Arya  
Executive Director

Haji Ishak Bin Hashim  
Independent Non-Executive Director

Leow Nan Chye  
Independent Non-Executive Director

Choong Khuat Hock  
Independent Non-Executive Director  
(appointed on 1 December 2006)

## AUDIT COMMITTEE

Chairman Leow Nan Chye

Members Haji Ishak Bin Hashim

Kamatchi @ Valliammai a/p Malayandi

## AUDITORS

(for SMR Technologies Berhad and  
SMR HR Services Sdn Bhd)  
Messrs Monteiro & Heng (AF: 0117)  
Chartered Accountants  
22-1, Monteiro & Heng Chambers  
Jalan Tun Sambanthan 3  
50470 Kuala Lumpur  
Tel No. : 03 - 2274 8988  
Fax No. : 03 - 2260 1708

(for SMR HR Technologies Sdn Bhd)  
Messrs Leou & Associates (AF 0659)  
Chartered Accountants  
107B, Jalan Aminuddin Baki  
Taman Tun Dr. Ismail  
60000 Kuala Lumpur  
Tel No. : 03 - 77275573  
Fax No. : 03 - 77270771

## COMPANY SECRETARY

Chin Kim Fung (LS : 00234)  
Inforsarch Management Services  
149A Jalan Aminuddin Baki  
Taman Tun Dr Ismail  
60000 Kuala Lumpur  
Tel No. : 03 - 7729 1519  
Fax No. : 03 - 7728 5948

## REGISTERED OFFICE

149A Jalan Aminuddin Baki  
Taman Tun Dr Ismail  
60000 Kuala Lumpur  
Tel No. : 03 - 7729 1519  
Fax No. : 03 - 7728 5948

## MANAGEMENT / CORPORATE OFFICE

Suite 2A-23-1, Block 2A, Level 23  
Plaza Sentral, Jalan Stesen Sentral 5  
50470 Kuala Lumpur  
Tel No. : 03 - 2279 9199  
Fax No. : 03 - 2279 9099  
Website : www.smrhub.com

## RESEARCH AND DEVELOPMENT CENTRE

Suite 2A-23-1, Block 2A, Level 23  
Plaza Sentral, Jalan Stesen Sentral 5  
50470 Kuala Lumpur  
Tel No. : 03 - 2279 9199  
Fax No. : 03 - 2279 9099

## PRINCIPAL BANKERS

Malayan Banking Berhad  
CIMB Bank Berhad

## ADVOCATE & SOLICITOR

Kadir Andri & Partners  
8th Floor, Menara Safuan  
80, Jalan Ampang  
50450 Kuala Lumpur  
Tel No. : 03-2078 2888  
Fax No. : 03-2078 8346

## SHARE REGISTRAR

Insurban Corporate Services Sdn Bhd  
149 Jalan Aminuddin Baki  
Taman Tun Dr Ismail  
60000 Kuala Lumpur  
Tel No. : 03-7729 5529  
Fax No. : 03-7728 5948

## SPONSOR

Affin Investment Bank Berhad  
(formerly known as Affin Merchant Bank Berhad)  
27th Floor, Menara Boustead  
69, Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel No. : 03-2142 3700  
Fax No. : 03-2141 7701

## STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Malaysia Securities Berhad  
Stock Name : SMRTECH  
Stock Code : 0117



# GROUP STRUCTURE

SMR Technologies Berhad ("SMR Tech")'s subsidiary companies as at 26 May 2007:-

Subsidiary company	Date/ place of incorporation	Issued and paid-up share capital in RM (unless otherwise stated)	Equity interest %	Principal activities
<b>SMR HR TECHNOLOGIES SDN BHD</b> (*SMRHRT*) (537793-T) (awarded MSC status by MDC on 29 January 2001)	26 January 2001/ Malaysia	100,000	100	Development and marketing of human resources ("HR") related software.
<b>SMR HR SERVICES SDN BHD</b> (*SMRHRS*) (751839-P)	1 November 2006/ Malaysia	100,000	100	HR consultancy and outsourcing services.
<b>SMR USA INC</b> (*SMRUSA*) (65372525)	14 Feb 2007/ USA	US\$1,000	100	Technical and HR consulting services.

## Business

The objective of the SMR Tech Group is to provide a one-stop technology centre for human capital development in the digital age through two (2) key initiatives which are as follows:-

- (i) To develop human capital competency development and performance management software and a web-based on-line learning management system. The subsidiary company, SMRHRT has successfully developed and marketed worldwide a unique human capital management and development system HRDPower™ to meet the needs of organisational human resource development. Over the years the product has acquired a wide and diverse customer base in Malaysia and overseas markets.
- (ii) To provide related services such as implementation consultancy, web services and HR outsourcing.

# CORPORATE ACHIEVEMENTS



Date	Milestones
16 January 2005	SMR Tech awarded the ASIA Pacific Keris Honesty Award 2004 to recognise its achievement as one of the top SMEs (small and medium sized enterprises) in Malaysia.
2 September 2005	SMR Tech awarded the second position in the Enterprise 50 list by the MITI and Deloitte Kassim Chan.
23 September 2005	SMR Tech awarded the Golden Bull Award by Nanyang Siang Pau to recognise its achievement as an 'Emerging Company' in Malaysia.
8 December 2005	SMR HRT announced as one of the winners of the Deloitte Technology Fast 500 Asia Pacific 2005 Program, which acknowledges and honours fast-growing technology companies across Asia Pacific. SMRHRT was awarded the seventeenth (17 <sup>th</sup> ) position at the Grand Hyatt Hotel in Hong Kong on 8 December 2005.
11 September 2006	SMR HRT announced as one of the Top 3 Finalists for Most Promising HR Award by Malaysian Institute of Human Resources Management (MIHRM).
19 March 2007	SMR HRT was announced as Merit Award winner for MITI Brand Excellence Award.

# DIRECTORS' PROFILE

## DR. PALANIAPPAN A/L RAMANATHAN CHETTIAR,

B.Sc., MA, Ph.D., A.P.T, a Malaysian, aged 51, was appointed to the Board of Directors of SMR Tech as the Managing Director on 13 August 2004. He was redesignated as Chairman and Chief



## DR. PALANIAPPAN A/L RAMANATHAN CHETTIAR

Chairman & Chief Executive Officer

Executive Officer ("CEO") on 12 February 2007. Dr. Palan, as he is internationally known, has extensive experience in various industries in the field of marketing, HR & Information Technology and is the founder of SMRHRT.

A technopreneur, Dr. Palan comes from a successful business family. He is internationally recognised for his speaking and training engagements, HRD consulting expertise and advisory services. Organisations in over 32 countries in Asia, Australia and the US have engaged his services.

Dr. Palan has worked in a variety of positions in various Industries. In a consulting capacity, he has held HRD positions and as Project Manager with large corporations providing and/or managing HRD, Competency and Performance Management projects. He has been engaged by organisations such as Motorola R & D division, Singapore Airlines, Avago Technologies, Bahrain Institute of Banking & Finance, PETRONAS, National Drilling Company, Bahrain Labour Fund and Agilent. Primarily all of Dr. Palan's work experience during the last twenty-eight (28) years has been in the area of Human Resource Development technology.

Dr. Palan has shared his experiences in international forums to position HRDPower™ and the work of SMR Tech. They include sharing of the Competency framework, the proprietary PAGE framework and Performance Management practices in Asian cultures. He has been a Conference speaker in several



1 DR. PALANIAPPAN A/L RAMANATHAN CHETTIAR  
Chairman & Chief Executive Officer

2 KAMATCHI @ VALLIAMMAI A/P MALAYANDI  
Executive Director

3 DR. NADARAJAH A/L MANICKAM  
Executive Director

4 AJAY KUMAR ARYA  
Executive Director

5 HAJI ISHAK BIN HASHIM  
Independent Non-Executive Director

6 LEOW NAN CHYE  
Independent Non-Executive Director

7 CHOONG KHUAT HOCK  
Independent Non-Executive Director



## DIRECTORS' PROFILE (cont'd)

world and regional industry conferences that have been organised all over the world.

Dr. Palan obtained his education in Madras University, India (B.Sc., MA) and California Coast University, United States of America (Ph.D.). His other research and studies in the United States of America include: being qualified to gain membership with Association of Psychological Type, USA; Executive development programmes in the Harvard Business School, University of California at Los Angeles and National Training Laboratories. He is a lifelong learner who has continuously kept himself up-to-date by attending IT and software project management courses.

He attended the Masie Labs in Albany, New York to learn about the use of technology in learning from Elliot Masie who is the founder of the eLearning consortium and frequently sits on congressional committees on learning technology. He has also been mentored by the world's leading Internet guru Tom Antion. Dr Palan was awarded a Fellowship with the Institute of Training & Development, United Kingdom as early as 1985.

He pioneered the development of HRDPower™ software system, the flagship product of the Group. Dr Palan has also written twelve books, developed HRD games and videos. His books on competency management and performance management are best sellers in the Asian circuit. Some of Dr. Palan's books include are:-

- Competency Management: a practitioner's guide
- Performance Management & measurement: the Asian context
- FAQ's in HRD
- The Magic of Making Training FUN
- Creating Your Own Rainbow

To-date Dr Palan does not hold any position in any BOD committee or directorship in any other public listed company.

Dr Palan is the spouse of Madam Kamatchi @Valliammai A/P Malayandi who is the Executive Director of SMR Tech. Dr Palan has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.



**KAMATCHI @ VALLIAMMAI A/P MALAYANDI**, a Malaysian, aged 39, was appointed to the Board of SMR Tech as an Executive Director on 14 July 2004 and Special Flagship Holdings Sdn Bhd on 13 August 2004.

She pursued her NCC Diploma in Computers at the Systematic Computer Centre, Malaysia in 1987 and also completed her Certificate in Training & Development from the Institute of Training & Development, UK in 1992 and Diploma in Management from the Institute of Administrative Management, UK in 2003.

She started her career as a teacher with the Ministry of Education, Government of Malaysia in 1986 before joining Romiza Management Centre as a Trainer in end of 1987. She subsequently joined SMR in 1989.

At SMR, she has been involved in a variety of roles in consulting on Training Needs Analysis projects and in managing the implementation of such projects. She has also been closely involved in the day to day management of the Company. She has kept herself updated by attending regular management courses and has travelled to the USA and Australia to attend executive development courses. She also serves as a member of the Audit Committee and Remuneration Committee of SMR Tech.

To-date Mdm Kamatchi does not hold any position in any BOD committee or directorship in any other public listed company. Madam Kamatchi is the spouse of Dr. Palan who is the Chairman and CEO of SMR Tech. Madam Kamatchi has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.



**KAMATCHI @ VALLIAMMAI  
A/P MALAYANDI**  
Executive Director

**DR. NADARAJAH A/L MANICKAM**, a Malaysian, aged 53 is the Executive Director and R & D Director of the SMR Tech Group. He was appointed to the Board of SMR Tech on 17 December 2004. Dr. Nadarajah has a B.Sc. from the Madras University, India and a MA and Ph.D. from the Jawaharlal Nehru University (JNU), New Delhi, India. He has also attended a communication training programme at the Communication Foundation of Asia, Manila in 1983. He has been an awardee of research fellowships from the University Grants Commission, India and the Nippon Foundation, Japan. Dr. Nadarajah has travelled extensively around the world. Among his key interest areas is the social impact and use of new technologies for human resources development.



**DR. NADARAJAH A/L  
MANICKAM**  
Executive Director

Dr. Nat, as he is fondly known in the industry, has over 30 years experience in the field of communications and learning and has worked with the television, film and advertising industry and contributed to web and e-learning initiatives. He was a pioneer in the initial set up of Asianet, a satellite pay television station based in Trivandrum, India that was incorporated in 1991 and that has now become a global venture.

Dr. Nat has worked on the design and development of e-learning and communication services/products for Asianet (India), Cahayasuara Communications Centre (Malaysia), Asian Communication Network (Thailand), Public Media Agency (Malaysia) and Signis (Belgium). He has also helped form a number of web communities/discussion groups including one for UNEP (Paris). He contributed to the design and development of HRDWebvarsity, SMR Tech Group's online e-learning institution and has produced multimedia programmes for it. He has worked for the last ten (10) years promoting web-related learning and communication.

An avid believer in the new information and communication technologies (ICT) and variety of software applications, Dr. Nat is certainly a promoter of the IT industry. He focuses on software concept development with emphasis on functions, community-building web technologies, organisational intranet and portal development for enabling



## DIRECTORS' PROFILE (cont'd)

business and community processes and all areas of communication. He is very much involved in technology projects planning and implementation and pays attention to the social impact and use of new technologies particularly in the HRD area.

His interest in research and study of the development of HR technology for HRD purposes is the basis of his leadership of the R&D team for the Group.

To-date Dr Nat does not hold any position in any BOD committee or directorship in any other public listed company. He has no family relationship with any other directors or major shareholders of SMR Tech, has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.

**AJAY KUMAR ARYA**  
Executive Director



**AJAY KUMAR ARYA**, an American citizen, aged 51, was appointed to the Board of SMR Tech on 17 December 2004. He is presently the Director of Technology with SMRHRT. He graduated with a Masters Degree in Management Information systems, School of Business, Southern Illinois University at Edwardsville in 1989 and has a Post Graduate Diploma in International Trade, Indian Institute of Foreign Trade, New Delhi, India in 1980 (Merit prize for best market research project) together with a Bachelor of Science in Engineering (Electronics Engineering - Computer systems), from Delhi University, New Delhi, India in 1978 (Gold Medal for performance and best project).

Ajay, an Oracle Certified DBA, has more than twenty (20) years of professional experience, twelve (12) years in MIS/DP industry as data architect, systems architect, database administrator, and project leader, systems analyst and programmer. Skills include ERP systems architecture and database design and administration, systems analysis, consulting, training, turnkey, systems development. He is currently heading the technology think tank of the Group.

Before joining the Company, Ajay has worked extensively with multinationals like Motorola, McDonalds Corporation, HSBC as Consultant, 3Com/UTStar Com. Ajay has architected multiple systems and integrated process and information flow across global organizations and helped bring about operating efficiency thereby improving the ROI and the bottom line.

To-date Mr Ajay does not hold any position in any BOD committee or directorship in any other public listed company. Mr.Ajay has no family relationship with any other directors or major shareholders of SMR Tech, has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.

**HAJI ISHAK BIN HASHIM**  
Independent  
Non-Executive Director



**HAJI ISHAK BIN HASHIM**, a Malaysian, aged 64 is an Independent Non-Executive Director of SMR Tech. He was appointed to the Board of SMR Tech on 5 October 2005. He graduated with a Masters Degree in Education from Stanford University, USA in 1972 and has a Bachelor of Arts (Hons) degree from University Malaya in 1967. He started his career serving in the Ministry of Education before embarking into the private sector holding various senior HRD Managerial and Director positions in several public listed companies such as Malaysian Tobacco Company Ltd, Malayan Banking Berhad,

Tractors Malaysia Berhad, Boustead Holdings Berhad, Iris Berhad and Affin Bank Berhad.

Haji Ishak, who has also served as a councillor for the Shah Alam Town Council (1983-1987), Chairman of Koperasi Tunas Muda (KTM) Penang (1999-2001) and Chairman of TAP Resources Berhad (2000-2001) is the

present Chairman of Court of Fellows Malaysian Institute of Human Resources Malaysia (MIHRM) where he was also the President from 1985 to 1987.

With his valuable experience and exposure to high level management processes, Haji Ishak, who is currently a consultant in Human Capital and Organizational Development, would be able to groom and support the other Directors and Management of the Company. He also serves as a Chairman of the Nomination Committee, Remuneration Committee and as a member of the Audit Committee of SMR Tech.

To-date Encik Haji Ishak does not hold any position in any BOD committee or directorship in any other public listed company. Haji Ishak has no family relationship with any other directors or major shareholders of SMR Tech, has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.

**LEOW NAN CHYE**, a Malaysian, aged 48, is an Independent Non-Executive Director of SMR Tech. He was appointed to the Board of SMR Tech on 5 October 2005. He is the Head of the Audit Committee of SMR Tech. Mr. Leow is an accountant by profession. He graduated from Tunku Abdul Rahman College and obtained the professional qualification from the Chartered Institute of Management Accountants, United Kingdom. He is a member of the Malaysian Institute of Accountants (MIA). He has over twenty (20) years experience in various companies involved in property development, resorts and golf, manufacturing and investment holding. He was previously attached to Malaysian General Investment Corporation Bhd, KAB Group, Tanming Group, Negara Properties Sdn Bhd and Formosa Prosonic Industries Sdn Bhd. He also serves as a Chairman of the Audit Committee and as a member of the Nomination Committee and Remuneration Committee of SMR Tech.



**LEOW NAN CHYE**  
Independent  
Non-Executive Director

To-date Mr Leow does not hold any position in any BOD committee or directorship in any other public listed company. Mr Leow has no family relationship with any other directors or major shareholders of SMR Tech, has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.

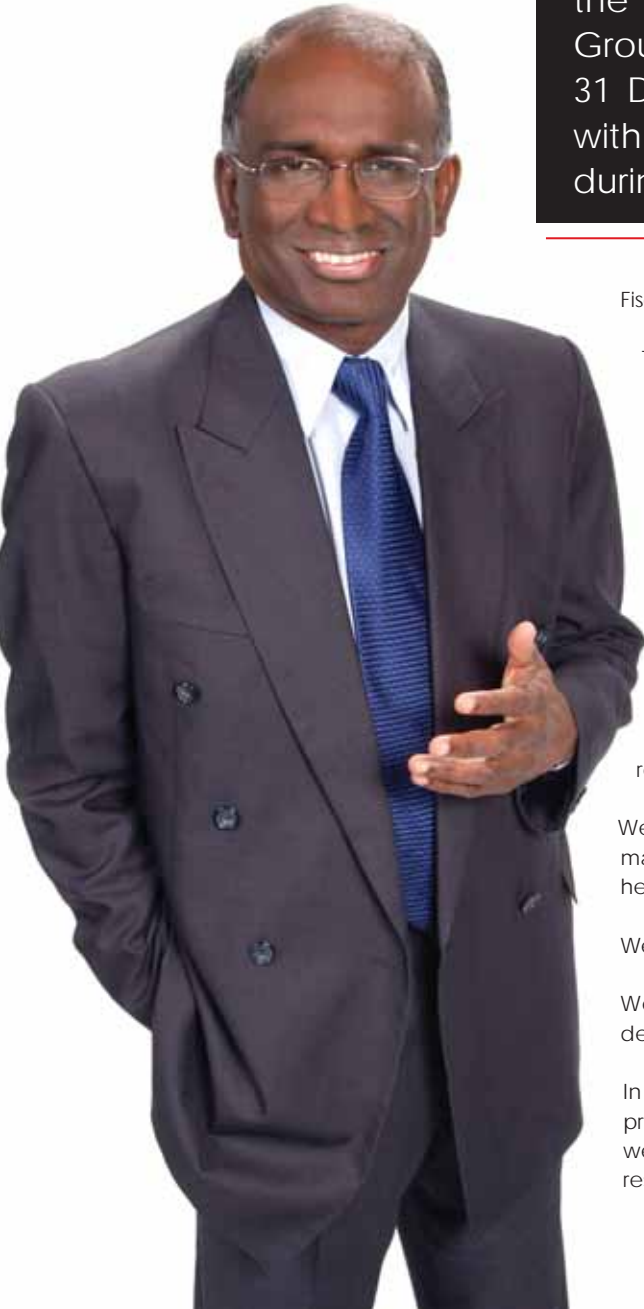
**CHOONG KHUAT HOCK**, a Malaysian, aged 46, is an Independent Non-Executive Director of SMR Tech. He was appointed to the Board on 1 December 2006. He holds a Masters in Management Science from Imperial College, a Chartered Accountancy from the Institute of Chartered Accountants England and Wales, a Bachelor of Science in Civil Engineering from the University College London, a Diploma from Stock Exchange of London as well as a Diploma in Computing. Mr Choong has a total of 16 years' experience in investment banking and business management field and have worked in London, Hong Kong, Singapore, China and Malaysia. Mr Choong started off his career as a Chartered Accountant with Coopers & Lybrand in London before joining Barclays overseeing research and building corporate contacts for their London, Hong Kong, Singapore and Malaysia offices. He then joined TA Securities Sdn Bhd from 1995 to 1997 as the Head of Research. He was Director of Caspian Research(M) Sdn Bhd for a year after which he he joined Dresdner Klienwort Wasserstein Securities in Singapore as Head of Equities from 1998 to 2001. Currently he is the Director of Research with KSC Capital Berhad.



**CHOONG KHUAT HOCK**  
Independent  
Non-Executive Director

To-date Mr Choong does not hold any position in any BOD committee or directorship in any other public listed company. Mr Choong has no family relationship with any other directors or major shareholders of SMR Tech, has no conflict of interest with SMR Tech and no convictions for offences within the past 10 years.

# CHAIRMAN'S MESSAGE



**Dear esteemed shareholders,**

On behalf of the Board of Directors, I am pleased to present the Annual Report and the Audited Financial Statements of the Group and the Company for the year ended 31 December 2006. I am delighted to share with you some of the exciting developments during the year.

Fiscal 2006 was a year of considerable achievements for the Group.

This was the year we celebrated our listing on the MESDAQ Market of Bursa Malaysia Securities Berhad, reached new records for revenue, planned our shifting to our own new corporate offices in prestigious Plaza Sentral and continued to strengthen the organisation for the future by initiating key changes in the organisational structure. The acquisition of new talent and our persistent efforts to tap high potential overseas markets continued throughout the year. This was the year when the Company returned to shareholders a maiden dividend amounting to RM1.0 million, which constituted a high dividend payout of 17% of net profit.

Throughout the year, we maintained our focus on Research & Development, investing RM4.5 million to lay the foundation for the future. Our efforts to protect our intellectual property resulted in 11 registered copyrights.

We are thoroughly committed to helping our customers develop and manage human capital for business success. Our defining mission is to help organisations maximise the effectiveness of their human capital.

We continue to lay a strategic foundation for growth.

We continued to strengthen our commitment to HRDPower™ and develop the next wave of products.

In the years ahead, we expect our strong focus on R & D in new products to give significant returns. While we have been prudent in how we have deployed our capital, our approach to ensure our investments result in good returns has been focused on:-

- the focus on our flagship product HRDPower,
- services surrounding the implementation of HRDPower™,
- high value new markets,
- building people and
- links with the community

## Industry trends and development

### Investment In Human Capital

Governments around the world including Malaysia are placing a special emphasis on developing the human capital by initiating comprehensive improvements in the education system, encouraging Research & Development(R & D) and adopting new technologies.

With productivity driven growth strategies taking centre stage, the efficient and effective utilization of both labour and capital become critical for a nation's competitiveness.

This only intensifies the need for active and concentrated human capital development at all levels. The investments in human capital are expected to accelerate in the short term as well as long term.

### Education and training

A trained and competent workforce is far more productive and adaptable to changing technologies. With productivity driven strategies gaining importance, competency driven development is increasingly the way to go to cope with the rapid pace of change. The levels of investment in human capital development though expected to increase in quantum leaps has to be justified with appropriate metrics such as the return on investment on human capital development.

With HRDPower™, we are perfectly placed to take advantage of the huge opportunities arising out of such needs.

### Opportunities in Malaysia

With increasing competition in the global market, the Malaysia economy has a need to further strengthen its competitiveness. The country requires world-class human capital that is knowledgeable and highly skilled, flexible and creative as well as imbued with positive work ethics and spiritual values. The 9th Malaysia Plan period places a high priority on capacity building. Comprehensive improvements will be introduced to the education, training and lifelong learning delivery systems.



At an exhibition.



SMRHRT receiving the award for the top 3 finalists at the MIHRM awards from the Honorable Deputy Prime Minister of Malaysia, Datuk Seri Najib Tun Razak.



SMRHRT's Dr. Palan with the Honorable Minister of Research and Technology of Indonesia, Prof. Dr. Kusmayanto Kadiman and other VIPs.

## CHAIRMAN'S MESSAGE (cont'd)

The emphasis of lifelong learning, training and retraining using technology and innovation for the development and retention of Human Capital will be the main driver to support the catalyst of growth expected during the 9MP, which augurs well for the demand of products and services of the Group.

### Corporate Social Responsibility Statement

We believe that our long term success as an organisation lies also in the relationships we create with the communities in which we operate and our participation in efforts at community development.

In 2006, as part of our Corporate and Social Responsibility ("CSR") Programme, the Group embarked on several collaborations with institutions of higher learning like University Malaysia Sabah ("UMS")

- to facilitate the use of HRDPower™ in their teaching and bursaries for deserving students;
- to jointly develop leadership competencies for the public sector and also to promote the competency framework as a education subject other than sponsoring bursaries among these universities.

The SMR Community Outreach Program focuses on bridging the technology gap between the training and education communities, extending our support to the communities and nurturing the development of new technological solutions in Human Resource Development and Management.

In addition to the above, we are also moving towards building a long term CSR practice. For this we have formulated a CSR Strategy covering three tracks:-

- (i) charities – urgent humanitarian response to urgent needs
- (ii) community outreach – adopting villages or communities for a developmental need, in particular those needs based on HRD competencies and
- (iii) human capital development & education
  - creation of a bursary for needy tertiary-level students and the formation of a learn and perform institute. As part of our immediate response to CSR, we are now working towards developing a CSR event that will address the growing importance of strategic corporate

philanthropy with the express aim to build social capital that is useful to the Malaysian society at large.

### Corporate Development

1. During the financial year ended 31 December 2006, the Company was successfully listed on the MESDAQ Market of Bursa Malaysia Securities Berhad by undertaking the following exercises:-

PUBLIC ISSUE OF 30,000,000 NEW ORDINARY SHARES OF RM0.10 EACH IN SMR TECHNOLOGIES BERHAD ("SMR TECH") AT AN ISSUE PRICE OF RM0.33 PER ORDINARY SHARE COMPRISING:-

- 2,500,000 NEW ORDINARY SHARES OF RM0.10 EACH FOR APPLICATION BY THE ELIGIBLE DIRECTORS AND EMPLOYEES OF SMR TECH AND ITS SUBSIDIARY;
- 25,000,000 NEW ORDINARY SHARES OF RM0.10 BY WAY OF PRIVATE PLACEMENT TO THE IDENTIFIED INVESTORS; AND
- 2,500,000 NEW ORDINARY SHARES OF RM0.10 FOR APPLICATION BY PUBLIC

The entire enlarged issued and paid-up share capital of the Company of 100,000,000 shares was successfully listed on MESDAQ Market on 13 March 2006.

2. On 11 September 2006, SMR HR Technologies Sdn Bhd was recognised as one of the leading HR companies in the Most Promising HR Award by Malaysian Institute of Human Resource Management (MIHRM).
3. On 29 January 2007, SMR Group shifted to its own new Corporate and R & D centre at Plaza Sentral. The relocation of the R & D centre from Cyberjaya to Plaza Sentral will ensure more efficiency in the delivery system while sharing the same premise with the corporate and marketing office.
4. On 19 March 2007, SMR HR Technologies Sdn Bhd was accorded as one of the Merit winners at MITI's Brand Excellence Award.

In year 2006, as part of the Group's effort to expand and enhance its existing range of products and services, the Group has undertaken the following corporate transactions:-



1. On 6 November 2006, SMR HR Services Sdn Bhd was formed to maximise the opportunities in the market emerging as a result of organisations outsourcing the Human Resources function. The Company is expected to grow the sales and services from non technologies and non MSC related activities to this Company
2. On 14 February 2007, SMR USA Inc, a wholly owned subsidiary was formed in United States of America to cater and promote the Company's products and services in USA and Northern America.

Going forward, the Group continues to identify potential companies for possible acquisitions in related business areas to create synergistic value to the Group.

## RESEARCH AND DEVELOPMENT (R&D)

The Group continues to be actively involved in R&D activities and the commercialisation of its R&D works to widen the existing product range. While our focus now is on the HRDPower™ related products that emphasize specifically on Competency, Training and HRD, we are also developing two new product lines:-

- eLearning and knowledge management for teaching and research.
- ecommerce applications for the HRD community.

## Development of new products for 2007

No	Products to be Launched	Description of Product	Expected Launch Date/ Launch Date	Existing stage of completion	Principal Market-Countries
1	HRDWebvarsity	A complete web-based Learning Management system	1 <sup>st</sup> Quarter 2007	Available in the market	Worldwide web
2	Trainers VirtualCampus	An on-line university for trainers specializing on Training the Trainers	1 <sup>st</sup> Quarter 2007	Available in the market	Global
3	HRDPortal	An on-line community portal for HR professionals with easy access to information, resources, products and services required for HRD	3 <sup>rd</sup> Quarter 2007	This system should be ready for test marketing by the 2nd quarter of 2007	Global
4	Competency Power	Competency based HRD system with functional competency classification	1 <sup>st</sup> Quarter 2007	Available in the market	Global

These will open up new markets for the Group. The potential of eLearning and knowledge management has been well acknowledged in the world. Malaysian government has recognised the importance of these two initiatives to expedite knowledge acquisition and promote lifelong learning and is undertaking a serious and concerted effort in providing the right environment to assist those with expertise to carry out the above driven R&D or to develop knowledge, training or education – driven business.

The status of the Group's R&D projects in 2006 are as follows:-

## Project Status

Enhancement of existing SMR Tech Group's products

HRDPower.Net Version 2.0 is being developed to cater for Windows XP and Vista operating systems and new .NET 2.0 technologies.

The key developments are:-

1. A more comprehensive employee management infrastructure
2. Improvements to the analytical tools and reports
3. Enhancement to the security and data management features

## CHAIRMAN'S MESSAGE (cont'd)

No	Products to be Launched	Description of Product	Expected Launch Date/ Launch Date	Existing stage of completion	Principal Market-Countries
5	LearningPower.Net	An eLearning solution that can be used in corporate Intranets	4 <sup>th</sup> Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 4 <sup>th</sup> quarter of 2006.	Global
6	EMPower	A web-based knowledge management system that can capture tacit knowledge spread across employees of an organization. It will feature discussion on groups, best practice communities and document management applications to promote organization wide knowledge management and life long learning	4 <sup>th</sup> Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 2 <sup>nd</sup> quarter of 2007.	Global
7	EpayPower	An electronic on-line payment system to facilitate payment and bookings for transactions over the Internet of the HR community	3 <sup>rd</sup> Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 3 <sup>rd</sup> quarter of 2007.	Global
8	SuccessPower	A web-based knowledge management system that can reflect the succession planning and career path of the employees	4 <sup>th</sup> Quarter 2007	This system is presently in the planning stage and should be ready for internal testing by the 4 <sup>th</sup> quarter of 2007.	Global
9	PayrollPower	A dedicated payroll and remuneration system that caters other than normal payroll functions, will also be able to identify the additional benefits to be distributed to staff based on their competency apart from having a remote time and attendance as part of the HRDPower™ software system	4 <sup>th</sup> Quarter 2007	Due to market demands, this project has been accelerated from 2008. This system is presently in the planning stage and should be ready for internal testing by the 2 <sup>nd</sup> quarter of 2007.	Global

Apart from product development, the Company has also developed in-house tools to increase its efficiencies including assessment tools, patch enhancements and developments of all websites of the Group.

Installation and upgrading of web server, data management system, customer relation management systems, web-based management tools and accounting system to improve communications and efficiencies are also in progress.

Development cost & Intellectual Property Rights cost ( 2006)	4,545,286
Profit After Tax	5,748,042
As a % over PAT	79%

For the financial year ended 31 December 2006, the Group has invested RM4.5 million on R&D and intellectual property rights, which is 79% of the profit after tax for the year.

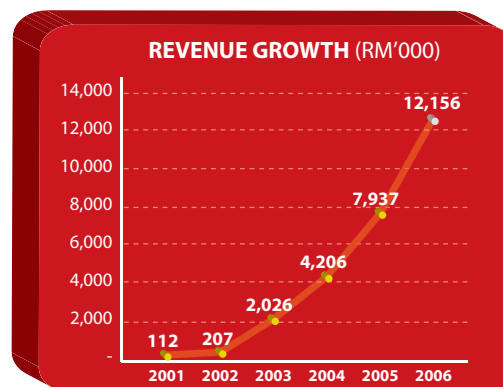
The Board of Directors of SMR Tech Group are of the view that the allocation for R&D is in the normal course of business which will not have any major financial impact on the Group as it has to keep abreast with technology and market demands.

Upon completion, the Group's R&D activities are expected to result in the enhancements of the Group's products and expansions in the Group's products offered to new and existing customers and thus are expected to contribute positively to the Group's future earnings.

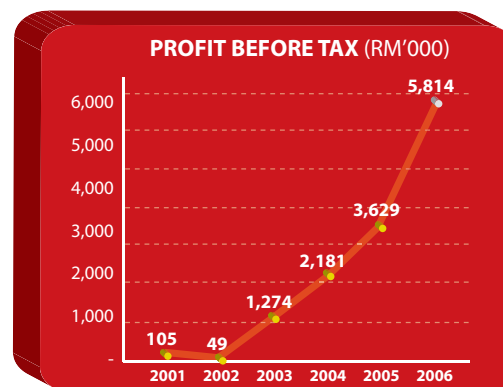
## FINANCIAL PERFORMANCE

Amidst this backdrop of economic challenges in the local and regional markets, the Group delivered an excellent set of results, breaking its financial track record in FY2006 with revenues increasing 53.1% to RM12.1 million from RM7.9 million in the previous year.

The strong revenue growth was mainly attributed to high demand of our products and services in the Middle East and USA which effectively contributed RM4.0 million and RM1.6 million respectively, or 33.4% and 13.0% to the group revenue in the year under review, while 34.8% came from our local operations and the rest from Australia and other ASEAN countries.



For the year under review, group profit before tax ("PBT") improved 60.2% to RM5.8 million, versus RM3.6 million in FY2005, due to the higher margin of more value added products and services.



Shareholders' equity stood at RM27.0 million at the end of FY2006, compared to RM14.4 million the previous year, in tandem with the enlarged share capital due to the issuance of new shares. The Group maintained decent returns on average equity of 21% in the year under review, versus 25% in FY2005.

## REVIEW OF OPERATION

The Group's product developments and marketing campaigns in Malaysia, Indonesia, Brunei, Singapore, Vietnam, USA and Middle East are expected to provide middle to long-term contribution to the Group's financial results.

The Company is undergoing test and evaluation to achieve another milestone in becoming a Capability Maturity Model Integration ("CMMi") Level 3 company during year 2007. The CMMi Framework is internationally

## CHAIRMAN'S MESSAGE (cont'd)

recognized as one of the most rigorous models for ensuring best practices in addressing the development and maintenance of products and services. CMMi is compatible with the ISO/IEC 15504 Technical Report for Software Process Assessment [ISO 98].

Being appraised as a CMMi Level 3 company, the Company is now part of an elite group of organisations worldwide that have proven and sustainable process management for their products and services. This commitment reaffirms the Group as a solutions provider of quality.

The Group expects its efforts above to brighten its middle to long-term overseas prospects and allow the Group to further expand its revenue stream from domestic to overseas markets. Barring any unforeseen circumstances, the Group expects to continue to operate profitably in the ensuing year.

### MAIDEN DIVIDEND

In view of the Group's sterling financial performance in the year under review, the Board declared a maiden TAX FREE interim dividend of 1 sen per share on 8 December 2006 which was paid on 5 February 2007. This dividend amounts to RM1.0 million, constituting a high dividend payout of 17% of net profit.

Your Board of Directors does not recommend any further payment of dividend for the year ended 31 December 2006.

### FUTURE PROSPECTS

Barring any unforeseen circumstances, the Board of Directors is positive of the Group's growth for 2007.

The current trend of strong sales growth achieved in ASEAN and the Middle Eastern countries supports our strong potential in the demand for our products and services in these regions. With the IPO proceeds and our strategic partnership abroad, we are able to compete more effectively and deliver more efficiently our products and services globally. Aggressive plans are underway to engage more marketing partners overseas and to set up overseas representative offices via Matrade grants.

The implementation of the 9<sup>th</sup> Malaysia Plan which undertake comprehensive improvement in the education, training and lifelong learning system in

order to drive the transformation to a knowledge-based economy and which places greater emphasis on strengthening the science & technology capability should spur demand for Human Capital development and training solutions and thus should augurs well for the Group.

We will continue to focus our efforts on organic expansion, by growing with our existing customers and entering other market segments to meet customers' demands. The Group is also exploring vertical expansion opportunities into synergistic businesses to further enhance the comprehensiveness of our product offering.

We at SMR Tech Group are committed to our mission of being the partner of choice and trusted adviser to our customers in the HRD sector, and with these strategies in place, we are confident of achieving greater growth in the coming years.

### APPRECIATION AND ACKNOWLEDGEMENT

The huge opportunities that are available in the market for the Group inspires us. It is your support that enables us to continue to pursue these opportunities. We are extremely passionate by the positive development we can bring about for people with our products.

On behalf of the Board of Directors, we would like to express gratitude and appreciation to the management and staff for their commitment and contribution towards the success of the Group. We also would like to take this opportunity to thank our valuable customers, suppliers, bankers and shareholders for supporting us.

I would like to welcome our new member to the Board, Mr. Choong Khuat Hock, Independent Non-Executive Director who was appointed on 1 December 2006, who brings with him invaluable expertise in serving high profile customers in the high growth areas and industries and is very experienced in the financial and capital market.

Finally, I personally want to thank my fellow Directors and the staff for their excellent commitment and hard work throughout the year.

Thank you.

**R. Palan Ph.D., A.P.T.**  
Group Chairman and CEO

# STATEMENT OF CORPORATE GOVERNANCE

## INTRODUCTION

The Board of Directors ("Board") recognizes and subscribes to the importance of the principles and best practices set out in the Malaysian Code of Corporate Governance ("the Code") as a key factor towards achieving an optimal governance framework and maximizing shareholders' value of the Company, whilst taking into account the interests of other stakeholders.

As part of Malaysian Code of Best Practices, Mr Leow Nan Chye, our Audit Committee Chairman was appointed by the Board on 11 April 2007 to lead and address any issues on corporate governance of the Company.

The following report outlines the application of the various Principles and extent of compliance with the Best Practices of the Code as set out in Part 1 and Part 2 respectively of the Code throughout the financial year ended 31 December 2006.

## BOARD OF DIRECTORS

### The Board

SMR Tech is led and managed by an experienced Board of Directors with a wide and varied range of expertise. This broad spectrum of skills and experience gives added strength to the leadership, thus ensuring that the Group is under the guidance of an accountable and competent Board of Directors. The Directors recognize the key role they play in charting the strategic direction, development and control of the Group

### Board Balance

The Board consists of seven (7) members, comprising four (4) Executive Directors and three (3) Independent Non-Executive Directors. The profile of these Board members are set out in pages 9 to 13.

Part 2 of the Code setting out the Best Practices in Corporate Governance states that there should be clearly accepted division of responsibilities at the head of the Company and where the roles of the Chairman and Chief Executive Officer ("CEO") are combined, there should be a strong independent element on the Board.

The Company has combined the roles of the Chairman and Chief Executive Officer which is held by Dr. Palan as the Board believes Dr Palan, being a person well entrenched in the industry is most suitable for both positions, which will contribute significantly towards the accomplishment of the Group's goals and objectives.

Nevertheless, Dr. Palan does not sit on the audit committee, remuneration committee or nomination committee. The audit committee will ensure that any future transactions involving related parties, if any, are entered into on arms-length basis.

The Chairman and CEO is primarily responsible for the orderly conduct and working of the Board as well as responsible for the day-to-day running of the business, implementation of Board policies and making operational decisions. He is accountable to the Board for the profitable operation and development of the Group consistent with the primary aim of enhancing long term shareholders' value. The presence of Independent Non-Executive Directors brings an additional element of balance as well to the skill and experience and independent judgment Board. The differing roles of executive and non-executive directors are delineated, both having fiduciary duties towards shareholders.

Although all Directors have an equal responsibility for the Group's operations, the role of the Independent Non-executive Directors are particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined. Together, the Directors possess the wide range of business, commercial and financial experience essential in the management and direction of the Company. A brief description on the background of each Director is presented in the Directors' Profile section in this Annual Report.



# STATEMENT OF CORPORATE GOVERNANCE (cont'd)

## Directors' Training

All the Directors of the Company, including several key management staff have attended the Mandatory Accreditation Programme ("MAP") as prescribed by The Mesdaq Market Listing Requirements and will continue to undergo other relevant training programmes to keep abreast with development in the market and regulatory environment as well as to attend such programmes which can complement their services to the Group. The Directors constantly update themselves with the latest industries' trend and developments through reliable internet sources, trade journals and articles.

## Board Meetings

The Board meets at least four times a year, with additional meetings convened where necessary. During the financial year ended 31 December 2006, five (5) Board Meetings were held. Details of the attendances are as follows:

Name of Director	Number of Meetings Attended
1. Dr. Palaniappan A/L Ramanathan Chettiar	5/5
2. Kamatchi @ Valliammai A/P Malayandi	5/5
3. Dr. Nadarajah A/L Manickam	3/5
4. Ajay Kumar Arya	3/5
5. Haji Ishak Bin Hashim	5/5
6. Leow Nan Chye	5/5
7. Choong Khuat Hock ( <i>appointed on 1 December 2006</i> )	0/0

## Supply of Information

The Directors have full and unrestricted access to all information pertaining to the Group's business and affairs, whether as a full Board or in their individual capacity, to enable them to discharge their duties. All Directors have full access to the advice and services of the Company Secretary who ensures that Board procedures are adhered to at all times during meetings and advises the Board on matters including corporate governance issues, and directors' responsibilities in complying with relevant legislation and regulations. The Directors can seek for independent professional advise where necessary, to the extent that it is pertinent for the furtherance of their responsibilities and duties.

## Appointments to the Board

The Board is appointed in a formal and transparent practice as endorsed by the Code. The Nomination Committee will make recommendations or the Board will go through this entire process on its own. The Company Secretary will ensure that all appointments are properly made and that all legal and regulatory obligations are made.

## Re-election of Directors

One-third of the Board, shall retire from office and be eligible for re-election at each AGM and all directors except the Managing Director shall retire from office once in every three (3) years but shall be eligible for re-election.

## DIRECTORS' REMUNERATION

A remuneration committee has been established as recommended by the Code to recommend the directors' remuneration. The Board concluded that the determination of directors' remuneration is a matter for the Board.

However, directors do not participate in decisions regarding their own remuneration packages and directors' fees must be approved by the shareholders at the AGM.

## STATEMENT OF CORPORATE GOVERNANCE (cont'd)

For the financial year ended 31 December 2006, the aggregate remuneration received by the Directors of the Company from the Company and its subsidiary company, SMRHRT categorised into the appropriate components are as follows:

Category	Fees RM	Other Emoluments RM	Total RM
Executive Directors	358,100	128,772	486,872
Non-Executive Directors	27,500	8,500	36,000
<b>Total</b>	<b>385,600</b>	<b>137,272</b>	<b>522,872</b>

An analysis of the number of Directors whose remuneration, paid by the Company and its subsidiary company, SMRHRT, falls under each range is set out below:

Remuneration band	Number of Directors	
	Executive	Non-Executive
Below RM50,000	2	3
RM 50,001 – RM100,000	–	–
RM100,001 – RM150,000	1	–
RM150,001 – RM200,000	–	–
RM200,001 – RM250,000	–	–
RM250,001 – RM300,000	–	–
RM300,001 – RM350,000	1	–
<b>Total</b>	<b>4</b>	<b>3</b>

### SHAREHOLDERS

#### Dialogue between the Group and Investors

The Board has always recognized the importance of accurate and timely dissemination of information to its shareholders and potential investors. The maintenance of an effective communication policy between members of the public and the Company is important.

Several channels are used to disseminate information on a timely basis to the investing public :-

- The Annual General Meeting is used as the main forum of dialogue for shareholders to raise any issues pertaining to the Group;
- Quarterly announcements and corporate disclosures to BMSB are available on the latter's website;
- Press releases provide up-to-date information on the Group's key corporate initiatives and new products launches;
- The Annual Report and
- The Group's investor relations website <http://www.smrhub.com>.

During the financial year, the Chairman and Chief Executive Officer communicates regularly with analysts, institutional shareholders and investors. Presentations based on permissible disclosures are made to explain the Group's performance and major development programs. Price-sensitive and any information that may be regarded as undisclosed material information about the Group is however not disclosed in these exchanges until after the prescribed announcement to BMSB has been made.

#### Annual General Meeting

The Board provides opportunities for shareholders to raise questions pertaining to issues in the Annual Report, Audited Financial Statements, corporate developments in the Group, the resolutions being proposed and on the business of the Group in general at every AGM and Extraordinary General Meeting of the Company.

# STATEMENT OF CORPORATE GOVERNANCE (cont'd)

## ACCOUNTABILITY AND AUDIT

### Audit Committee

The Company has in place an Audit Committee which comprises two (2) Independent Non-Executive Directors and one (1) Executive Director. The Chairman of the Audit Committee, Mr. Leow is a member of the Malaysian Institute of Accountants (MIA).

The Audit Committee meet on four (4) occasions a year. It is intended that the Audit Committee hold regular periodic and quarterly meetings to, inter alia, review the Group's financial reporting, the nature and scope of audit reviews, the effectiveness of systems on internal control and compliance as well as to deliberate on findings of the external auditors.

Full details of the composition, complete terms of reference and the activities of the Audit Committee during the financial year are set out under the Audit Committee Report.

### Financial Reporting

The Directors are responsible for ensuring that financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia. In presenting the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors also strive to ensure that financial reporting present a fair and understandable assessment of the Group's position and prospects. Quarterly financial statements are reviewed by the Audit Committee and approved by the Board of Directors prior to release to Bursa Malaysia. The Statement by Directors made pursuant to Section 169 of the Companies Act, 1965 is set out in page 66 of this Annual Report.

### Relationship with the Auditors

The Group's external auditors, Messrs. Monteiro and Heng, Chartered Accountants and Messrs. Leou & Associates, report to members of the Company on their findings on internal controls and the statutory financial statements are included in the Annual Report. From time to time, both the auditors will highlight matters that require attention to the Audit Committee and Board of Directors.

### Internal Controls

The Board acknowledges its overall responsibilities for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets and the need to review the effectiveness of these systems regularly. The Board believes that the Group's system of internal control, financial or otherwise, should provide reasonable assurance regarding the achievement of the Group's objectives in ensuring effectiveness and efficiency of operations, reliability and transparency of financial information and compliance with applicable legislation, regulations and best practices.

The Board concurs with the view of the Audit Committee that the system of internal control is adequate judging from the size of the Company and that for now, the Audit Committee will work closely with the management and external auditors to regularly monitor the adequacy and integrity of its system of internal controls. However, the Audit Committee will continue to review the need for the establishment of an Internal Audit Department and if and when appropriate, will make the appropriate recommendations to the Board.

### External Audit

The Group's independent external auditors fill an essential role for the shareholders by enhancing the reliability of the Group's financial statements and giving assurance of that reliability to users of these financial statements.

The external auditors have an obligation to bring any significant defects in the Group's system of control and compliance to the attention of the Management and if necessary, to the Audit Committee and the Board.

## BOD COMMITTEES

In order to execute its duties and in discharging its responsibilities, the following BOD Committees have been established. All Committees are provided with terms of reference, which state clearly the extent and limits of their responsibilities, duties and authority.

# STATEMENT OF CORPORATE GOVERNANCE (cont'd)

## REMUNERATION COMMITTEE

### Remuneration Committee Members

**Chairman** Haji Ishak Bin Hashim (*Independent Non-Executive Director*)

**Members** Leow Nan Chye (*Independent Non-Executive Director*)  
Kamatchi @ Valliammai a/p Malayandi (*Executive Director*)

**Secretary** Chin Kim Fung (*Company Secretary*)

#### 1. Objectives

The Remuneration Committee comprising a majority of Independent Non-executive Directors, recommends the remuneration of Executive Directors to the Board. The Executive Directors do not participate in the decision on their own remuneration

#### 2. Composition of members

The Board shall elect the Remuneration Committee members from amongst themselves, composed wholly or mainly of non-executive directors.

#### 3. Chairman

The Chairman of the Remuneration Committee shall be elected from amongst the Remuneration Committee members. The Chairman of the Committee shall be approved by the Board.

#### 4. Meetings

The Remuneration Committee may meet together for the dispatch of business, adjourn and otherwise regulate their meetings, at least once a year or more frequently as deemed necessary. The Chairman may call for additional meetings at any time at the Chairman's discretion.

The Secretary shall on the requisition of the members of the Remuneration Committee summon a meeting of the Remuneration Committee except in the case of an emergency, reasonable notice of every Remuneration Committee meeting shall be given in writing.

In the absence of the Chairman, the members can elect from amongst themselves the Chairman for the Meeting.

The Committee has held one meeting during the financial year ended 31 December 2006. The details of Committee's attendance are set out below:

Name of Director	Number of Meetings Attended
Leow Nan Chye	1/1
Haji Ishak Bin Hashim	1/1
Kamatchi @ Valliammai a/p Malayandi	1/1

#### 5. Quorum

A quorum shall consist of two (2) members, one of whom shall be the Chairman of the Committee.

#### 6. Authority

The Remuneration Committee shall, in accordance with a formal and transparent procedure or process or policy on Executive Directors' remuneration packages to be determined and established by the Board and at the expense of the Company,

- shall review, assess and recommend to the Board the remuneration packages of the Executive Directors in all forms, with other independent professional advice or outside advice as necessary,
- shall be entitled to the service of a Company Secretary who must ensure that all decisions made on the remuneration packages of the Executive Directors be properly recorded and minuted in the minutes book.

# STATEMENT OF CORPORATE GOVERNANCE (cont'd)

## 7. Duties and Responsibilities

The duties and responsibilities of the Remuneration Committee are as follows:-

- To review and assess the remuneration packages of the Executive Directors in all forms, with or without other independent professional advice or other outside advice.
- To ensure the levels of remuneration be sufficiently attractive and be able to retain directors needed to run the Company successfully.
- To structure the component parts of remuneration so as to link rewards to corporate and individual performance and to assess the needs of the Company for talent at board level at a particular time.
- To recommend to the Board of Directors the remuneration packages of the Executive Directors.
- To act in line with the directors of the Board; and
- To consider and examine such other matters as the Remuneration Committee considers appropriate.

These terms of reference may change from time to time to fulfill such other requirements as prescribed by the BMSB.

## NOMINATION COMMITTEE

### Nomination Committee Members

**Chairman** Haji Ishak Bin Hashim (*Independent Non-Executive Director*)

**Members** Leow Nan Chye (*Independent Non-Executive Director*)

**Secretary** Chin Kim Fung (*Company Secretary*)

### 1. Objectives

The Nomination Committee assist the Board of Directors in their responsibilities in proposing new nominees to the Board and also to assess Directors on an on-going basis.

### 2. Composition of members

The Board of Directors shall elect the Nomination Committee members from amongst themselves, composed exclusively of Non-Executive Directors, a majority of whom are independent.

### 3. Chairman

The Chairman of the Nomination Committee shall be elected from amongst the Nomination Committee members. The Chairman of the Committee shall be approved by the Board of Directors.

### 4. Meetings

The Nomination Committee may meet together for the dispatch of business, adjourn and other wise regulate their meetings, at least once a year or more frequently as deemed necessary. The Chairman may call for additional meetings at any time at the Chairman's discretion.

The Secretary shall on the requisition of the members of the Nomination Committee summon a meeting of the Nomination Committee except in the case of an emergency, reasonable notice of every Nomination Committee meeting shall be given in writing.

In the absence of the Chairman, the members can elect from amongst themselves the Chairman for the Meeting.

## STATEMENT OF CORPORATE GOVERNANCE (cont'd)

The Committee has held one meeting during the financial year ended 31 December 2006. The details of Committee's attendance are set out below:

Name of Director	Number of Meetings Attended
Leow Nan Chye	1/1
Haji Ishak Bin Hashim	1/1

### 5. Quorum

A quorum shall consist of two (2) members, one of whom shall be the Chairman of the Committee.

### 6. Authority

The Nomination Committee shall, in accordance with a procedure or process to be determined and established by the Board of Directors and at the expense of the Company,

- annually review the required skills and experience and other qualities, including core competencies which non-executive and executive directors should have;
- assess on an annual basis, the effectiveness of the Board as a whole, the committees of the Board and assessing the contribution of each individual Director and
- be entitled to the services of a Company Secretary who must ensure that all appointments are properly made, that all necessary information is obtained from Directors, both for the Company's own records and for the purposes of meeting statutory obligations, as well as obligations arising from The Mesdaq Market Listing Requirement of the Bursa Malaysia or other regulatory requirements.

### 7. Duties and Responsibilities

The duties and responsibilities of the Nomination Committee are as follows:-

- To recommend to the Board, candidates for all directorship to be filled by the shareholders or the Board.
- To consider, in making its recommendations, candidates for directorships proposed by the Chairman and CEO and, within the bounds of practicability, by any other senior executive or any Director or shareholder.
- To recommend to the Board the nominees to fill in the seats on the Board Committees.
- To assess the effectiveness of the Board as a whole, as a whole and each individual Directors/ committees of the Board.
- To act in line with the Directors of the Board.
- To consider and examine such other matters as the Nomination Committee considers appropriate.



# OTHER COMPLIANCE INFORMATION

## Utilisation Of Proceeds

The status of utilization of the proceeds raised from the Public Issue pursuant to the listing of the Company on the Mesdaq Market amounting to RM9.90 million is as follows :

Purpose	Approved RM'000	Utilised RM'000	Balance RM'000
Capital investment	4,700	3,426	1,274
Working capital	2,400	514	1,886
Research & Development ("R&D")	1,300	800	500
Listing expenses	1,500	1,505	(5)
<b>Total</b>	<b>9,900</b>	<b>6,245</b>	<b>3,655</b>

*Note : The Group expects to utilize the IPO proceeds fully by FY 2007.*

## Share Buy-back

The Company did not make any share buy-back during the financial year ended 31 December 2006.

## Options, Warrants Or Convertible Securities

No options, warrants or convertible securities were exercised in the financial year ended 31 December 2006.

## Depository Receipts("DR")

During the financial year ended 31 December 2006, the Company did not sponsor any DR programme.

## Imposition Of Sanctions/Penalties

There was no sanction and /or penalty imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies.

## Non-Audit Fee

There were non-audit fees of RM41,344 paid to companies affiliated to the Group's auditor for the financial year ended 31 December 2006.

## Variation In Results

There was no material variance between the audited results for the financial year ended 31 December 2006 and the unaudited results previously announced.

## Profit Guarantee

The Company did not issue any profit guarantee pertaining to the financial year ended 31 December 2006.

## Material Contracts

There were no material contracts entered by the Company or its subsidiaries involving Directors' and major shareholders' interest, either still subsisting at the year end of the financial year or entered into since the end of the previous financial year.

## OTHER COMPLIANCE INFORMATION (cont'd)

### Revaluation Policy

The Company and its subsidiary did not adopt any revaluation policy on landed properties during the financial year.

### Recurrent Related Party Transactions ("RRPTs") Of A Trading Or Revenue Nature

RRPTs of the Group conducted during the financial year ended 31 December 2006 are as follows:

Transacting Party	Related Party	Nature of Transactions	Value RM	Nature of Relationship with SMR Tech
SMRHRT	Specialist Management Resources Sdn Bhd ("SMR")	Rental of office equipment	12,000	Dr. Palan is a Director and major shareholder in both SMR Tech and SMR.
		Rental of office	18,000	
		Implementation fees	330,218	
SMRHRT	Specialist Management Resources(Spore) Pte. Ltd.	Sales and services for human resources related products	219,000	Madam Kamatchi is the spouse of Dr. Palan, a Director and shareholder of SMR Tech and a deemed major shareholder of SMR by virtue of being person connected to Dr. Palan.

# AUDIT COMMITTEE REPORT

## AUDIT COMMITTEE MEMBERS

**Chairman** Leow Nan Chye (*Independent Non-Executive Director*)

**Members** Haji Ishak Bin Hashim (*Independent Non-Executive Director*)  
Kamatchi @ Valliammai a/p Malayandi (*Executive Director*)

**Secretary** Chin Kim Fung (*Company Secretary*)

## Audit Committee Terms Of Reference

### 1. Composition

- a) The Board of Directors shall elect an Audit Committee from amongst themselves (pursuant to a resolution of the Board of Directors) comprising of not less than three (3) members where the majority of them shall be composed of Independent Non-Executive members of the Board.
- b) The term of office of the Audit Committee is two (2) years and may be re-nominated and appointed by the Board.
- c) The members of the Audit Committee shall elect a Chairman from amongst themselves who shall be an independent director. The Chairman of the Audit Committee shall be approved by the Board.
- d) All members of the Audit Committee, including the Chairman, will hold office only so long as they serve as Directors of the Company. Should any member of the Audit Committee cease to be a Director of the Company, his membership in the Audit Committee would cease forthwith.
- e) No Alternate Director of the Board shall be appointed as a member of the Audit Committee.
- f) If the members of the Audit Committee for any reason be reduced to below three (3), the Board of Directors shall within three (3) months of the event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

### 2. Objectives

The primary objectives of the Audit Committee are:

- a) to provide assistance to the Board in fulfilling its fiduciary responsibilities particularly relating to business ethics, policies and practices and financial management and control.
- b) to provide greater emphasis on the audit functions by increasing the objectivity and independence of external and internal auditors and providing a forum for discussion that is independent of the management.
- c) to maintain through regularly scheduled meetings a direct line of communication between the Board and the external auditors, internal auditors and financial management.

### 3. Duties and Responsibilities

The duties and responsibilities of the Audit Committee shall be to review the following and report the same to the Board:

- a) The appointment of the external auditors, the audit fee, and any questions of resignation or dismissal.
- b) The nature and scope of the audit including the co-operation of auditors where more than one audit firm is involved.
- c) The quarterly and annual financial statements, focusing particular on:
  - Changes in accounting policies and practices
  - Major judgement areas
  - Significant adjustments resulting from the audit
  - The going concern assumption.
  - Compliance with accounting standards
  - Compliance with stock exchange and legal requirements.
- d) Problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary).
- e) The effectiveness of internal control systems, and in particular review the external auditors' management letter and management's response.
- f) The related party transactions and conflict of interest situation that may arise within the Company or the Group including any transaction, procedures or conduct that give rise to questions of management integrity.
- g) The assistance given by the employees of the Company and the Group to the auditors.
- h) Any other duties and responsibility as may be agreed to by the Audit Committee and the Board.

### 4. Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board and at the expense of the Company:

- a) Have authority to investigate any matters within its terms of reference and to seek any information it requires from any employees.
- b) Have right to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibilities.
- c) Have adequate resources to perform its duties.
- d) Have full and unrestricted access to any information pertaining to the Company.
- e) Have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any).
- f) Be able to convene meetings with the External Auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

# AUDIT COMMITTEE REPORT (cont'd)

## 5. Meeting And Minutes

The Audit Committee shall hold not less than four (4) meetings a year to review the quarterly results and year end financial statements. In order to form the quorum for each meeting, a minimum of two (2) members present shall be Independent Directors.

Representatives of the external auditors shall attend meetings where matters relating to the audit of the statutory accounts and/or the external auditors are to be discussed.

Minutes of each meeting shall be kept and distributed to each member of the Committee and also to the other members of the Board. The Committee Chairman shall report on each meeting to the Board.

The Secretary to the Audit Committee shall be the Company Secretary.

## 6. Summary Of Activities

The Committee has held four meetings during the financial year ended 31 December 2006. The details of Committee's attendance are set out below:

Name of Director	Number of Meetings Attended
1. Leow Nan Chye	4/4
2. Haji Ishak Bin Hashim	4/4
3. Kamatchi @ Valliammai A/P Malayandi	4/4

The activities of the Audit Committee during the financial year under review are as follows :-

- Reviewed the audit plan, nature and scope of audit with the external auditors;
- Reviewed the quarterly and year-to-date unaudited financial results before submission to the Board for consideration and approval ;
- Reviewed the Group's compliance with the BMSB Listing Requirements and applicable approved accounting standards issued by Malaysian Accounting Standards Board;

## 7. Internal Audit Function

Presently, the Group does not have an internal audit department and the Audit Committee relied on discussions with the management and executive directors, review of quarterly financial statements and input from the external auditors to discharge its duties.

# STATEMENT ON INTERNAL CONTROL

## INTRODUCTION

The Malaysian Code on Corporate Governance stipulates that the Board of Directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets.

The Listing Requirements of BMSB for the MESDAQ Market ("MMLR") require Directors to include a statement in the annual report on the state of internal controls. The Board of Directors' Internal Control Statement which is set out below has been prepared in accordance with the Statement on Internal Control : Guidance for Directors of Public Listed Companies.

## RESPONSIBILITIES

The Board of Directors acknowledges the importance of adhering to good practice in corporate governance and is committed to maintaining a sound and effective internal control system, which includes the establishment of an appropriate control environment and framework as well as regularly reviewing its adequacy and integrity. It covers financial, operational and compliance matters as well as risk management. Because of the limitations that are inherent in any system of internal controls, this system is designed to manage rather than eliminate risk that may impede the achievement of the Group's business objectives. It should be appreciated that it could therefore only provide reasonable and not absolute assurance against material loss occurrence. It should be further noted that the cost of control procedures should not exceed the benefits to be derived from such procedures.

## RISK MANAGEMENT

The Board is committed to identify business and other risks that are inherent in the sector the Group operates and to ensure the implementation of appropriate control mechanism to manage these risks. In assisting it to discharge its duties and responsibilities, the Board and senior management will carry out periodical reviews of the adequacy and integrity of the Group's internal control system and management information systems, including systems for compliance with applicable regulations, directives and guidelines.

The Audit Committee work closely with the management and external auditors to regularly monitor the adequacy and soundness of the system of internal controls. However, the Audit Committee will continue to review the need for the establishment of an Internal Audit Department and if and when appropriate, will make the appropriate recommendations to the Board.

The Group's independent external auditors fill an essential role for the shareholders by enhancing the reliability of the Group's financial statements and giving assurance of that reliability to users of these financial statements. The external auditors have an obligation to bring any significant defects in the Group's system of control and compliance to the attention of the Management; and if necessary, to the Audit Committee and the Board.

Presently, the Board's primary objective and direction in managing the Group's risk are focused on the achievement of the Group's business objectives. Throughout the financial year, the Board has evaluated and managed the significant risks faced by the Group through monitoring of the Group's operational efficiency as well as its profitability.



## STATEMENT ON INTERNAL CONTROL (cont'd)

### OTHER KEY ELEMENTS OF INTERNAL CONTROL

Some of the key elements of the Group's internal control system are described as below :

- Clearly defined terms of reference, authorities and responsibilities of the various committees, which include Audit Committee, Nomination Committee and Remuneration Committee
- A budgetary process is in place where all operating units prepare annual budgets for the forthcoming financial year and which are approved both at the operating level and by the Board
- A formal organization structure with clearly defined roles and lines of responsibility, authority and accountability within the Group
- The Executive Directors are closely involved in the management of the business and operations of the Group and report to the Board on significant changes in the business and external environment, which affect the operations of the Group at large
- Monthly management meetings are held amongst key management staff to identify key operational issues and to allocate responsibility for monitoring of all key projects and issues
- Rigorous review of the quarterly financial results, statutory annual financial statements and results by evaluating the reasons for unusual variances noted thereof by the Board and Audit Committee before announcement to Bursa Malaysia
- Internal policies and procedures which are subject to regular review and improvements

### CONCLUSION

The Board of Directors is satisfied that there is an on-going process of identifying, evaluating and managing significant risks that may affect the achievement of the Group's business objectives. The system of internal controls are reviewed and updated regularly taking into account the changes in the operating environment.

The Board of Directors is of the view that the existing system of internal controls is sound and sufficient to cater for the Group's requirement at the existing level of operations.

# DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31st December 2006.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.

## RESULTS

	Group	Company
	RM	RM
Profit for the year	5,748,042	1,049,225
Attributable to:		
Equity holders of the Company	5,748,044	1,049,225
Minority interest	(2)	-
	5,748,042	1,049,225

## DIVIDEND

During the financial year, an interim tax exempt dividend of RM0.01 per share, amounting to RM1,000,000/- was declared in respect of the financial year ended 31st December 2006.

The directors do not recommend the payment of any final dividend in respect of the financial year ended 31st December 2006.

## RESERVES AND PROVISIONS

All material transfers to and from reserves and provisions during the financial year have been disclosed in the financial statements.

## BAD AND DOUBTFUL DEBTS

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

At the date of this report, the directors of the Company are not aware of any circumstances that would render the amount written off for bad debts, or the amount of the allowance for doubtful debts, in the financial statements of the Group and of the Company inadequate to any substantial extent.

# DIRECTORS' REPORT (cont'd)

## CURRENT ASSETS

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company had been written down to an amount that they might be expected to realise.

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

## VALUATION METHODS

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

## CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:-

- i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group and of the Company that has arisen since the end of the financial year.

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

## CHANGE OF CIRCUMSTANCES

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

## ITEMS OF AN UNUSUAL NATURE

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

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

## ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and fully paid-up share capital from RM7,000,000/- to RM10,000,000/- by way of public issuance of 30,000,000 ordinary shares of RM0.10 each at an issue price of RM0.33 per ordinary share through the following issues:-

- (i) 2,500,000 new ordinary shares of RM0.10 each for application by the eligible directors and employees of the Company and its subsidiary;
- (ii) 25,000,000 new ordinary shares of RM0.10 each by way of private placement to the identified investors; and
- (iii) 2,500,000 new ordinary shares of RM0.10 each for application by the public.

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

## DIRECTORS

The directors in office since the date of the last report are:-

Palaniappan A/L Ramanathan Chettiar  
 Kamatchi @ Valliammai A/P Malayandi  
 Ajay Kumar Arya  
 Nadarajah A/L Manickam  
 Ishak Bin Hashim  
 Leow Nan Chye  
 Choong Khuat Hock                      appointed on 1.12.2006

## DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of directors who held office at the end of the financial year in shares in the Company during the financial year are as follows:-

	Number of ordinary shares of RM0.10/- each			
	At 1.1.2006	Bought	Sold	At 31.12.2006
<b>The Company</b>				
<b>SMR Technologies Berhad</b>				
Palaniappan A/L Ramanathan Chettiar	26,493,010	1,450,600	13,512,500	14,431,110
Kamatchi @ Valliammai A/P Malayandi	7,010	-	-	7,010
Leow Nan Chye	-	100,000	100,000	-
Nadarajah A/L Manickam	-	200,000	145,000	55,000
Ishak Bin Hashim	-	100,000	100,000	-
Ajar Kumar Arya	-	200,000	-	200,000

By virtue of their interests in shares in the Company, Palaniappan A/L Ramanathan Chettiar, Kamatchi @ Valliammai A/P Malayandi, Ajay Kumar Arya and Nadarajah A/L Manickam are also deemed interested in shares in the subsidiaries to the extent that the Company has an interest.

Other than as stated above, the other directors in office at the end of the financial year had no interest in shares in the Company and its related corporations during the financial year.

# DIRECTORS' REPORT (cont'd)

## SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR

Significant events during and after the financial year are disclosed in Note 27 to the financial statements.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than as disclosed in the financial statements) 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 or any of its related corporations a party to any arrangement whose object was 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.

## AUDITORS

The auditors, Messrs Monteiro & Heng, have expressed their willingness to continue in office.

On behalf of the Board,

.....  
**PALANIAPPAN A/L RAMANATHAN CHETTIAR**

Director

.....  
**KAMATCHI @ VALLIAMMAI A/P MALAYANDI**

Director

Kuala Lumpur  
Date: 11th April 2007

# BALANCE SHEETS

as at 31 December 2006

	Note	Group		Company	
		2006	2005	2006	2005
		RM	RM	RM	RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	7,263,463	1,415,718	-	-
Investment in subsidiaries	5	-	-	10,090,093	10,089,995
Goodwill on consolidation	6	6,633,689	6,633,689	-	-
Intangible assets	7	1,069,937	376,058	-	-
Development costs	8	6,878,734	3,507,782	-	-
		21,845,823	11,933,247	10,090,093	10,089,995
<b>Current assets</b>					
Trade and other receivables	9	2,687,472	2,548,437	-	574,499
Amounts owing by subsidiaries	10	-	-	6,633,105	-
Deposits placed with licensed bank	11	2,000,000	-	2,000,000	-
Cash and bank balances		2,947,037	571,742	292,992	2
		7,634,509	3,120,179	8,926,097	574,501
<b>TOTAL ASSETS</b>		<b>29,480,332</b>	<b>15,053,426</b>	<b>19,016,190</b>	<b>10,664,496</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	12	10,000,000	7,000,000	10,000,000	7,000,000
Share premium	13	7,880,695	3,000,002	7,880,695	3,000,002
Retained earnings/(accumulated losses)	14	9,176,515	4,428,471	41,795	(7,430)
<b>Total equity</b>		<b>27,057,210</b>	<b>14,428,473</b>	<b>17,922,490</b>	<b>9,992,572</b>
<b>Non-current liabilities</b>					
Hire purchase payables	15	235,724	76,744	-	-
Deferred tax liabilities	16	38,244	-	-	-
		273,968	76,744	-	-
<b>Current liabilities</b>					
Trade and other payables	17	1,070,231	421,837	65,700	30,600
Amounts owing to directors	18	-	111,384	-	92,795
Amounts owing to subsidiaries	10	-	-	-	548,529
Hire purchase payables	15	50,923	14,988	-	-
Tax payable		28,000	-	28,000	-
Dividend payable		1,000,000	-	1,000,000	-
		2,149,154	548,209	1,093,700	671,924
<b>Total liabilities</b>		<b>2,423,122</b>	<b>624,953</b>	<b>1,093,700</b>	<b>671,924</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29,480,332</b>	<b>15,053,426</b>	<b>19,016,190</b>	<b>10,664,496</b>

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



# INCOME STATEMENTS

for the year ended 31 December 2006

	Note	Group		Company	
		2006	2005	2006	2005
		RM	RM	RM	RM
<b>Continuing operations</b>					
Revenue	19	12,155,828	7,937,211	1,000,000	-
Cost of sales		(4,606,082)	(3,253,751)	-	-
<b>Gross profit</b>		7,549,746	4,683,460	1,000,000	-
Other income		173,999	5	173,999	-
Administrative expenses		(1,898,416)	(982,455)	(96,774)	(6,236)
Other operating expense - amortisation of goodwill		-	(68,255)	-	-
<b>Operating profit/(loss)</b>	20	5,825,329	3,632,755	1,077,225	(6,236)
Finance costs	21	(11,043)	(3,835)	-	-
<b>Profit/(loss) before taxation</b>		5,814,286	3,628,920	1,077,225	(6,236)
Taxation	22	(66,244)	-	(28,000)	-
<b>Profit/(loss) for the year</b>		5,748,042	3,628,920	1,049,225	(6,236)
<b>Attributable to:</b>					
Equity holders of the Company		5,748,044	3,628,920	1,049,225	(6,236)
Minority interest		(2)	-	-	-
		5,748,042	3,628,920	1,049,225	(6,236)
<b>Earnings per share from continuing operations attributable to equity holders of the Company (sen)</b>					
	23				
- basic		6.00	5.18		
- fully diluted		6.00	5.18		

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2006

	Attributable to Equity Holders of the Company					
	Share Capital	Non- Distributable		Total	Minority Interest	Total Equity
		Share Premium	Retained Earnings			
	RM	RM	RM	RM	RM	RM
<b>Group</b>						
Balance at 1st January 2005	7,000,000	3,000,002	799,551	10,799,553	-	10,799,553
Profit for the year	-	-	3,628,920	3,628,920	-	3,628,920
Balance at 31st December 2005	7,000,000	3,000,002	4,428,471	14,428,473	-	14,428,473
New subsidiary acquired	-	-	-	-	2	2
Issuance of shares pursuant to initial public offering	3,000,000	6,900,000	-	9,900,000	-	9,900,000
Listing expenses incurred pursuant to initial public offering	-	(2,019,307)	-	(2,019,307)	-	(2,019,307)
Profit for the year	-	-	5,748,044	5,748,044	(2)	5,748,042
Dividend payable (Note 24)	-	-	(1,000,000)	(1,000,000)	-	(1,000,000)
Balance at 31st December 2006	10,000,000	7,880,695	9,176,515	27,057,210	-	27,057,210

	Attributable to Equity Holders of the Company			
	Share Capital	Non- Distributable		Total
		Share Premium	Retained Earnings/ Losses	
	RM	RM	RM	RM
<b>Company</b>				
Balance at 1st January 2005	7,000,000	3,000,002	(1,194)	9,998,808
Loss for the year	-	-	(6,236)	(6,236)
Balance at 31st December 2005	7,000,000	3,000,002	(7,430)	9,992,572
Issuance of shares pursuant to initial public offering	3,000,000	6,900,000	-	9,900,000
Listing expenses incurred pursuant to initial public offering	-	(2,019,307)	-	(2,019,307)
Profit for the year	-	-	1,049,225	1,049,225
Dividend payable (Note 24)	-	-	(1,000,000)	(1,000,000)
Balance at 31st December 2006	10,000,000	7,880,695	41,795	17,922,490

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

# CASH FLOW STATEMENTS

for the year ended 31 December 2006

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Profit/(loss) before taxation				
- continued operations	5,814,286	3,628,920	1,077,225	(6,236)
Adjustments for:				
Allowance for doubtful debts	22,017	-	-	-
Depreciation	1,361,985	436,753	-	-
Amortisation	480,455	411,473	-	-
Interest expense	11,043	3,835	-	-
Interest income	(173,999)	-	(173,999)	-
	7,515,787	4,480,981	903,226	(6,236)
Changes In Working Capital:				
Receivables	(161,052)	(818,322)	574,499	(520,536)
Payables	648,394	248,538	35,100	27,706
	8,003,129	3,911,197	1,512,825	(499,066)
Intellectual property rights	(934,334)	(27,700)	-	-
Profit on deposits received	173,999	-	173,999	-
Net Operating Cash Flow	7,242,794	3,883,497	1,686,824	(499,066)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment in a subsidiary	-	-	(98)	-
Development costs	(3,610,952)	(2,241,737)	-	-
Listing expenses incurred pursuant to initial public offering	(2,019,307)	-	(2,019,307)	-
Purchase of property, plant and equipment *	(6,983,730)	(1,100,468)	-	-
Net Investing Cash Flow	(12,613,989)	(3,342,205)	(2,019,405)	-

# CASH FLOW STATEMENTS (cont'd)

for the year ended 31 December 2006

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Interest paid	(11,043)	(3,835)	-	-
Net change in amounts owing to related parties	-	(26,158)	-	-
Net change in amounts owing by subsidiaries	-	-	(7,181,634)	499,066
Net change in amounts owing to directors	(111,384)	(88,711)	(92,795)	-
Proceeds from issuance of shares to minority interest of a subsidiary	2	-	-	-
Proceeds from issuance of shares	9,900,000	-	9,900,000	-
Repayment of hire purchase liabilities	(31,085)	(12,848)	-	-
Net Financing Cash Flow	9,746,490	(131,552)	2,625,571	499,066
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	4,375,295	409,740	2,292,990	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	571,742	162,002	2	2
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	4,947,037	571,742	2,292,992	2
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>				
Cash and bank balances	2,947,037	571,742	292,992	2
Deposits placed with licensed banks	2,000,000	-	2,000,000	-
	4,947,037	571,742	2,292,992	2

\* During the year, the Group acquired property, plant and equipment of RM7,209,730/- (2005 : RM1,100,468/-) of which RM285,461/- (2005 : RM Nil) were acquired under hire purchase arrangements. Cash payments amounting to RM59,461/- (2005 : RM Nil) were paid towards the hire purchase.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

The Company is principally engaged in investment holding. The principal activities of the subsidiaries are set out in Note 5 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and listed on the MESDAQ Market of Bursa Malaysia Securities Berhad on 13th March 2006.

The registered office of the Company is located at 149A, Jalan Aminuddin Baki, Taman Tun Dr. Ismail, 60000 Kuala Lumpur.

The principal place of business of the Company is located at Suite 2A-23-1, Block 2A, Level 23, Plaza Sentral, Jalan Stesen Sentral 5, KL Sentral, 50470 Kuala Lumpur.

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 11th April 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost basis, unless otherwise stated in the individual policy statements set out below.

The financial statements of the Group and of the Company comply with the provisions of the Companies Act, 1965 and applicable MASB approved accounting standards in Malaysia for entities other than private entities.

At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are effective for the Group's first annual reporting date, 31st December 2006, as described fully in Note 2.2.

The preparation of financial statements in conformity with the MASB approved accounting standards in Malaysia for entities other than private entities requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial year. It also requires directors to exercise their judgements in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgements are based on the directors' best knowledge of current events and actions, actual results may differ.

### 2.2 Effects Arising From Adoption of New and Revised FRSs

On 1st January 2006, the Group and the Company adopted the following FRSs mandatory for financial year beginning on or after 1st January 2006:-

- FRS 2 Share-based Payment
- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 102 Inventories
- FRS 108 Accounting Policies, Changes in Estimates and Errors
- FRS 110 Events after the Balance Sheet Date

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Effects Arising From Adoption of New and Revised FRSs (cont'd)

- FRS 116 Property, Plant and Equipment
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 128 Inventories in Associates
- FRS 131 Interest in Joint Ventures
- FRS 132 Financial Instruments : Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets
- FRS 140 Investment Property

The Group applied the above FRSs retrospectively or prospectively as allowed by the respective FRSs.

The adoption of all FRSs mentioned above does not have significant financial impact on the Group. With the adoption of the new applicable FRSs, the Group has effected the necessary changes to the accounting policies and disclosures as follows:-

#### (a) **FRS 3 : Business Combination, FRS 136 : Impairment of Assets and FRS 138 : Intangible Assets**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. The Group has applied the transitional provisions provided by FRS 3 to apply this FRS prospectively. Accordingly, business combinations entered into prior to the effective date have not been restated to comply with this FRS. There is new business combination for which the agreement date is on or after 1st January 2006.

For business combination entered into prior to 1st January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities of the subsidiary.

With the adoption of FRS 3 beginning 1st January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary.

Prior to 1st January 2006, goodwill has an estimated economic life of fifteen years and is amortised and recognised as an expense by reference to the proportion that revenue generated by the subsidiary company for the period bears to the forecasted revenue over a period of fifteen years so as to reflect the pattern in which the assets's economic benefits are consumed by the Company. The carrying amount of goodwill is reviewed annually and is written down for impairment where it is considered necessary.

The adoption of these new FRSs has resulted in the Group ceasing annual amortisation of goodwill. Goodwill is carried at cost less accumulated impairment losses and is now tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Any impairment loss is recognised in the income statement and subsequent reversal is not allowed.

The transitional provisions of FRS 3 have required the Group to eliminate at 1st January 2006 the carrying amount of the accumulated amortisation of RM546,965/- against the gross amount of goodwill. The carrying amount of goodwill as at 1st January 2006 of RM6,633,689/- ceased to be amortised.

As these accounting policies have been applied prospectively, the change has had no impact on the amounts reported for financial year ended 2005 and prior periods.



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Effects Arising From Adoption of New and Revised FRSs (cont'd)

#### (b) FRS 101 : Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. Minority interest is now presented within total equity in the consolidated balance sheet as an allocation from net profit or loss of the period in the consolidated income statement. The movement of minority interest is now presented in the consolidated statement of changes in equity.

The new and relevant standards that have been issued but not effected for the Group's current financial year are as follows:-

#### (a) FRS 117 : Leases (effective for annual accounting period beginning on or after 1st October 2006)

The directors anticipate that the adoption of FRS 117 will not have a material effect on the financial statements of the Group. The Group will apply this FRS from the financial year beginning 1st January 2007.

#### (b) FRS 124 : Related Party Disclosures (effective for annual accounting period beginning on or after 1st October 2006)

This FRS will affect the identification of related parties and some other related party disclosures. The Group will apply this FRS from the financial year beginning 1st January 2007.

#### (c) FRS 139 : Financial Instruments : Recognition and measurement (effective date yet to be determined by MASB)

This FRS establishes the principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this FRS when it comes into effect.

#### (d) FRS 6 : Exploration for and Evaluation of Mineral Resources

This FRS is not relevant to the Group's operations. Hence, no further disclosure is warranted.

### 2.3 Significant Accounting Policies

#### (a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the financial year.

The financial statements of the parent and its subsidiaries are all made up to the same reporting date.

Subsidiaries are those corporations in which the Group has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date control ceases.

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (a) Basis of Consolidation (cont'd)

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest.

Intra-group transactions, balances and resulting unrealised gains on transactions within the Group are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated on consolidation unless costs cannot be recovered. When necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those adopted by the Group.

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Company, directly or indirectly through the subsidiary. It is measured at the minorities' share of the fair values of the subsidiary's identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiary's equity since that date.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated at such profit until the minority's share of losses previously absorbed by the Group has been recovered.

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

All property, plant and equipment were initially stated at cost. Certain buildings were subsequently shown at market value, based on valuations of external independent valuers, less subsequent accumulated depreciation and impairment losses, if any. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(l).

Cost includes expenditure that is directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement as incurred.

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (b) Property, Plant and Equipment (cont'd)

Depreciation is charged on a straight line basis to write off the costs of the assets to their residual values over the term of their estimated useful lives. The annual rates used for this purpose are as follows:-

Property	2%
Furniture and fittings	10%
Library	10%
Computers	20%
Office equipment	20%
Motor vehicles	20%

The residual values, useful life and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

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

#### (c) Goodwill and Reserve on Consolidation

Goodwill arising on acquisition represents the excess of cost of business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is stated at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(l).

Goodwill is not amortised but is reviewed for impairment, annually or more frequently for impairment in value and is written down where it is considered necessary. Reserve on consolidation is recognised immediately in the income statement.

#### (d) Intellectual Property Rights

Intellectual property rights are stated at cost less accumulated amortisation and impairment loss, if any. The policy for the recognition and measurement of impairment loss is in accordance with Note 2(l). This expenditure is capitalised as it is able to generate future economic benefits to the Company. Intellectual property rights are amortised from the commencement of the income recognition to which they relate on the straight line basis over the period of expected benefit but not exceeding twenty years.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (e) Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is also recognised as an expense in the period incurred except when the expenditure meets the following criteria where it will be capitalised as development cost:

- (a) the product or process is clearly defined and costs are separately identified and measured reliably;
- (b) the technical feasibility of the product is demonstrated;
- (c) the product or process will be sold or used in-house;
- (d) the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness, in case of internal use, is demonstrated); and
- (e) adequate technical, financial and other resources required for completion of the project are available.

Development costs initially recognised as an expense are not recognised as an asset in subsequent periods.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment loss. Amortisation is charged to the income statement based on a straight-line basis over five years. The policy for the recognition and measurement of impairment loss is in accordance with Note 2(l).

#### (f) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on the review of all outstanding amounts as at the balance sheet date.

#### (g) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future, whether or not billed to the Group.

#### (h) Hire Purchase

Assets financed by hire purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment, and the corresponding obligations are treated as liabilities. The assets so capitalised are depreciated in accordance with the accounting policy on property, plant and equipment. Finance charges are charged to the income statement over the periods of the respective agreements.

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (i) Taxation

The tax expense in the income statement represents the aggregate amount of current tax and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date arising 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 not accounted for if it arises from initial recognition on an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

#### (j) Foreign Currency Translation

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Group's functional currency and presentation currency.

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the rate of exchange ruling on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rates at the date the fair value was determined. Exchange differences arising from the settlement of foreign currency transactions and from the retranslation of foreign currency monetary assets and liabilities are included in the income statement.

#### (k) Financial Instruments

Financial instruments are recognised on the balance sheets when the Group has become a party to the contractual provisions of the instrument. 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (l) Impairment of Assets

The carrying amounts of assets other than deferred tax assets and non-current assets held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

#### (m) Revenue Recognition

##### (i) Income from software consultancy and development

Income from software consultancy and development is recognised upon services rendered to customers and customers' acceptance, net of discounts.

##### (ii) Dividend income

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Significant Accounting Policies (cont'd)

#### (n) Borrowing Costs

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

#### (o) Employee Benefits

##### (i) Short term employee benefits

Wages, salaries, allowances, social security contribution, bonuses and non-monetary benefits are recognised as an expense in the period in which the associated services are rendered by the employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### (ii) Post-employment benefits

The Group contributes to the Employees' Provident Fund, the national defined contribution plan. The contributions are charged to the income statement in the period to which they are related. Once the contributions have been paid, the Group has no further payment obligations.

#### (p) Segment Reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services with a particular economic environment that are subject to risks and returns that are different from those components.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

#### (q) Cash and Cash Equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand, demand deposits, bank balances and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 3. ACCOUNTING ESTIMATES

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below:-

#### (a) Impairment of Goodwill

The Group determines whether goodwill are impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31st December 2006 was RM6,633,689/- (2005 : RM6,633,689/-).

#### (b) Impairment of Development Costs and Intangible Assets

The Group carried out the impairment test based on a variety of estimation including the value-in-use of the CGU to which the development costs and intangible assets are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of development costs and intangible assets of the Group as at 31st December 2006 was RM6,878,734/- (2005 : RM3,507,782/-) and RM1,069,937/- (2005 : RM376,058/-) respectively.

#### (c) Allowance for Doubtful Debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payments terms when making a judgement to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

#### (d) Deferred Tax Liabilities

The Group recognises deferred tax liabilities in the income statement which are expected to be realised after the pioneer period. Significant management judgement is required to determine the amount of deferred tax liabilities that expected to be realised within the pioneer period, based upon the likely timing and level of future operations. The carrying value of unrecognised deferred tax liabilities of Group as at 31st December 2006 in respect of the deferred tax liabilities which are expected to be realised during the pioneer period was RM3,745,980/- (2005: RM1,382,120/-).



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 4. PROPERTY, PLANT AND EQUIPMENT

Group 2006	Office Suite	Furniture and Fittings	Library	Computer- Office	Computer- Capitalised in Office Development	Office Equipment	Motor Vehicles	Total
	RM	RM	RM	RM	RM	RM	RM	RM
<b>Cost</b>								
At 1st January 2006	–	23,097	387	1,102,638	930,635	14,952	123,795	2,195,504
Additions	2,082,755	1,100,831	4,934	424,031	3,198,628	113,090	285,461	7,209,730
Disposals	–	–	–	–	–	–	–	–
At 31st December 2006	2,082,755	1,123,928	5,321	1,526,669	4,129,263	128,042	409,256	9,405,234
<b>Accumulated Depreciation</b>								
At 1st January 2006	–	4,846	65	224,230	495,822	5,305	49,518	779,786
Charge for the year	10,414	112,392	532	305,333	825,853	25,609	81,852	1,361,985
Disposals	–	–	–	–	–	–	–	–
At 31st December 2006	10,414	117,238	597	529,563	1,321,675	30,914	131,370	2,141,771
<b>Net Book Value at 31st December 2006</b>	<b>2,072,341</b>	<b>1,006,690</b>	<b>4,724</b>	<b>997,106</b>	<b>2,807,588</b>	<b>97,128</b>	<b>277,886</b>	<b>7,263,463</b>

Group 2005	Furniture and Fittings	Library	Computer- Office	Computer- Capitalised in Office Development	Office Equipment	Motor Vehicles	Total
	RM	RM	RM	RM	RM	RM	RM
<b>Cost</b>							
At 1st January 2005	22,597	263	6,169	930,635	11,577	123,795	1,095,036
Additions	500	124	1,096,469	–	3,375	–	1,100,468
Disposals	–	–	–	–	–	–	–
At 31st December 2005	23,097	387	1,102,638	930,635	14,952	123,795	2,195,504
<b>Accumulated Depreciation</b>							
At 1st January 2005	2,536	26	3,702	309,695	2,315	24,759	343,033
Charge for the year	2,310	39	220,528	186,127	2,990	24,759	436,753
Disposals	–	–	–	–	–	–	–
At 31st December 2005	4,846	65	224,230	495,822	5,305	49,518	779,786
<b>Net Book Value at 31st December 2005</b>	<b>18,251</b>	<b>322</b>	<b>878,408</b>	<b>434,813</b>	<b>9,647</b>	<b>74,277</b>	<b>1,415,718</b>

### Group

Motor vehicles of the Group with total net book value of RM266,368/- (2005 : RM74,277/-) were acquired under hire purchase instalment plans. A motor vehicle costing RM28,797/- (2005 : RM28,797/-) is registered under a director's name.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 5. INVESTMENT IN SUBSIDIARIES

	Company 2006	2005
	RM	RM
Unquoted shares – at cost	10,090,093	10,089,995

The Group's equity interest in the subsidiaries, country of incorporation and its principal activities are as follows:-

Name of Company	Country of Incorporation	Effective Group's Equity Interest		Principal Activities
		2006	2005	
		%	%	
<b>Direct subsidiary company</b>				
SMR HR Technologies Sdn. Bhd. +	Malaysia	100	100	Software consultancy and development and its related activities.
SMR HR Services Sdn. Bhd.	Malaysia	98	–	Dormant

+ *The subsidiary company is not audited by Monteiro & Heng*

On 6th November 2006, the board of directors of the Company announced that the Company has incorporated SMR HR Services Sdn. Bhd., a 98% owned subsidiary as detailed in Note 27(c) to the financial statements.

### 6. GOODWILL ON CONSOLIDATION

	Group 2006	2005
	RM	RM
At 1st January	6,633,689	7,180,654
Amortised during the year	–	(546,965)
At 31st December	6,633,689	6,633,689

#### Group

In the previous financial year, goodwill was amortised by reference to the proportion that revenue for the period bears to the forecasted revenue over a period of fifteen years.

The change of estimate on the expected pattern of consumption of economic benefits of the asset has the effect of increasing the Group's net profit for the financial year 2005 by RM410,455/-.

The Group has now changed its accounting estimate not to amortise the goodwill, but it is reviewed for impairment in value, annually or more frequently for impairment in value and is written down where it is considered necessary.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 7. INTANGIBLE ASSETS

	Group	
	2006	2005
	RM	RM
<b>Intellectual property rights</b>		
At 1st January	942,170	914,470
Add: Additions during the year	934,334	27,700
	1,876,504	942,170
Accumulated amortisation	(806,567)	(566,112)
At 31st December	1,069,937	376,058

### 8. DEVELOPMENT COSTS

	Group	
	2006	2005
	RM	RM
At 1st January	3,727,782	1,486,045
Add: Additions during the year	3,610,952	2,241,737
	7,338,734	3,727,782
Accumulated amortisation	(460,000)	(220,000)
At 31st December	6,878,734	3,507,782
Included in development expenditure incurred during the year are:-		
Depreciation	825,853	186,127
Office rental	41,540	59,420

### 9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Trade receivables	2,635,502	1,958,434	-	-
Other receivables	18,214	4,427	-	-
Prepayments	-	574,499	-	574,499
Deposits	33,756	11,077	-	-
	2,687,472	2,548,437	-	574,499

The Group's normal trade credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 9. TRADE AND OTHER RECEIVABLES (cont'd)

#### Group and Company

Included in prepayments in year 2005 was an amount totalling RM574,499/- representing listing expenses incurred pursuant to the listing requirement which was set off against share premium account during the current financial year.

### 10. AMOUNTS OWING BY/(TO) SUBSIDIARIES

#### Company

The amounts owing by/(to) subsidiaries are non-trade, unsecured, interest free and have no fixed terms of repayment.

### 11. DEPOSITS PLACED WITH LICENSED BANK

#### Group and Company

The deposits bear interest at 3% (2005 : Nil) per annum.

### 12. SHARE CAPITAL

	Group and Company			
	2006	2005	2006	2005
	Number of Shares		Amount	
	Units	Units	RM	RM
Ordinary shares of RM0.10 each				
Authorised:				
At 1st January/31st December	250,000,000	250,000,000	25,000,000	25,000,000
Issued and fully paid:				
At 1st January	70,000,000	70,000,000	7,000,000	7,000,000
Issued during the year pursuant to initial public offering	30,000,000	-	3,000,000	-
At 31st December	100,000,000	70,000,000	10,000,000	7,000,000

### 13. SHARE PREMIUM

	Group and Company	
	2006	2005
	RM	RM
At 1st January	3,000,002	3,000,002
Arising from issuance of 30,000,000 ordinary shares pursuant to the initial public offering	6,900,000	-
Listing expenses incurred pursuant to initial public offering	(2,019,307)	-
At 31st December	7,880,695	3,000,002

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 14. RETAINED EARNINGS/(ACCUMULATED LOSSES)

### Company

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt account available to frank the entire retained earnings as at 31st December 2006 by way of dividends.

## 15. HIRE PURCHASE PAYABLES

Hire purchase obligations are repayable in the following year:-

	Group	
	2006	2005
	RM	RM
Minimum hire purchase payments		
– not later than one year	65,520	19,584
– later than one year and not later than five years	262,057	78,336
– later than five years	–	21,989
	327,577	119,909
Future interest charges	(40,930)	(28,177)
Present value of hire purchase liabilities	286,647	91,732
Current		
– not later than one year	50,923	14,988
Non-current		
– later than one year and not later than five years	235,724	59,952
– later than five years	–	16,792
	235,724	76,744
	286,647	91,732

### Group

Interest rates on the hire purchase of the Group for the year range from 4.00% to 4.50% (2005 : 4.00% to 4.50%) per annum.

The effective interest rates as at the balance sheet date range from 4.50% to 4.73% (2005 : 7.30% to 8.14%) per annum.

The hire purchase is effectively secured on the rights of the assets under hire purchase.

# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 16. DEFERRED TAX LIABILITIES

	Group	
	2006	2005
	RM	RM
At 1st January	-	-
Transfer from income statement (Note 22)	38,244	-
At 31st December	38,244	-

Representing the tax effects of:-

	At 1st January	Recognised in the Income Statement	Not Recognised in the Income Statement	At 31st December
	RM	RM	RM	RM
<b>Group</b>				
<b>2006</b>				
Temporary differences between net book values and the corresponding tax written down values Expected to realise during the pioneer period	1,382,130 (1,382,130)	147,091 -	2,363,850 (2,363,850)	3,893,071 (3,745,980)
Expected to realise after the pioneer period	-	147,091	-	147,091
Tax at 26% (2005 : 28%)	-	38,244	-	38,244
<b>Group</b>				
<b>2005</b>				
Temporary differences between net book values and the corresponding tax written down values Expected to realise during the pioneer period	817,780 (817,780)	- -	564,350 (564,350)	1,382,130 (1,382,130)
Expected to realise after the pioneer period	-	-	-	-
Tax at 28% (2004 : 28%)	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 17. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Trade payables	97,091	–	–	–
Other payables	919,412	395,169	54,550	29,800
Accruals	53,728	26,668	11,150	800
	1,070,231	421,837	65,700	30,600

#### Group

The normal trade credit terms granted to the Group range from 30 to 90 days.

### 18. AMOUNTS OWING TO DIRECTORS

#### Group and Company

The amounts owing to directors are unsecured, interest free and have no fixed terms of repayment.

### 19. REVENUE

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Dividend income receivable from a subsidiary	–	–	1,000,000	–
Software consultancy and development	12,155,828	7,937,211	–	–
	12,155,828	7,937,211	1,000,000	–

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 20. OPERATING PROFIT/(LOSS)

Operating profit/(loss) has been arrived at:-

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
After charging:-				
Allowance for doubtful debts	22,017	-	-	-
Amortisation				
- goodwill on consolidation	-	68,225	-	-
- intellectual property right	240,455	203,218	-	-
- development cost	240,000	140,000	-	-
Audit fees	20,500	12,200	8,000	3,200
Depreciation	1,361,985	436,753	-	-
Directors' remuneration	522,872	321,000	71,000	-
Realised loss on foreign exchange	6,233	-	-	-
Rental				
- office	18,000	-	-	-
- office equipment	12,000	14,480	-	-
- web server	9,280	-	-	-
Staff costs				
- salary, wages, allowances and bonus	2,967,454	2,033,913	-	-
- other staff related expenses	52,805	52,805	-	-
- Employees' Provident Fund	87,968	31,626	-	-
- SOCSO	5,445	2,735	-	-
And crediting:-				
Interest income	173,999	-	173,999	-

### 21. FINANCE COSTS

	Group	
	2006	2005
	RM	RM
Interest expense		
- hire purchase	(11,043)	(3,835)



# NOTES TO THE FINANCIAL STATEMENTS (cont'd)

## 22. TAXATION

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Income tax				
- current year	(28,000)	-	(28,000)	-
Deferred tax (Note 16)				
- current year	(165,694)	-	-	-
- prior years	127,450	-	-	-
	(66,244)	-	(28,000)	-

### Group

SMR HR Technologies Sdn. Bhd., a wholly-owned subsidiary, was awarded Multimedia Super Corridor Status ("MSC Status") on 29th January 2001 thereby making the said subsidiary eligible for Pioneer Status for 100% tax exemption for a period of five years or an investment tax allowance for up to five years and no duties on the importation of multimedia equipment. On 27th March 2007, the said subsidiary was subsequently granted an extension for its MSC Status by Multimedia Development Corporation Sdn. Bhd., which entitles the said subsidiary to have another five years tax exemption status with effect from 30th December 2006.

### Group and Company

The income tax is tabulated at Malaysian Statutory rate of 28% (2005 : 28%) of the estimated assessable profit for the year. The statutory tax rate will be reduced to 27% and 26% from the current year's rate of 28% for the years of assessment 2007 and 2008 respectively. The computation of deferred tax as at 31st December 2006 has been reflected with these changes accordingly.

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

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Profit/(loss) before taxation	5,814,286	3,628,920	1,077,225	(6,236)
Tax at the applicable tax rate of 28%	(1,628,000)	(1,016,098)	(301,623)	1,746
Tax effects arising from				
- non-deductible expenses	(172,357)	(127,791)	(6,377)	(1,746)
- non-taxable income	-	-	280,000	-
- small and medium size enterprises tax savings	40,000	40,000	-	-
- origination of deferred tax liabilities				
not recognised in the financial statements	537,370	158,018	-	-
- tax exempted under MSC status	1,032,235	945,871	-	-
- deferred tax recognised at different tax rate	(2,942)	-	-	-
- overaccrual in prior years	127,450	-	-	-
Tax expense for the year	(66,244)	-	(28,000)	-

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 23. EARNINGS PER SHARE

#### Basic Earnings Per Share

The basic earnings per share for the year has been calculated based on the Group's profit for the year of RM5,748,042/- (2005 : RM3,628,920/-) and on the weighted average number of 95,726,027 (2005 : 70,000,000) ordinary shares in issue during the financial year.

#### Diluted Earnings Per Share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential ordinary shares.

The Group has no dilutive potential ordinary shares. As such, no dilutive effect on the earnings per share of the Group.

### 24. DIVIDENDS

	Group and Company	
	2006	2005
	RM	RM
In respect of financial year ended 31st December 2006		
– interim tax exempt dividend payable of RM0.01 per share	1,000,000	–

### 25. SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties refer to companies in which the directors of the Company have substantial financial interest. The related party transactions comprise of the following:-

	Group	
	2006	2005
	RM	RM
Sales and services to related party		
– Specialist Management Resources (S) Pte. Ltd.	219,000	358,000
Hire of equipment charged by related party		
– Specialist Management Resources Sdn. Bhd.	12,000	14,480
Implementation fee charged by related party		
– Specialist Management Resources Sdn. Bhd.	330,218	80,000
Rental charged by related party		
– Specialist Management Resources Sdn. Bhd.	18,000	13,500

The directors of the Group are of the opinion that the above transactions have been entered into in the normal course of business and the terms are not less favourable than that arranged with third parties.

## 26. SEGMENTAL INFORMATION

### Group

Segmental information for the financial year is not presented as the Group's turnover and losses are derived solely from the provision of software consultancy and development of its related activities. The Group's operations are conducted predominantly in Malaysia.

## 27. SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR

- (a) On 22nd February 2006, the Company enlarged its issued and paid-up share capital by a public issue of 30,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.33 per ordinary share comprising:-
- (i) 2,500,000 new ordinary shares of RM0.10 each for application by the eligible directors and employees of the Company and its subsidiary.
  - (ii) 25,000,000 new ordinary shares of RM0.10 each by way of private placement to the identified investors.
  - (iii) 2,500,000 new ordinary shares of RM0.10 each for application by the public.
- (b) On 13th March 2006, the Company was listed on the MESDAQ Market of Bursa Malaysia Securities Berhad.
- (c) On 6th November 2006, the Company incorporated a subsidiary namely, SMR HR Services Sdn. Bhd. ("SMR HRS") to cater for the Group's future business expansion needs. SMR HRS has an authorised capital of RM100,000/- made up of 100,000 ordinary shares of RM1/- each. The issued and paid-up capital of SMR HRS is RM100/- of which 98 shares are held by the Company and the remaining 2 shares are held by two of the directors of the Company.

On 7th February 2007, the Company subsequently acquired the remaining 2 ordinary shares of RM1/- each at par value in SMR HRS for a consideration of RM2/- thereby making SMR HRS a wholly-owned subsidiary of the Company.

- (d) On 7th March 2007, the Company announced that the Company has set up a wholly-owned subsidiary, SMR USA INC on 14th February 2007 to market the Group's products and services in the USA and surrounding area. SMR USA INC has an authorised share capital of USD100,000 made up of 100,000 ordinary shares of USD1/- each. The paid-up share capital of SMR USA INC is USD1,000 comprising 1,000 ordinary shares of USD1/- each.

## 28. FINANCIAL INSTRUMENTS

### (a) Financial Risk Management

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its credit, interest rate, foreign currency and liquidity risks.

#### (i) Credit risk

As at balance sheet date, there were no significant concentrations of credit risk in the Group. The maximum exposure to credit risk for the Group is represented by the carrying amount of each financial instrument.

#### (ii) Interest rate risk

The Group's primary interest rate risk relates to interest-bearing debts, as the Group has no substantial long term interest-bearing assets as at 31st December 2006. The investments in financial assets are mainly short term in nature and they are not held for speculative purposes.

The maturity dates and effective interest rates of hire purchase liabilities at the balance sheet date are disclosed in Note 15 to the financial statements.

#### (iii) Foreign currency risk

The Group is exposed to foreign currency risk as a result of its normal external trading activities where currency denomination differs from its functional currency.

Foreign exchange exposures in transactional currencies other than functional currencies are kept to an acceptable level. The group does not engage in foreign currency hedging in respect of its foreign currency exposures but the management monitors these exposures on an ongoing basis.

#### (iv) Liquidity risk

The Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all financing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

### (b) Fair Values

#### (i) Recognised financial instruments

The fair values of financial assets and financial liabilities approximate their respective carrying values on the balance sheets of the Group and of the Company, except for the amounts owing to directors and amounts owing by/(to) subsidiaries.

It is not practical to estimate the fair values of the amounts owing to directors, and amounts owing by/(to) subsidiaries due principally to the inability to estimate the settlement date without incurring excessive costs as these amounts lack a fixed repayment term. However, the Group and the Company do not anticipate the carrying amounts recorded at the balance sheets date to be significantly different from the values that would be eventually received or settled.

#### (ii) Unrecognised financial instruments

There are no fair values for other financial instruments not recognised in the balance sheets as at 31st December 2006 that are required to be disclosed other than as stated above.

# STATEMENT BY DIRECTORS

We, **PALANIAPPAN A/L RAMANATHAN CHETTIAR** and **KAMATCHI @ VALLIAMMAI A/P MALAYANDI**, being two of the directors of SMR Technologies Berhad, do hereby state that in the opinion of the directors, the accompanying financial statements as set out on pages 39 to 65 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2006 and of the results and cash flows of the Group and of the Company for the year ended on that date in accordance with the provisions of the Companies Act, 1965 and applicable MASB approved accounting standards in Malaysia for entities other than private entities.

On behalf of the Board,

.....  
**PALANIAPPAN A/L RAMANATHAN CHETTIAR**  
Director

.....  
**KAMATCHI @ VALLIAMMAI A/P MALAYANDI**  
Director

Kuala Lumpur

Date: 11th April 2007

# STATUTORY DECLARATION

I, **PALANIAPPAN A/L RAMANATHAN CHETTIAR**, being the director primarily responsible for the financial management of SMR Technologies Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying financial statements as set out on pages 39 to 65 are 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.

.....  
**PALANIAPPAN A/L RAMANATHAN CHETTIAR**

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 11th April 2007.

Before me,

.....  
**ABAS BIN HASAN**  
Commissioner for Oaths (No. W392)

Mezzanine Floor  
No. 86, Jalan Putra  
50350 Kuala Lumpur

# REPORT OF THE AUDITORS

## TO THE MEMBERS OF SMR TECHNOLOGIES BERHAD (Incorporated in Malaysia)

We have audited the financial statements set out on pages 39 to 65.

These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on those 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 towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB approved accounting standards in Malaysia for entities other than private entities so as to give a true and fair view of:
  - (i) the state of affairs of the Group and the Company as at 31st December 2006 and of the results and cash flows of the Group and of the Company for the year ended on that date; and
  - (ii) 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

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiary of which we acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' report thereon of the subsidiary of which we have not acted as auditors, as indicated in Note 5 to the financial statements, being financial statements that have been included in the consolidated financial statements.

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

The auditors' report on the financial statements of subsidiaries were not subject to any qualification and did not include any comments made under Subsection (3) of Section 174 of the Companies Act, 1965.

Monteiro & Heng  
No. AF 0117  
Chartered Accountants

M.J. Monteiro  
No. 828/05/08(J/PH)  
Partner

Kuala Lumpur

Date: 11th April 2007

# ANALYSIS OF SHAREHOLDINGS

## SHAREHOLDINGS STRUCTURE AS AT 20 APRIL 2007

### SHARE CAPITAL

Authorised Share Capital	RM25,000,000
Issued and paid-up share capital	RM10,000,000
Class of shares	Ordinary shares of RM0.10 each
Voting Rights	One vote per ordinary share

### DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	%	No. of Shares Holdings	%
Less than 100	1	0.09	50	0.00
100 to 1,000	118	10.45	102,300	0.10
1,001 to 10,000	608	53.85	3,926,760	3.93
10,001 to 100,000	346	30.65	11,537,500	11.54
100,001 to less than 5% of issued shares	53	4.69	17,782,320	17.78
5% and above of issued shares	3	0.27	66,651,070	66.65
	<b>1,129</b>	<b>100.00</b>	<b>100,000,000</b>	<b>100.00</b>

### SHAREHOLDING DETAILS AS AT 20 APRIL 2007

Directors	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
Palaniappan a/l Ramanathan Chettiar	14,431,110	14.43	42,006,990	42.01 <sup>(a)</sup>
Kamatchi @ Valliammai a/p Malayandi	7,010	0.01	56,431,090	56.43 <sup>(b)</sup>
Nadarajah a/l Manickam	30,000	0.03	0	0.00
Ajay Kumar Arya	200,000	0.20	0	0.00
Ishak bin Hashim	0	0.00	0	0.00
Leow Nan Chye	0	0.00	0	0.00

#### Notes:

- (a) deemed interested by virtue of his shareholdings in Special Flagship Holdings Sdn Bhd and his spouse, Kamatchi @ Valliammai a/p Malayandi.
- (b) deemed interested by virtue of her spouse, Palaniappan a/l Ramanathan Chettiar.

### SUBSTANTIAL SHAREHOLDERS AS AT 20 APRIL 2007

	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
Special Flagship Holdings Sdn Bhd	41,999,980	42.00	0	0.00
Palaniappan a/l Ramanathan Chettiar	14,431,110	14.43	42,006,990	42.01 <sup>(a)</sup>
Kumpulan Sentiasa Cemerlang Sdn Bhd	13,220,000	13.22	0	0.00

#### Notes:

- (a) deemed interested by virtue of his shareholdings in Special Flagship Holdings Sdn Bhd and his spouse, Kamatchi @ Valliammai a/p Malayandi.

# ANALYSIS OF SHAREHOLDINGS (cont'd)

## 30 LARGEST SECURITIES ACCOUNT HOLDERS AS AT 20 APRIL 2007

	Names	No. of Shares	% of Issued Capital
1	SPECIAL FLAGSHIP HOLDINGS SDN BHD	41,999,980	42.00
2	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD BENEFICIARY : EXEMPT AN FOR KUMPULAN SENTIASA CEMERLANG SDN BHD (TSTAC/CLNT)	13,220,000	13.22
3	PALANIAPPAN A/L RAMANATHAN CHETTIAR	11,431,090	11.43
4	PALANIAPPAN A/L RAMANATHAN CHETTIAR	3,000,020	3.00
5	CHHOA KWANG HUA	1,700,000	1.70
6	ECM LIBRA AVENUE NOMINEES (TEMPATAN) SDN.BHD. BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LEE CHONG EU	1,481,600	1.48
7	AMANAH RAYA BERHAD BENEFICIARY : SBB DANA AL-FAIZ	822,400	0.82
8	CHAN CHOON WAI	800,000	0.80
9	TANG KAM KEW	723,900	0.72
10	INTER-PACIFIC EQUITY NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR LEE SOO MING (AL0010)	550,000	0.55
11	ANG ENG HONG	423,000	0.42
12	CHE MOHD ANNUAR BIN CHE MOHD SENAWI	358,800	0.36
13	TA NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR RIEDZUAN BIN ABDULLAH	358,000	0.36
14	PHOA BOON TING	350,000	0.35
15	LEE AH YEW	323,000	0.32
16	TEOH HUNT THUIM	280,000	0.28
17	CHAN CHEE KEONG	266,000	0.27
18	AMANAH RAYA BERHAD BENEFICIARY : SBB ENTERPRISE FUND	250,200	0.25
19	CHUA TIONG CHUAN @ CHUA LIONG SU	230,000	0.23
20	TEH GEOK SIM	230,000	0.23
21	CHONG MEI	221,000	0.22
22	WONG THONG THAI	213,300	0.21
23	RC NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR NG CHEE THONG (C03RET2ETN143M)	206,100	0.21
24	AJAY KUMAR ARYA	200,000	0.20
25	HDM NOMINEES (ASING) SDN BHD BENEFICIARY : DBS VICKERS SECS (S) PTE LTD FOR LIM MENG SENG	200,000	0.20
26	HLB NOMINEES (TEMPATAN) SDN BHD BENEFICIARY : PLEDGED SECURITIES ACCOUNT FOR SAW HAI EARN	200,000	0.20
27	LIM YONG BIN	200,000	0.20
28	TAN CHIN YONG	200,000	0.20
29	TAN KHEOK CHUAN	200,000	0.20
30	LAU GEOK CHOO	186,000	0.19
		80,824,390	80.82

## LIST OF PROPERTIES

Location	Description	Tenure	Existing Use	Built-up Area	Age of Building (year)	Net Book Value RM	Date of Acquisition
Suite 2A-23-2, Block 2A, Level 23, Plaza Sentral, Jalan Stesen, Sentral 5, 50470 Kuala Lumpur	Office suite	Freehold	Office	3,893 square feet	1 year	2,072,341	21.06.2006



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# PROXY FORM FOR ANNUAL GENERAL MEETING

\*I/We \_\_\_\_\_ (BLOCK LETTERS) NRIC/Company No. \_\_\_\_\_

of \_\_\_\_\_

being a \* Member/Members of **SMR TECHNOLOGIES BERHAD**, do hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or failing \* him/her \_\_\_\_\_

of \_\_\_\_\_

or failing \* him/her, the CHAIRMAN of the Meeting, as \* my/our proxy to vote and act for \* me/us on \* my/our behalf at the Third Annual General Meeting of the Company to be held at Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Monday, 18 June 2007 at 10.00 a.m. and at any adjournment thereof, and to vote as indicated below:

	RESOLUTIONS	FOR	AGAINST
1.	To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2006 and the Reports of Directors' and Auditors' thereon.		
2.	To approve the payment of Directors' Fees amounting to RM385,600.00 for the financial year ended 31 December 2006.		
3.	To re-elect Ajay Kumar Arya who retires pursuant to Article 90 of the Company's Articles of Association.		
4.	To re-elect Nadarajah A/L Manickam who retires pursuant to Article 90 of the Company's Articles of Association.		
5.	To re-elect Choong Khuat Hock who was appointed during the year and retires pursuant to Article 97 of the Company's Articles of Association.		
6.	To re-appoint Messrs. Monteiro & Heng as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.		
	<b>AS SPECIAL BUSINESS:</b>		
7.	To approve the Ordinary Resolution pursuant to Section 132D of the Companies Act, 1965.		
8.	To approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
9.	To approve the Proposed New Shareholders' Mandate for Additional Recurrent Related Party Transactions of a Revenue or Trading Nature.		
10.	To approve the Proposed Amendments to the Articles of Association of the Company.		

\* Strike out whichever not applicable

Please indicate with an "X" in the appropriate space how you wish your votes to be cast. If you do not indicate how on you wish your proxy to vote on any Resolution, the proxy will vote as he/ she thinks fit, or, at his/her discretion, abstain from the voting.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2007

No. of shares held

\_\_\_\_\_  
Signature of Member/Common Seal

**Notes:**

- A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
- The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing, or if the appointor is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorized.
- The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Registered Office of the Company at 149A, Jalan Aminuddin Baki, Taman Tun Dr. Ismail, 60000 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the Meeting or any adjourned meeting, as the case may be.

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STAMP

The Company Secretary

**SMR Technologies Berhad** (Company No. 659523-T)

149A Jalan Aminuddin Baki  
Taman Tun Dr Ismail  
60000 Kuala Lumpur

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