

13. DIRECTORS' REPORT
(Prepared for inclusion in this Prospectus)



Registered Office:
Suite 1603 16th Floor
Wisma Lim Foo Yong
86 Jalan Raja Chulan
50200 Kuala Lumpur

13 June 2002

The Shareholders

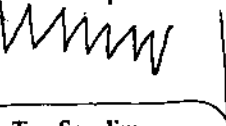
IRIS Corporation Berhad ("ICB" or "Company")

Dear Sir/Madam

On behalf of the Board of Directors of ICB, I report that after making due enquiries in relation to the interval between 31 December 2001, being the date to which the last audited accounts of the Company and its subsidiary companies have been made up, and 12 June 2002, being a date not earlier than fourteen (14) days before the issue of this Prospectus:-

- (a) The business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;
- (b) In the opinion of the Directors, save as disclosed in this Prospectus, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have adversely affected the trading or the value of the assets of the Company or its subsidiary companies;
- (c) The current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) Save as disclosed in the section on "Working Capital, Borrowings and Contingent Liability", no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or its subsidiary companies; and
- (e) Save as disclosed in the Accountants' Report as set out in Section 14 of this Prospectus, there have been no changes to the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited accounts of the Company and its subsidiary companies.

Yours faithfully
For and on behalf of the Board of Directors of
IRIS Corporation Berhad



Tan Say Jim
Managing Director

IRIS CORPORATION BERHAD (COMPANY NO. 302232-X)
IRIS Smart Complex, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur, Malaysia.
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14. ACCOUNTANTS' REPORT



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The Board of Directors
IRIS Corporation Berhad
IRIS Smart Technology Complex
Technology Park Malaysia
Bukit Jalil
57000 Kuala Lumpur

6 June 2002

Dear Sirs,

Accountants' Report

1 Introduction

The following report has been prepared by KPMG, an approved company auditor, for inclusion in the Prospectus in connection with the public issue of 211,333,333 new ordinary shares of RM0.15 each in ICB at an issue price of RM0.30 per ordinary share payable in full on application and the listing and quotation of its entire issued and fully paid-up share capital on the MESDAQ Market of the Kuala Lumpur Stock Exchange ("KLSE").

2 General Information

IRIS Corporation Berhad ("ICB" or the "Company") was incorporated on 31 May 1994 as TL Technology Research (M) Sdn Bhd, in Malaysia under the Companies Act, 1965 as a private limited company. On 18 August 1998, the Company was converted to a public limited company and changed its name to TL Technology Research (M) Berhad. However, on 19 March 1999, the Company changed its name again to assume its former name of TL Technology Research (M) Sdn Bhd. On 18 August 1999, the Company was converted to a public limited company again under the name TL Technology Research (M) Berhad. However, on 20 August 1999, the Company changed its name again to assume its present name, IRIS Corporation Berhad.

At the date of this report, ICB has 3 subsidiary companies and a 49.5% investment in IRIS Technologies (M) Sdn Bhd ("IRIS"). One of the subsidiary companies has been disposed of on 15 July 1999. There is also a foreign associated company held through a foreign subsidiary company. However, this foreign associated company has also been disposed of on 20 July 1999. The principal activities of the Company is information technology consultancy, implementation, research and development. The subsidiaries of the Company and their principal activities as at 31 December 2001 are set out in paragraph 5.

3 Basis of preparation

This report sets out information provided to us by the management of ICB and its subsidiaries ("ICB Group") in response to specific questions and from financial information extracted from audited financial statements of ICB Group and IRIS for the periods/years ended up to 31 December 2001. The information contained in this report was not independently verified by us and the scope of work conducted in the preparation of this report does not constitute an audit.



KPMG, KPM/G, a partnership established under
Malaysian law, is a member of KPMG International a
Swiss association.

14. ACCOUNTANTS' REPORT (CONT'D)**4 Share Capital****4.1 Authorised Share Capital**

The Company's present authorised share capital comprises 2,000,000,000 ordinary shares of RM0.15 each. The changes in the authorised share capital of the Company since its incorporation are as follows:-

Authorised:**Ordinary Shares:-**

Date of increase/ conversion	Number of shares of RM1.00 each increased/(converted)	Cumulative authorised ordinary shares RM
31-05-1994	500,000	500,000
20-01-1995	9,500,000	10,000,000
06-08-1996	10,000,000	20,000,000
05-02-1997	10,000,000	30,000,000
27-05-1997	(10,000,000)	20,000,000
02-06-1998	10,000,000	30,000,000
27-07-1998	20,000,000	50,000,000
20-05-1999	50,000,000	100,000,000

Pursuant to the Extraordinary General Meeting held on 2 May 2002, the Company sub-divided its existing authorised share capital from RM100,000,000 ordinary shares of RM1.00 each into 666,666,667 ordinary shares of RM0.15 each.

At the same Extraordinary General Meeting, the Company also increased its authorised share capital from RM100,000,000 to RM300,000,000 by the creation of an additional 1,333,333,333 ordinary shares of RM0.15 each at par. Such additional shares are to rank pari passu with the existing shares of the Company.

Redeemable Preference Shares:-

Date of increase/ conversion	Number of shares of RM1.00 each increased/(converted)	Cumulative redeemable preference shares RM
06-08-1996	5,000,000	5,000,000
05-02-1997	15,000,000	20,000,000
02-06-1998	(20,000,000)	-

14. ACCOUNTANTS' REPORT (CONT'D)**9% Convertible Redeemable Preference Shares:-**

Date of increase/ conversion	Number of shares of RM1.00 each increased/(converted)	Cumulative 9% convertible redeemable preference shares RM
27-05-1997	10,000,000	10,000,000
02-06-1998	10,000,000	20,000,000
27-07-1998	(20,000,000)	-

4.2 Issued and Fully Paid-Up Share Capital

At the date of incorporation, the Company's issued and fully paid-up share capital was RM2 comprising 2 ordinary subscribers' shares of RM1 each. The current issued and fully paid-up share capital comprises 622,000,000 ordinary shares of RM0.15 each.

Issued and fully paid-up:**Ordinary Shares:-**

Date of allotment	Number of shares of RM1.00 each	Consideration	Cumulative issued and paid-up shares RM
31-05-1994	2	Cash	2
30-05-1996	6,124,998	Cash	6,125,000
24-06-1996	2,205,000	Cash	8,330,000
20-02-1997	1,670,000	Cash	10,000,000
23-07-1998	20,000,000	Cash	30,000,000
28-07-1998	10,000,000	Cash	40,000,000
20-05-1999	500,000	Cash	40,500,000
20-05-1999	9,500,000	Cash	50,000,000
25-06-1999	1,000,000	Cash	51,000,000
28-06-1999	5,000,000	Cash	56,000,000
02-07-1999	6,000,000	Cash	62,000,000
05-07-1999	500,000	Cash	62,500,000
06-07-1999	4,500,000	Cash	67,000,000
09-07-1999	1,300,000	Cash	68,300,000
31-12-2001	25,000,000	Other than cash	93,300,000

Pursuant to the Extraordinary General Meeting held on 2 May 2002, the Company sub-divided each of the existing fully paid RM1.00 shares in the issued share capital of the Company into 6.6667 fully paid up to RM0.15 shares each. The effect of which, the existing issued and paid up share capital changes from 93,300,000 shares of RM1.00 each to 622,000,000 shares of RM0.15 each.

14. ACCOUNTANTS' REPORT (CONT'D)**Redeemable Preference Shares:-**

Date of allotment/ conversion	Number of shares of RM1.00 each allotted/(converted)	Consideration	Cumulative issued and paid-up shares RM
16-08-1996	5,000,000	Cash	5,000,000
20-02-1997	5,000,000	Cash	10,000,000
02-06-1998	(10,000,000)	Redeemed	-

9% Convertible Redeemable Preference Shares:-

Date of allotment/ redemption	Number of shares of RM1.00 each allotted/(redeemed)	Consideration	Cumulative issued and paid-up shares RM
27-05-1997	10,000,000	Cash	10,000,000
02-06-1998	10,000,000	Cash	20,000,000
27-07-1998	(20,000,000)	Redeemed out of proceeds from issue of shares	-

5 ICB Group Composition and Principal Activities**5.1** Details of the subsidiary companies as at the date of this report are as follows:-

Name of company	Issued and fully paid-up share capital	Equity Interest (%)	Principal Activities
<i>Subsidiary companies</i>			
Asiatronics Sdn Bhd ("ASB")	RM500,000	80	Marketing and development of airline and airport security systems
TL Automation Electronics (M) Sdn Bhd ("TLAE")	RM1,000,000	75	Development and manufacture of computer hardware and software
TL Technology Rsearch (Aust) Pty Limited ("TLTRA")	AUD3,500,000	100	Investment holding

The ICB Group principally operates in the knowledge and technology-based industry.

14. ACCOUNTANTS' REPORT (CONT'D)

- 5.2** As at the date of this report, ICB owns 49.5% investment in IRIS Technologies (M) Sdn Bhd ("IRIS").

Details of IRIS and its subsidiary companies as at the date of this report are as follows:-

Name of company	Issued and fully paid-up share capital	Equity Interest (%)	Principal Activities
IRIS	RM67,180,000	49.5	Information technology ownership, research and development in the use of smart technology and manufacturing of contact and contactless smart technology based products
<i>Subsidiary companies of IRIS</i>			
Iris Information Technology Systems Sdn Bhd	RM2,000,000	100	Marketing contact and contactless smart technology based products
Confidential Matter Limited (Hong Kong)	HK\$20	100	Dormant The intended principal activity is to market the IRIS technology to China

IRIS and its subsidiary companies will be referred to as the *IRIS Group*.

6 Dividends

The Company and its subsidiary companies have not declared or paid any dividends in respect of the relevant financial periods/years under review.

7 Auditors

The financial statements of the Company and its subsidiaries, for the financial periods/years under review in this report, were audited by other firms of auditors. The Auditors' Reports of the ICB Group for the relevant financial periods/years were reported on without any qualification.

14. ACCOUNTANTS' REPORT (CONT'D)**8 Summarised Results****8.1A Consolidated Income Statement**

The consolidated results of the ICB Group for the last five (5) financial years ended 31 December 2001 based on the audited financial statements are set out below:-

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	2,333	10,646	4,296	16,011	18,857
(Loss)/Profit before charging depreciation and interest expense	(526)	3,010	(6,264)	2,521	4,914
Less:					
Depreciation	(232)	(270)	(216)	(198)	(217)
Interest expense	(2,672)	(6,174)	(4,231)	(2,337)	(2,422)
(Loss)/Profit before share of results of associated company and taxation	(3,430)	(3,434)	(10,711)	(14)	2,275
Goodwill	-	-	(8)	(8)	(8)
Exceptional Item	-	-	9,034	-	-
Share of results in associated companies	-	(10,085)	-	-	-
(Loss)/Profit before taxation and minority interest	(3,430)	(13,519)	(1,685)	(22)	2,267
Taxation	-	-	-	-	(5)
Minority interest	106	54	46	2	(1)
(Loss)/Profit after taxation and minority interest	(3,324)	(13,465)	(1,639)	(20)	2,261
Weighted number of ordinary shares of RM1 each in issue ('000)	9,767	23,096	55,207	68,300	68,300
Net (loss)/earnings per share(RM)	(0.34)	(0.58)	(0.03)	-	0.03

Notes:-

- (a) The net profit/(loss) per share for the respective financial years shown above have been calculated based on the profit/(loss) after taxation and minority interest and divided over the weighted average number of ordinary shares in issue of RM1 each. This basis of calculation will apply to net profit/(loss) per share calculation for the rest of the report.
- (b) There were no extraordinary items for the relevant financial years under review.

14. ACCOUNTANTS' REPORT (CONT'D)

- (c) *The consolidated results were based on the audited financial statements of the respective companies within the Group based on their financial year ends. They are as follows:-*

Subsidiary companies

- ASB* - 5 financial years ended 31 December 1997 to 2001.
- TLAE* - 5 financial years ended 31 December 1997 to 2001.
- TLTRA* - 4 financial years ended 31 December 1998 to 2001.
- TLTR Development (M) Sdn Bhd (TLTRD)* - 2 financial years ended 31 December 1997 and 1998. TLTRD was disposed on 15 July 1999.

Associated companies

- IRIS Group* - Results of IRIS was equity accounted for in ICB's 1998 financial statements but not in 1999 after it became a simple investment upon the sale of ICB's 30% equity interest in this Company to Tan Sri Razali Ismail.

As at 31 December 2001, ICB acquired additional equity interest in IRIS making IRIS a 49.5% owned investment to ICB. As such, the results of the associated company have not been equity accounted for in the year ended 2001.

- (d) *Tax provision for the year ended 2001 is in respect of the underprovision of tax for interest income received in 2000. ICB has been granted MSC status by Multimedia Development Corporation Sdn Bhd. Under this MSC status, the Company's statutory income will be exempted from Income Tax for a period of 5 years commencing from 1997.*
- (e) *The exceptional item in the year ended 1999 mainly relates to gain of disposal of investments in a subsidiary company, an associated company and quoted investments.*

14. ACCOUNTANTS' REPORT (CONT'D)**8.1B Proforma Consolidated Income Statement**

The proforma consolidated income statements of the ICB Group throughout the period under review for the financial years ended 31 December 2001 which are prepared based on the assumption that IRIS has been a 49.5% associated company of ICB, TLTRD has been disposed of and the ICB Group has been in existence since 1 January 1997, are set out below:-

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	2,333	10,646	4,296	16,011	18,857
(Loss)/Profit before charging depreciation and interest expense	(1,065)	3,046	(6,264)	2,521	4,914
Less:					
Depreciation	(225)	(263)	(216)	(198)	(217)
Interest expense	(3,788)	(6,053)	(4,231)	(2,337)	(2,422)
(Loss)/Profit before share of results of associated company and taxation	(5,078)	(3,270)	(10,711)	(14)	2,275
Goodwill	-	-	(8)	(8)	(8)
Exceptional Item	-	-	5,710	-	-
Share of results in associated companies	(34)	(17,768)	(19,822)	(4,194)	(2,998)
Loss before taxation and minority interest	(5,112)	(21,038)	(24,831)	(4,216)	(731)
Taxation	-	-	-	-	(5)
Minority interest	106	54	46	2	(1)
Loss after taxation and minority interest	(5,006)	(20,984)	(24,785)	(4,214)	(737)
Number of ordinary shares of RM1 each in issue ('000) as at 31 December 2001 *	93,300	93,300	93,300	93,300	93,300
Net loss per share(RM) based on *	(0.05)	(0.22)	(0.27)	(0.05)	(0.008)

14. ACCOUNTANTS' REPORT (CONT'D)**8.1.1 Commentary on results**

The contribution of the subsidiaries/associated companies' results to the Group were insignificant for the periods/years under review as they have not commenced commercial operations. Therefore, analysis is only performed on the Group results whereby the bulk of the results were contributed by ICB (Company level) and not by the respective subsidiaries/associated companies.

8.1.2 Revenue

The breakdown of turnover by products for ICB for the last five financial years ended 31 December based on information provided by the Management are as follows:-

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Sale of hardware and software	437	8,696	-	-	1,718
Sales of Digital Conferencing System	276	297	596	362	451
Sales of contactless cards and readers	16	107	106	-	188
Sales of token card readers	84	72	-	-	-
Sale of bedside control panels	-	23	75	-	-
Licensing fee income	542	-	-	-	-
Others	71	355	615	-	514
Malaysian Passport Project	907	657	1,802	6,985	1,843
Royalty income	-	439	1,102	2,258	6,995
GMPC Project	-	-	-	6,406	7,148
	<u>2,333</u>	<u>10,646</u>	<u>4,296</u>	<u>16,011</u>	<u>18,857</u>

ICB commenced commercial operations during the middle of 1997.

Revenue for the year ended 31 December 1997 was mainly contributed by sale of readers and programmers to IRIS. ICB has engaged IRIS as its marketing arm for all the products developed.

The revenue for the year ended 31 December 1998 improved by approximately RM8,313,000 compared to 1997's revenue. The increase is mainly derived from the sale of software system for the Malaysian Passport Project.



The Malaysian Passport Project has created a milestone for ICB as these passports are the first in the world which are embedded with electronic chips that enable image and data to be stored and retrieved from those chips. This has enhanced the security of the passports making it one of the most difficult passports to be tampered with in the world. ICB is the supplier of the system software and hardware for this project.

The GMPC Project relates to the 'smart card reader' that will be used by all Malaysians as part of their identification card. The revenue for the year's ended 2000 and 2001 arose mainly from this project.

Also for the year ended 2001, a significant proportion of the income was derived from royalties received by the Company from IRIS for the Malaysian Passport Program and GMPC Project.

8.1.3 Interest

Interest expenses mainly consist of bank overdraft interest and term loan interest. Interest expense for 1997 consists of interest incurred for an additional term loan of RM20,000,000 which was drawdown by ICB to invest in the shares and loan stock in IRIS. The interest expense had further increased in 1998 due to additional term loan drawdown during that year and also due to the increase in interest rates charged by the banks. The term loan interest decreased in 1999, as some of the loan has been repaid from cash injection by new shareholders in the middle of that year.

14. ACCOUNTANTS' REPORT (CONT'D)**8.2 ICB****8.2.1 Company level - ICB**

The audited results of ICB for the last five (5) financial years ended 31 December are set out below:-

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Turnover	2,166	10,646	4,296	16,011	18,857
(Loss)/Profit before depreciation and interest expense	(169)	5,282	(1,785)	609	5,251
Less:					
Depreciation	(224)	(261)	(214)	(195)	(214)
Interest expense	(2,538)	(6,053)	(4,231)	(2,337)	(2,422)
(Loss)/Profit before taxation	(2,931)	(1,032)	(6,230)	(1,923)	2,615
Exceptional item	-	-	(6,017)	-	-
Taxation	-	-	-	-	(5)
(Loss)/Profit after taxation	(2,931)	(1,032)	(12,247)	(1,923)	2,610
Weighted number of ordinary shares of RM1 each in issue ('000)	9,767	23,096	55,207	68,300	68,300
Net (loss)/earnings per ordinary share (RM)	(0.30)	(0.04)	(0.22)	(0.03)	0.04

Notes:-

- (a) ICB commenced commercial operations during the middle of 1997.
- (b) There were no extraordinary items for the financial years under review.
- (c) The Company has been granted exemption from tax for a period of 5 years under the MSC status granted by Multimedia Development Corporation Sdn Bhd commencing 1997.

14. ACCOUNTANTS' REPORT (CONT'D)



8.2.2 ASB

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	-	-	-	-	-
Loss before depreciation and interest expense	(121)	(93)	(2,150)	(91)	(3)
Less:					
Depreciation	-	-	-	-	-
Interest expense	-	-	-	-	-
Loss before taxation	(121)	(93)	(2,150)	(91)	(3)
Taxation	-	-	-	-	-
Loss after taxation	(121)	(93)	(2,150)	(91)	(3)
Weighted number of ordinary shares of RM1 each in issue ('000)	500	500	500	500	500
Net loss per ordinary share (RM)	(0.24)	(0.19)	(4.3)	(0.18)	(0.006)

Notes:-

- (a) The company has not commenced commercial operations since its incorporation. However, there are some research and development activities being conducted on airline and airport security systems.
- (b) There were no extraordinary items for the financial years under review.
- (c) There was no provision for taxation as losses were incurred.
- (d) The higher loss in 1999 was due to the writing down of the research and development expenditure incurred for the airport baggage tag project.

14. ACCOUNTANTS' REPORT (CONT'D)



8.2.3 TLAE

	←----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue	167	48	-	-	-
(Loss)/Profit before depreciation and interest expense	(232)	(84)	(4)	(5)	7
Less:					
Depreciation	(2)	(2)	(2)	(3)	(3)
Interest expense	-	-	-	-	-
(Loss)/Profit before taxation	(234)	(86)	(6)	(8)	4
Taxation	-	-	-	-	-
(Loss)/Profit after taxation	(234)	(86)	(6)	(8)	4
Weighted number of ordinary shares of RM1 each in issue ('000)	1,000	1,000	1,000	1,000	1,000
Net earnings/(loss) per ordinary share (RM)	(0.23)	(0.09)	(0.006)	(0.008)	0.004

Notes:-

- (a) The company has not commenced commercial operations since its incorporation.
- (b) There were no extraordinary items for the financial years under review.
- (c) There was no provision for taxation as losses were incurred.

14. ACCOUNTANTS' REPORT (CONT'D)



8.2.4 TLTRA

	<-----Years Ended 31 December----->				
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-	-
(Loss)/Profit before depreciation and interest expense	(544)	(1,271)	3,985	2,216	(356)
Less:					
Depreciation	-	-	-	-	-
Interest expense	(1,249)	(1,288)	(1,155)	-	-
(Loss)/ Profit before taxation	(1,793)	(2,559)	2,830	2,216	(356)
Taxation	-	-	-	-	-
(Loss)/Profit after taxation	(1,793)	(2,559)	2,830	2,216	(356)
Weighted number of ordinary shares of AUD1 each in issue ('000)	2,238	3,386	3,500	3,500	3,500
Net earnings/(loss) per ordinary share (RM)	(0.80)	(0.76)	0.81	0.63	(0.10)

Notes:-

- (a) TLTRA was incorporated on 9 October 1996 and its principal activity is investment holding.
- (b) There were no extraordinary items for the financial years under review.
- (c) Foreign Currency Translation
- (i) The summarised income statements above are translated into RM at the approximate exchange rates prevailing at the average exchange rate between respective balance sheet dates.
- (ii) The exchange rates used in the translation for the respective years under review are as follows:-

Year ended 31 December	Exchange rate
1997	AUD1 : RM2.4530*
1998	AUD1 : RM2.4530
1999	AUD1 : RM2.4530
2000	AUD1 : RM2.2958
2001	AUD1 : RM2.0347

*AUD1 is one Australian Dollar

14. ACCOUNTANTS' REPORT (CONT'D)



8.2.5 TLTRD

	<----- Years Ended 31 December ----->		
	1996 RM'000	1997 RM'000	1998 RM'000
Revenue	-	-	-
Loss before depreciation and interest expense	(10)	(5)	(36)
Less:			
Depreciation	-	(7)	(7)
Interest expense	(10)	(133)	(121)
Loss before taxation	(20)	(145)	(164)
Taxation	-	-	-
Loss after taxation	(20)	(145)	(164)
Weighted number of ordinary shares of RM1 each in issue ('000)	194	500	500
Net loss per ordinary share (RM)	(0.21)*	(0.29)	(0.33)

* Annualised

Notes:-

- (a) There were no extraordinary items for the financial periods/years under review.
- (b) There were no provision for taxation as losses were incurred.
- (c) The subsidiary was disposed on 15 July 1999.

14. ACCOUNTANTS' REPORT (CONT'D)



8.3 IRIS Group

The consolidated results of the IRIS Group for the financial period/years ended 30 April based on the audited financial statements are set out below:-

	←-----Years Ended 30 April 2001----->					8-month Period Ended
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	31.12.2001 RM'000
Revenue	-	-	28,177	39,632	77,724	77,297
(Loss)/ Profit before depreciation and interest expense	-	37	(41,038)	(13,554)	5,448	971
Less:						
Depreciation	-	(37)	(5,644)	(5,540)	(6,061)	(3,962)
Interest expense	(11)	(80)	(7,121)	(14,073)	(4,669)	(4,036)
Add:						
Reversal of interest expense	-	-	-	-	9,158	-
(Loss) /Profit before taxation	(11)	(80)	(53,803)	(33,167)	3,876	(7,027)
Taxation	(37)	-	-	-	-	(321)
(Loss)/Profit after taxation	(48)	(80)	(53,803)	(33,167)	3,876	(7,348)
Weighted number of ordinary shares of RM1 each in issue (RM'000)	15,300	44,359	67,000	67,000	67,000	67,000
Net (loss)/earnings per ordinary share (RM)	(0.003)	(0.002)	(0.80)	(0.50)	0.06	(0.11)

Notes:-

- (a) The group only commenced commercial operations in May 1998.
- (b) There were no extraordinary items for the financial years under review.
- (c) Included in the interest expense for year 2000 is RM9,158,000 provided for partial redemption of preference shares equivalent to 12% of the amount paid by the holders that were issued in March 1998. This amount was reversed in year 2001 as there were no profits accumulated for redemption. However, the Company has disclosed the redemption not taken up in the financial statements which is stated in para 9.4(b).
- (d) The tax charged for the financial year ended 1997 was in respect of fixed deposit interest income.
- (e) Intangible assets, which consisted of preliminary and pre-operating expenditure, were stated at cost and were intended to be amortised over 5 years upon commencement of operations. In 2001, these expenses were written off in accordance with the requirement of MASB Standard 1: Presentation of Financial Statements. Following this change in accounting policy, the amounts for the current and comparative years are stated on the new basis and a prior year adjustment has been made. The change in accounting policy has the effect of (increasing)/decreasing loss after taxation by (RM28,133,000) and RM7,081,000 for the years ended 30 April 1999 and 2000 respectively.

14. ACCOUNTANTS' REPORT (CONT'D)



9 Summarised Balance Sheets

The summarised balance sheets of each of the companies within the ICB Group based on the audited financial statements for the past financial periods/years are as follows:-

9.1 Consolidated Balance Sheet

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Equipment	4,449	5,744	591	488	957
Investment in an associated company	15,300	34,184	-	-	42,329
Other investments	210	15,951	34,986	52,473	33,979
Expenditure carried forward	11	7	4	-	-
Research & development expenditure	5,565	4,812	1,466	1,750	7,506
Patents and licences	1,126	9,625	11,960	12,154	11,544
Goodwill on consolidation	149	2,941	192	184	176
Net current assets/ (liabilities)	1,480	(47,723)	713	(21,204)	(23,820)
Long term liabilities	(2,671)	(3,133)	-	(9)	(213)
	<u>25,619</u>	<u>22,408</u>	<u>49,912</u>	<u>45,836</u>	<u>72,458</u>
<i>Financed by:-</i>					
Share capital	30,000	40,000	68,300	68,300	93,300
Reserves	-	2,210	3,100	(955)	(1,594)
Accumulated loss	(4,594)	(19,912)	(21,551)	(21,571)	(19,311)
Minority interest	213	110	63	62	63
	<u>25,619</u>	<u>22,408</u>	<u>49,912</u>	<u>45,836</u>	<u>72,458</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>10,000</u>	<u>40,000</u>	<u>68,300</u>	<u>68,300</u>	<u>93,300</u>
Net tangible assets per ordinary share (RM)	<u>1.88</u>	<u>0.13</u>	<u>0.53</u>	<u>0.46</u>	<u>0.23</u>

Note:-

- i) *NTA per share*
$$\frac{\text{Net Assets} - * \text{Intangible Assets} - \text{Total liabilities}}{\text{Number of Ordinary Shares}}$$

This basis for the NTA calculation would apply to all NTA calculation for the rest of this document.

* *Intangible assets include patents and licences, expenditure carried forward, research and development expenditure and copyrights as well as goodwill on consolidation.*

- ii) *The goodwill in year 1998 was substantially higher due to goodwill arising from the acquisition of company in that year which was disposed in the following year.*

14. ACCOUNTANTS' REPORT (CONT'D)



9.1.1 Proforma Consolidated Balance Sheets of ICB Group As at 31 December 2001

	Audited As at 31 December 2001 RM'000	After Public Issue and Subdivision of Shares RM'000
EQUIPMENT	957	957
RESEARCH & DEVELOPMENT EXPENDITURE	7,506	7,506
PATENTS AND LICENCES	11,544	11,544
GOODWILL ON CONSOLIDATION	176	176
QUOTED INVESTMENTS	13,966	13,966
OTHER INVESTMENTS	20,013	1,047
INVESTMENT IN AN ASSOCIATED COMPANY	42,329	61,295
CURRENT ASSETS		
Amount due from associate company	9,367	9,367
Inventories	4,800	4,800
Trade debtors	622	622
Other debtors, deposits and prepayments	1,789	1,789
Fixed deposit with licensed banks	200	200
Cash and bank balances	391	35,791
	17,169	52,569
Less:		
Current Liabilities		
Trade creditors	6,430	6,430
Other creditors and accruals	6,518	6,518
Amount due to Directors	378	378
Hire purchase creditors	67	67
Bank borrowings (secured)	4,774	4,596
Term loan (secured)	22,822	-
	40,989	17,989
Net current liabilities	(23,820)	34,580
HIRE PURCHASE CREDITORS	(213)	(213)
	72,458	130,858
Financed by:-		
SHARE CAPITAL	93,300	125,000
RESERVES	(20,905)	5,795
SHAREHOLDERS' FUNDS	72,395	130,795
MINORITY INTEREST	63	63
	72,458	130,858
NTA per share (RM)	0.23	0.10

14. ACCOUNTANTS' REPORT (CONT'D)**NOTES TO THE PROFORMA BALANCE SHEETS****BASIS OF PREPARATION**

- (A) The proforma consolidated balance sheets have been prepared based on the audited financial statements of ICB and its subsidiary companies as at 31 December 2001 together with the audited financial statements of IRIS as at 31 December 2001.
- (B) The proforma consolidated balance sheets have been prepared in compliance with applicable approved accounting standards in Malaysia, and are based on accounting principles and basis that are consistent with those previously adopted in the preparation of the audited financial statements, with the following assumptions:
- The existing shares of RM 1.00 each, are sub-divided into 6.6667 fully paid up to RM0.15 share each. The effect of which will change the existing issued and paid up share capital from 93,300,000 shares of RM1.00 each to 622,000,000 shares of RM0.15 each.
 - Public issue of 211,333,333 new ordinary shares of RM0.15 each at an issue price of RM0.30 per share.
 - Listing expenses which will be paid out of the proceeds of the proposed public issue are assumed to be RM5 million and will be offset against the share premium account.

NET TANGIBLE ASSETS ("NTA") PER SHARE

NTA per share is calculated based on the net tangible assets (after excluding goodwill and intangible assets), divided by the number of ordinary shares in issue:-

	Existing shares	Shares after subdivision	Shares after subdivision and public issue
No of ordinary shares of RM1.00 each	93,300,000		
No of ordinary shares of RM0.15 each		622,000,000	833,333,333

EXPECTED UTILISATION OF GROSS PROCEEDS

The gross proceeds from the public issue of RM63,400,000 are expected to be utilised as follows:-

	RM'000
a) Repayment of bank borrowings	23,000
b) Rights issue in IRISTech***	18,000
c) Working capital **	17,400
d) Estimated listing expenses	5,000
	63,400

** This expected utilisation arising from the public issue of shares, has not been reflected in the Proforma Consolidated Balance Sheet.

*** The expected utilisation of proceeds from the public issue, to purchase rights issue in IRISTech, will not change the existing effective interest of the Company in IRISTech. The share application monies for the above rights issue in IRISTech have been previously paid from the internal funds of the Company.

14. ACCOUNTANTS' REPORT (CONT'D)**9.1.2 Subsequent Events After Latest Balance Sheet Date**

There were no subsequent events between the latest balance sheet date and the date of the audited financial statements of the ICB Group and IRIS Group on 12 April 2002 reported in the respective audited financial statements.

As from the date of the audited financial statements to the date of this report, enquiries have been made with the directors of ICB, who have confirmed that to their knowledge and belief that there have been no events which necessitate the revision of figures included in the most recent audited financial statements or additional disclosures to this report.

9.2 The Company - ICB

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Equipment	782	868	579	471	942
Investment in subsidiary companies	1,550	9,728	9,728	9,728	9,728
Investment in an associated company	15,300	44,019	-	-	42,329
Other investments	210	1,710	17,345	37,292	20,013
Expenditure carried forward	4	-	-	-	-
Research & development expenditure	3,582	2,829	1,457	1,750	7,506
Patents and licences	126	8,625	10,960	11,154	10,544
Net current assets/ (liabilities)	4,770	(32,621)	10,974	(11,266)	(14,119)
Long term liabilities	(302)	(168)	-	(9)	(213)
	<u>26,022</u>	<u>34,990</u>	<u>51,043</u>	<u>49,120</u>	<u>76,730</u>
<i>Financed by:-</i>					
Share capital	30,000	40,000	68,300	68,300	93,300
Accumulated loss	(3,978)	(5,010)	(17,257)	(19,180)	(16,570)
	<u>26,022</u>	<u>34,990</u>	<u>51,043</u>	<u>49,120</u>	<u>76,730</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>10,000</u>	<u>40,000</u>	<u>68,300</u>	<u>68,300</u>	<u>93,300</u>
Net tangible assets per ordinary share (RM)	<u>2.23</u>	<u>0.59</u>	<u>0.56</u>	<u>0.53</u>	<u>0.63</u>

14. ACCOUNTANTS' REPORT (CONT'D)



9.3 Subsidiary companies

9.3.1 ASB

	←----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Expenditure carried forward	2	2	2	-	-
Research & development expenditure	1,974	1,974	-	-	-
Net current liabilities	(1,661)	(1,754)	(1,930)	(2,019)	(2,022)
	<u>315</u>	<u>222</u>	<u>(1,928)</u>	<u>(2,019)</u>	<u>(2,022)</u>
<i>Financed by:</i>					
Share capital	500	500	500	500	500
Accumulated loss	(185)	(278)	(2,428)	(2,519)	(2,522)
	<u>315</u>	<u>222</u>	<u>(1,928)</u>	<u>(2,019)</u>	<u>(2,022)</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>
Net tangible liabilities per ordinary share (RM)	<u>(3.32)</u>	<u>(3.51)</u>	<u>(3.86)</u>	<u>(4.04)</u>	<u>(4.04)</u>

Note:-

- (a) ASB was incorporated on 21 March 1996.
- (b) Research and development expenditure consist of expenses incurred for airport security system for airport passenger check-in and baggage handling which allows checked-in passengers to be positively identified and reliably reconciled with their baggage.

Research and development expenses are related to all direct and indirect expenditure incurred in the identification, initiation or development of products.

Ultimate recovery of such expenditure is dependent on successful implementation of the projects. Should the research and development projects be abandoned or considered to be of no value, the accumulated expenditure related to such projects will be charged as expenses in the year in which such a decision is made.

Research costs are expensed out when incurred while development costs are capitalised and amortised over a period of 5 years on a straight line basis upon commencement of commercial sales of the developed products.

14. ACCOUNTANTS' REPORT (CONT'D)



9.3.2 TLAE

	<----- Years Ended 31 December ----->				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Equipment	16	14	12	18	15
Expenditure carried forward	2	2	2	-	-
Research & development expenditure	9	9	9	-	-
Licence fee	1,000	1,000	1,000	1,000	1,000
Net current liabilities	<u>(679)</u>	<u>(763)</u>	<u>(767)</u>	<u>(770)</u>	<u>(763)</u>
	<u>348</u>	<u>262</u>	<u>256</u>	<u>248</u>	<u>252</u>
<i>Financed by:</i>					
Share Capital	1,000	1,000	1,000	1,000	1,000
Accumulated Loss	<u>(652)</u>	<u>(738)</u>	<u>(744)</u>	<u>(752)</u>	<u>(748)</u>
	<u>348</u>	<u>262</u>	<u>256</u>	<u>248</u>	<u>252</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Net tangible liabilities per ordinary share (RM)	<u>(0.66)</u>	<u>(0.75)</u>	<u>(0.76)</u>	<u>(0.75)</u>	<u>(0.75)</u>

Note:-

- (a) TLAE has acquired a licence software known as **Facelt** from Windows Corporation, a New Jersey corporation. This software runs under Microsoft Windows 95 or Window NT, for automatically locating heads, capturing faces, normalising faces and performing identification on either video or static image data sources.

The Company has capitalised this intellectual property at cost in the Balance Sheet as licence fee.

Amortisation will commence when income is generated from the utilisation of this technology on a straight line basis over 5 years.

14. ACCOUNTANTS' REPORT (CONT'D)



9.3.3 TLTRA

	←----- As at 31 December ----->				
	1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
Investment in associated company	1,450	251	-	-	-
Quoted investments	15,497	14,241	17,773	15,299	14,011
Goodwill	3,144	2,741	-	-	-
Receivables	-	-	431	372	195
Net current liabilities	(14,801)	(13,307)	(11,183)	(7,577)	(7,133)
	<u>5,290</u>	<u>3,926</u>	<u>7,021</u>	<u>8,094</u>	<u>7,073</u>
<i>Financed by:</i>					
Share Capital	7,197	8,122	8,636	8,636	8,636
Foreign exchange reserves	(55)	215	(9)	(1,152)	(1,818)
(Accumulated loss)/ Unappropriated profit	(1,852)	(4,411)	(1,606)	610	255
	<u>5,290</u>	<u>3,926</u>	<u>7,021</u>	<u>8,094</u>	<u>7,073</u>
Number of ordinary shares of AUD\$1 each in issue	<u>2,850</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
Net tangible assets per ordinary share (RM)	<u>0.75</u>	<u>0.34</u>	<u>2.01</u>	<u>2.31</u>	<u>2.02</u>

Note:-

Foreign Currency Translation

- (i) *The summarised balance sheets above are translated into RM at the approximate exchange rates prevailing at the respective balance sheet dates.*
- (ii) *The exchange rates used in the translation for the respective periods/years under review are as follows:-*

<i>Period/Year ended 31 December</i>	<i>Exchange rate</i>
1997	AUD1 : RM2.5253*
1998	AUD1 : RM2.3205
1999	AUD1 : RM2.4675
2000	AUD1 : RM2.1241
2001	AUD1 : RM1.9452

*AUD1 is one Australian Dollar

14. ACCOUNTANTS' REPORT (CONT'D)



9.3.4 TLTRD

	<----- As at 31 December ----->		
	1996	1997	1998
	RM'000	RM'000	RM'000
Property	2,903	3,651	4,861
Expenditure carried forward	3	3	3
Net current liabilities	(635)	(950)	(1,728)
Long term liabilities	(1,791)	(2,369)	(2,965)
	<u>480</u>	<u>335</u>	<u>171</u>
<i>Financed by:</i>			
Share capital	500	500	500
Accumulated loss	(20)	(165)	(329)
	<u>480</u>	<u>335</u>	<u>171</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>500</u>	<u>500</u>	<u>500</u>
Net tangible assets per ordinary share (RM)	<u>0.95</u>	<u>0.66</u>	<u>0.34</u>

Note:-

- (a) TLTRD was incorporated on 19 July 1996.
- (b) Property consist of cost of freehold land and bungalow as well as 14 units of condominiums.
- (c) The subsidiary was disposed of on 15 July 1999.

14. ACCOUNTANTS' REPORT (CONT'D)



9.4 Investment - IRIS Group

The summarised balance sheets of IRIS Group based on the audited financial statements for the past financial period/years are as follows:

	<-----As at 30 April 2001----->					As at
	1997	1998	1999	2000	2001	31.12.2001
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant & equipment	68,979	84,448	80,427	75,535	73,750	70,175
Copyrights	15,300	15,300	15,300	15,300	15,300	15,300
Development expenditure	-	9,868	7,894	5,921	3,947	2,631
Deferred expenditure	13,877	35,194	-	-	-	-
Investment	-	-	-	897	705	585
Net current liabilities	(12,653)	(19,906)	(9,948)	(74,673)	(64,915)	(67,371)
Hire purchase creditors	(434)	(277)	(449)	(683)	(2,614)	(2,496)
Term loans (unsecured)	(34,122)	(37,760)	(37,760)	-	-	-
	<u>50,947</u>	<u>86,867</u>	<u>55,464</u>	<u>22,297</u>	<u>26,173</u>	<u>18,824</u>
<i>Financed by:-</i>						
Share capital	26,010	51,180	67,180	67,180	67,180	67,180
Share premium	-	35,820	42,220	42,220	42,220	42,220
Accumulated loss	(53)	(133)	(53,936)	(87,103)	(83,227)	(90,576)
	<u>25,957</u>	<u>86,867</u>	<u>55,464</u>	<u>22,297</u>	<u>26,173</u>	<u>18,824</u>
Redeemable convertible secured loan stock	<u>24,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>50,947</u>	<u>86,867</u>	<u>55,464</u>	<u>22,297</u>	<u>26,173</u>	<u>18,824</u>
Number of ordinary shares of RM1 each in issue ('000)	<u>15,300</u>	<u>51,000</u>	<u>67,000</u>	<u>67,000</u>	<u>67,000</u>	<u>67,000</u>
Net tangible assets per ordinary share (RM)	<u>1.42</u>	<u>0.52</u>	<u>0.48</u>	<u>0.02</u>	<u>0.10</u>	<u>0.01</u>

Note:-

(a) Development expenditure capitalised are in respect of raw materials incurred for the design and production of prototypes of new products. The expenditure is amortised over a period not exceeding five years from the date of commencement of operations. This is excluded from tangible assets.

(b) Commitment not taken up in the financial statements:

31.12.2001
RM'000

Commitment in respect of premium on redemption of IRIS
preference shares

18,956

(c) There was a prior year adjustment made during the year ended 30 April 2001 for the change in the accounting policy for intangible assets. The change in accounting policy has the effect of (increasing)/decreasing loss before taxation by (RM28,133,000) and RM7,081,000 for the years ended 30 April 1999 and 2000 respectively and the accumulated loss and deferred expenditure have been adjusted to reflect this.

14. ACCOUNTANTS' REPORT (CONT'D)



10 Statements of Assets and Liabilities

We set out below the statements of assets and liabilities of ICB Group and Company based on their audited financial statements as at 31 December 2001.

	Note	Group RM'000	Company RM'000
EQUIPMENT	11.2	957	942
RESEARCH & DEVELOPMENT EXPENDITURE	11.3	7,506	7,506
PATENTS AND LICENCES	11.4	11,544	10,544
GOODWILL ON CONSOLIDATION	11.5	176	-
QUOTED INVESTMENTS	11.6	13,966	-
OTHER INVESTMENTS	11.6	20,013	20,013
INVESTMENT IN SUBSIDIARY COMPANIES		-	9,728
INVESTMENT IN AN ASSOCIATED COMPANY	11.7	42,329	42,329
CURRENT ASSETS			
Amount due from an associated company	11.8	9,367	9,367
Inventories	11.9	4,800	4,800
Trade debtors		622	622
Other debtors, deposits and prepayments		1,789	1,458
Amount due from subsidiary companies	11.10	-	8,258
Fixed deposit with licensed banks	11.11	200	200
Cash and bank balances		391	389
		17,169	25,094
Less:			
Current Liabilities			
Trade creditors		6,430	6,430
Other creditors and accruals	11.12	6,518	4,742
Amount due to Directors	11.13	378	378
Hire purchase creditors	11.14	67	67
Bank borrowings (secured)	11.15	4,774	4,774
Term loan (secured)	11.16	22,822	22,822
		40,989	39,213
Net current liabilities		(23,820)	(14,119)
HIRE PURCHASE CREDITORS	11.14	(213)	(213)
		72,458	76,730
Financed by:-			
SHARE CAPITAL	11.17	93,300	93,300
ACCUMULATED LOSS		(19,311)	(16,570)
TRANSLATION RESERVE		(1,594)	-
SHAREHOLDERS' FUNDS		72,395	76,730
MINORITY INTEREST		63	-
		72,458	76,730

The notes set out in Paragraph 11 form an integral part of, and should be read in conjunction with, these statements of assets and liabilities.



11 Notes to the Statements of Assets and Liabilities

11.1 Significant Accounting Policies

11.1.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards (accounting standards which are approved by the Malaysian Accounting Standards Board) and the provisions of the Companies Act, 1965.

11.1.2 Basis of consolidation

The consolidated income statement and balance sheet include the financial statements of the Company and its subsidiaries made up to the end of the financial period. The results of the subsidiaries acquired during the period are included in the consolidated income statement from the date of their acquisition. Inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The Group adopts the acquisition method of consolidation. When the acquisition method is adopted, the fair value of the net assets of the subsidiaries is determined and these values are incorporated in the Group financial statements.

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the net assets of subsidiary companies at the date of acquisition. Goodwill are amortised through the income statement on a straight line basis over a period of 25 years.

11.1.3 Equipment and Depreciation

Equipment are stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used are:-

Office furniture and equipment	10 - 20%
Motor vehicles	20%
Computers	33.33%

11.1.4 Goodwill

Goodwill arising on consolidation represents the excess of purchase price over the fair value of the net assets of subsidiary companies at the date of acquisition. Goodwill is amortised through the income statements on a straight line basis over a period of 25 years.

11.1.5 Associated Company

An associated company is a company, other than a subsidiary, in which the Group has a long term equity investment of between 20% to 50% and where the Group has representation on the Board and is in a position to exercise significant influence. Investment in associated companies are accounted for in the consolidated financial statements by the equity method of accounting. Premium or reserve arising on the acquisition of associated company are retained in the financial statements.

14. ACCOUNTANTS' REPORT (CONT'D)

**11.1.6 Foreign currencies**

Transactions in foreign currencies are converted into Malaysian Ringgit at the exchange rates prevailing at the transaction dates or, where settlement has not taken place at the Balance Sheet date, at the approximate exchange rate prevailing at that date. All exchange gains or losses, including those arising from translation, are taken up in the Income Statement.

For inclusion in the consolidated financial statements, assets and liabilities of foreign subsidiaries are translated into Ringgit Malaysia at rates of exchange approximated those ruling at the balance sheet date. The trading results of these subsidiaries are translated into Ringgit Malaysia at the average rates for the financial year/period. Exchange differences due to such currency translation are dealt with through exchange fluctuation reserves.

11.1.7 Investments

Investments are stated at cost and are only written down when the Directors consider that there is a permanent diminution in the value of such investments.

11.1.8 Research and development expenditure

Research and development expenses are related to all direct and indirect expenditure incurred in the identification, initiation or development of products.

Ultimate recovery of such expenditure is dependent on successful implementation of the projects. Should the research and development projects be abandoned or considered to be of no value, the accumulated expenditure related to such projects will be charged as expenses in the year in which such a decision is made.

Research costs are expensed out when incurred while development costs are capitalised and expensed over a period of 5 years on the straight line basis upon commencement of commercial sales of the developed products.

11.1.9 Inventories

Inventories are stated at the lower of cost and net realisable value after adequate provision has been made for deteriorated, damaged and obsolete stocks.

11.1.10 Equipment acquired under hire purchase arrangements

The cost of assets acquired under hire purchase arrangements are capitalised. The depreciation policy on these assets is similar to that of the Company's equipment depreciation policy. Outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. Finance charges on hire purchase agreements are allocated to income statement over the period of the respective agreement.

11.1.11 Patents and licences

This represents the registration cost of patents and the cost of acquisition of rights and licences on technology know-how. Patents and licences will be expensed when income is generated from utilisation of the technology on a straight line basis over the shorter of the estimated income stream or the agreement period.

14. ACCOUNTANTS' REPORT (CONT'D)



11.1.12 Taxation

The Company has been granted MSC status by Multimedia Development Corporation Sdn Bhd for IT Consultancy, implementations, research and development. Under this incentive, the Company's statutory income will be exempted from Income Tax for a period of 5 years commencing from 1997.

11.1.13 Cash and cash equivalents

Cash and cash equivalents consist of bank overdraft, cash and bank balances and fixed deposit with licensed bank.

11.1.14 Debtors

Known bad debts are written off and specific provision is made for any debts considered to be doubtful of collection. In addition a general provision based on a percentage of trade debtors is made to cover possible losses which are not specifically identified.

14. ACCOUNTANTS' REPORT (CONT'D)



11.2 Equipment

Group

	Office furniture and equipment RM'000	Motor vehicles RM'000	Computers RM'000	Total RM'000
At Cost				
At 1 January 2001	488	497	388	1,373
Additions	262	329	94	685
At 31 December 2001	<u>750</u>	<u>826</u>	<u>482</u>	<u>2,058</u>
Accumulated Depreciation				
At 1 January 2001	211	497	176	884
Charge for the year	84	65	68	217
At 31 December 2001	<u>295</u>	<u>562</u>	<u>244</u>	<u>1,101</u>
Net Book Value				
At 31 December 2001	<u>455</u>	<u>264</u>	<u>238</u>	<u>957</u>

Company

	Office furniture and equipment RM'000	Motor vehicles RM'000	Computers RM'000	Total RM'000
At Cost				
At 1 January 2001	486	497	360	1,343
Additions	262	329	95	686
At 31 December 2001	<u>748</u>	<u>826</u>	<u>455</u>	<u>2,029</u>
Accumulated Depreciation				
At 1 January 2001	210	497	166	873
Charge for the year	84	66	64	214
At 31 December 2001	<u>294</u>	<u>563</u>	<u>230</u>	<u>1,087</u>
Net Book Value				
At 31 December 2001	<u>454</u>	<u>263</u>	<u>225</u>	<u>942</u>

The above assets are charged to the bank for banking facilities granted to the Company.

The net book value of equipment of the Group and Company acquired under hire purchase amounted to RM268,000.

14. ACCOUNTANTS' REPORT (CONT'D)**11.3 Research and Development Expenditure**

	Group/Company RM'000
Balance at 1 January 2001	1,750
Additions during the year	<u>6,792</u>
	8,542
Amortised during the year	(937)
Abortive expenses written off	<u>(99)</u>
Balance at 31 December 2001	<u><u>7,506</u></u>

11.4 Patents and Licences

These consist of:-

	Group RM'000	Company RM'000
Patents		
Balance at 1 January 2001	1,970	1,970
Amortised during the year	<u>(114)</u>	<u>(114)</u>
Balance at 31 December 2001	1,856	1,856
Licence fees		
Balance at 1 January 2001	<u>10,185</u>	<u>9,185</u>
Amortised during the year	<u>(497)</u>	<u>(497)</u>
Balance at 31 December 2001	9,688	8,688
Total	<u><u>11,544</u></u>	<u><u>10,544</u></u>

11.5 Goodwill on Consolidation

	Group RM'000
Balance at 1 January 2001	184
Amortisation during the year	<u>(8)</u>
Balance at 31 December 2001	<u><u>176</u></u>

14. ACCOUNTANTS' REPORT (CONT'D)



11.6 Other Investments

	Group RM'000	Company RM'000
Shares at cost:		
Quoted investments:-		
- In Australia	<u>13,966</u>	<u>-</u>
Market value of quoted investments:-		
- In Australia	<u>963</u>	<u>-</u>
Unquoted investments in Malaysia	<u>20,013</u>	<u>20,013</u>

- (i) The above quoted Australian investment stated at cost, consist of 19,265,000 shares in Intercard Wireless Limited (*formerly known as Intag International Limited*), a listed Australian company, which last traded at RM0.05 per share prior to trading being suspended.

The shares were being acquired as a long term investment and should enable the parent company access to technologies being developed by parties in which Intercard Wireless Limited (*formerly known as Intag International Limited*), has financial interest or marketing rights and at the same time enable the parent company to market its own products through Intercard Wireless Limited (*formerly known as Intag International Limited*). At balance sheet date, no formal arrangements for the above are in place.

Due to the nature of the activities of Intercard Wireless Limited (*formerly known as Intag International Limited*), and the parent company, the Directors have been unable to provide evidence of the future value of the investment in Intercard Wireless Limited (*formerly known as Intag International Limited*).

However, the directors strongly believe that the valuation is fully justified in view of the real benefits expected to be derived from the association with Intercard Wireless Limited (*formerly known as Intag International Limited*), as explained in the previous paragraph. The value will be realised only in the longer term with the parent company's planned expansion of its business especially into the Australian and global markets.

- (ii) The unquoted investments consists of:-

	Group/Company RM'000
Golf Club Membership	66
Unquoted investment at cost	981
Share application money for the subscription of rights issue in IRIS	<u>18,966</u>
	<u>20,013</u>

The unquoted investment stated at cost of RM981,000 consists of 2,000,000 ordinary shares of HK\$1/= each in an unquoted Hong Kong Company.

The Directors have however not written down the balance of investment held as they intend for it to be a long term investment which will recover its value.

14. ACCOUNTANTS' REPORT (CONT'D)**11.7 Investment in an Associated Company**

	Group/Company RM'000
Shares at cost:	
Unquoted shares at cost	42,329
	<hr/>
The Group's investment in the associated company are analysed as follows:-	
Share of net assets	10,613
Premium paid	31,716
	<hr/>
	42,329
	<hr/>

11.8 Amount Due from an Associated Company

The amount due is unsecured, interest free and has no fixed terms of repayment.

11.9 Inventories

	Group/Company RM'000
Raw materials	1,881
Finished goods	2,919
	<hr/>
	4,800
	<hr/>

11.10 Amount Due from Subsidiaries

The amount due is unsecured, interest free and has no fixed terms of repayment.

11.11 Fixed Deposit with Licensed Banks

Fixed deposits amounting to RM200,000 are charged to the bank for credit facilities granted to the Company.

11.12 Other Creditors and Accruals

Included in other creditors and accruals are shareholders' loans amounting to RM3,287,946. The loans are unsecured, interest free with no fixed terms of repayment.

11.13 Amount Due to Directors

The amount due to Directors is unsecured, interest free and has no fixed terms of repayment.

14. ACCOUNTANTS' REPORT (CONT'D)**11.14 Hire purchase Creditors**

	Group/Company RM'000
Hire purchase instalments payable	
Repayable within 12 months	67
Repayable after 12 months	<u>213</u>
	<u>280</u>

11.15 Bank Borrowings (Secured)

	Group/Company RM'000
Bank overdraft	2,850
Bankers acceptance	<u>1,924</u>
	<u>4,774</u>

Interest on bank borrowings is charged at 8.8% to 9.6% per annum and secured by:-

- (i) a debenture creating fixed and floating charge over all the present and future assets of the Company
- (ii) a joint and several guarantee by the Directors;
- (iii) fixed deposits amounting to RM200,000 (para 11.11);

11.16 Term Loan (Secured)

	Group/Company RM'000
Repayable within 12 months	<u>22,822</u>

The term loan bears an interest rate of approximately 7% to 13% per annum and is secured by:-

- (i) a third party charge;
- (ii) a charge over the Company's investments;
- (iii) joint and several guarantee by two of the Directors of the Company;
- (iv) a debenture over all assets of the Company.

The terms of the above loans were 6 to 12 months from the dates of drawdown. However, the Company has obtained approval from the financial institutions to extend the repayment terms to be due within the next 12 months from this financial year.

14. ACCOUNTANTS' REPORT (CONT'D)**11.17 Share Capital**

	Group/Company RM'000
Authorised:	
Ordinary Shares:	
100,000,000 ordinary shares of RM1 each	<u>100,000</u>
Issued and fully paid:	
Ordinary Shares of RM1 each:	
Balance at 1 January 2001	68,300
Issued during the year	<u>25,000</u>
Balance at 31 December 2001	<u>93,300</u>

11.18 Contingent Liability

	Group/Company RM'000
Corporate guarantee given to Malaysian Industrial Development Finance Bhd for banking facility provided to an Associated Company.	<u>1,500</u>

11.19 Capital Commitments

	Group/Company RM'000
Approved and contracted for	<u>3,184</u>

11.20 Taxation

The Group has available unabsorbed tax losses and capital allowance of approximately RM3,233,000 and RM24,000 respectively for utilisation against future taxable income subject to agreement by the Inland Revenue Board.

The Company has tax credit of approximately RM41,000 under Section 108 of the Income Tax Act, 1967 to frank the distributable reserves as dividends.

The above are subject to the approval of the tax authorities.

14. ACCOUNTANTS' REPORT (CONT'D)**12 Net Tangible Assets Cover**

Based on the statement of assets and liabilities of the Group as at 31 December 2001, the net tangible assets cover per ordinary share is calculated as follows:-

	RM'000
Net assets	72,395
Less: Research development expenditure	(7,506)
Patents and licences	(11,544)
Goodwill on consolidation	(176)
Premium paid on acquisition of an associated company	<u>(31,716)</u>
Net tangible assets	21,453
Less: Estimated listing expenses	<u>(5,000)</u>
	<u><u>16,453</u></u>
Number of ordinary shares of RM1.00 each in issue:	<u><u>93,300</u></u>
Net tangible assets per ordinary share of RM1.00 each	<u><u>RM0.18</u></u>

14. ACCOUNTANTS' REPORT (CONT'D)



13 Consolidated Cash Flow Statement

The consolidated cash flow statement of ICB Group for the year ended 31 December 2001 is set out below based on the audited financial statements of the Company and its subsidiary companies as at 31 December 2001.

	RM'000
Cash flows from operating activities	
Profit before taxation	2,267
Adjustments for:-	
Unrealised loss on foreign exchange	332
Amortisation of goodwill	8
Bad debts written off	12
Depreciation	217
Interest expenses	2,421
Patents and licences	610
Research and development expenditure written off	99
Research and development expenditure	937
Operating profit before working capital changes	6,903
Decrease in inventories	1,258
Decrease in debtors	2,347
Decrease in creditors	(17)
Cash generated from operations	10,491
Tax paid	(5)
Interest paid	(856)
<i>Net cash generated from operating activities</i>	9,630
Cash flows from investing activities	
Purchase of equipment	(390)
Development expenditure	(6,792)
Purchase of investment	(50)
<i>Net cash used in investing activities</i>	(7,232)
Cash flows from financing activities	
Repayment of hire purchase creditors	(94)
<i>Net cash used in financing activities</i>	(94)
Effects of exchange rate on current year's changes in cash and cash equivalents	3
Net increase in cash and cash equivalents	2,307
Cash and cash equivalents at beginning of year	(4,766)
Cash and cash equivalents at end of year	(2,459)
Analysis of cash and cash equivalents:	
Cash and bank balances	391
Bank overdraft	(2,850)
	(2,459)

14. ACCOUNTANTS' REPORT (CONT'D)



14 Financial Statements

No audited financial statements have been made up in respect of any period subsequent to 31 December 2001.

Yours faithfully

A handwritten signature in black ink, appearing to be 'KPMG' or similar, written over a horizontal line.

KPMG

Firm number: AF-0758

Chartered Accountants

A handwritten signature in black ink, appearing to be 'Peter Ho Kok Wai', written over a horizontal line.

Peter Ho Kok Wai

Partner

Approval Number: 1745/12/03 (J)

**15. PROFORMA CONSOLIDATED BALANCE SHEET OF ICB AS AT 31 DECEMBER 2001,
TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER
THEREON**



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Chartered Accountants
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The Board of Directors
IRIS Corporation Berhad
IRIS Smart Technology Complex
Technology Park Malaysia
57000 Bukit Jalil
Kuala Lumpur

Your ref

Our ref 758/CST/SHA/RW

6 June 2002

Dear Sirs

**IRIS CORPORATION BERHAD ("ICB" OR THE "COMPANY")
Reporting Accountants' Letter on the Proforma Consolidated Balance Sheets as at 31
December 2001**

We have reviewed the Proforma Consolidated Balance Sheets of IRIS Corporation Bhd and its subsidiary companies as at 31 December 2001 together with the notes thereon, for which the Directors of ICB are solely responsible, prepared for the inclusion in the Prospectus in connection with the public issue of 211,333,333 new ordinary shares of RM0.15 each in ICB at an issue price of RM0.30 per ordinary share and the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market of the Kuala Lumpur Stock Exchange.

In our opinion, the Proforma Consolidated Balance Sheets which are provided for illustrative purpose only, have been properly prepared on the basis set out in the notes to the Proforma Consolidated Balance Sheets.

Yours faithfully

KPMG
Chartered Accountants

Peter Ho Kok Wai
Partner
Approval Number: 1745/12/03(J)



KPMG, KPMG, a partnership established under
Malaysian law, is a member of KPMG International, a
Swiss association.

15. PROFORMA CONSOLIDATED BALANCE SHEET OF ICB AS AT 31 DECEMBER 2001, TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON (CONT'D)

IRIS CORPORATION BERHAD

PROFORMA CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001

	Audited As at 31 December 2001 RM'000	After Public Issue and Subdivision of Shares RM'000
EQUIPMENT	957	957
RESEARCH & DEVELOPMENT EXPENDITURE	7,506	7,506
PATENTS AND LICENCES	11,544	11,544
GOODWILL ON CONSOLIDATION	176	176
QUOTED INVESTMENTS	13,966	13,966
OTHER INVESTMENTS	20,013	1,047
INVESTMENT IN AN ASSOCIATED COMPANY	42,329	61,295
CURRENT ASSETS		
Amount due from an associated company	9,367	9,367
Inventories	4,800	4,800
Trade debtors	622	622
Other debtors, deposits and prepayments	1,789	1,789
Fixed deposit with licensed banks	200	200
Cash and bank balances	391	35,791
	17,169	52,569
Less:		
CURRENT LIABILITIES		
Trade creditors	6,430	6,430
Other creditors and accruals	6,518	6,518
Amount due to Directors	378	378
Hire purchase creditors	67	67
Bank borrowings (secured)	4,774	4,596
Term loan (secured)	22,822	-
	40,989	17,989
Net current liabilities	(23,820)	34,580
HIRE PURCHASE CREDITORS	(213)	(213)
	72,458	130,858
Financed by:-		
SHARE CAPITAL	93,300	125,000
RESERVES	(20,905)	5,795
SHAREHOLDERS' FUNDS	72,395	130,795
MINORITY INTEREST	63	63
	72,458	130,858
NTA per share (RM)	0.23	0.10

15. PROFORMA CONSOLIDATED BALANCE SHEET OF ICB AS AT 31 DECEMBER 2001, TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON (CONT'D)

Notes To The Proforma Balance Sheets

1. Basis of Preparation

- (A) The proforma consolidated balance sheets have been prepared based on the audited financial statements of ICB and its subsidiary companies as at 31 December 2001 together with the audited financial statements of IRIS Technologies Sdn Bhd as at 31 December 2001.
- (B) The proforma consolidated balance sheets have been prepared in compliance with applicable approved accounting standards in Malaysia, and are based on accounting principles and basis that are consistent with those previously adopted in the preparation of the audited financial statements, with the following assumptions:
- The existing shares of RM 1.00 each, are sub-divided into 6.6667 fully paid up to RM0.15 share each. The effect of which will change the existing issued and paid up share capital from 93,300,000 shares of RM1.00 each to 622,000,000 shares of RM0.15 each.
 - Public issue of 211,333,333 new ordinary shares of RM0.15 each at an issue price of RM0.30 per share.
 - Listing expenses which will be paid out of the proceeds of the public issue are assumed to be RM5 million and will be offset against the share premium account.

2. Net Tangible Assets ("NTA") Per Share

NTA per share is calculated based on the net tangible assets (after excluding goodwill and intangible assets), divided by the number of ordinary shares in issue:-

	Existing shares	Shares after subdivision	Shares after subdivision and public issue
No of ordinary shares of RM1.00 each	93,300,000		
No of ordinary shares of RM0.15 each		622,000,000	833,333,333

3. Expected Utilisation of Gross Proceeds

The gross proceeds from the public issue of RM63,400,000 are expected to be utilised as follows:-

	RM'000
a) Repayment of bank borrowings	23,000
b) Rights issue in IRISTech***	18,000
c) Working capital**	17,400
d) Estimated listing expenses	5,000
	63,400

** This expected utilisation arising from the public issue of shares, has not been reflected in the Proforma Consolidated Balance Sheet.

*** The expected utilisation of proceeds from the public issue, to purchase rights issue in IRISTech, will not change the existing effective interest of the Company in IRISTech. The share application monies for the above rights issue in IRISTech have been previously paid from the internal funds of the Company.

15. PROFORMA CONSOLIDATED BALANCE SHEET OF ICB AS AT 31 DECEMBER 2001, TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON (CONT'D)

4. Share Capital

The movement of issued and paid up share capital of ICB is as follows:-

	RM'000
Balance as at 31 December 2001	93,300
After public issue of 211,333,333 shares of RM0.15 each	<u>31,700</u>
Balance as per Proforma Consolidated Balance Sheet.	<u>125,000</u>

5. Reserves

The movements of the reserves of the Group are as follows:-

	RM'000	RM'000
Balance as at 31 December 2001		
Accumulated loss	(19,311)	
Translation reserve	<u>(1,594)</u>	(20,905)
Share Premium Account:-		
Arising from public issue of 211,333,333 ordinary shares of RM0.15 each at an issue price of RM0.30 per share	31,700	
Less: Estimated listing expenses	<u>(5,000)</u>	<u>26,700</u>
Balance as per Proforma Consolidated Balance Sheet		<u>5,795</u>