
14. REPORTING ACCOUNTANTS' REPORT

Shamsir Jasani Grant Thornton

Chartered Accountants

(PREPARED FOR INCLUSION IN THIS PROSPECTUS)

Date: 29 January 2004

The Board of Directors
Ingenuity Solutions Berhad
Wisma MINC
36, Jalan Datuk Sulaiman
Taman Tun Dr Ismail
60000 Kuala Lumpur

Dear Sirs,

INGENUITY SOLUTIONS BERHAD ("ISB") ACCOUNTANTS' REPORT

1. INTRODUCTION

This report has been prepared by us, an approved company auditor, for inclusion in this Prospectus to be dated 9 February 2004 in connection with the public issue of 33,500,000 new ordinary shares of RM0.10 each ("ISB Share(s)") at an issue price of RM0.55 per ISB Share and the listing of and quotation for the entire issued and paid-up share capital of Ingenuity Solutions Berhad ("ISB") on the MESDAQ Market of Malaysia Securities Exchange Berhad.

2. GENERAL INFORMATION

2.1 Background

ISB was incorporated in Malaysia under the Companies Act, 1965 on 19 March 2003 as a private limited company. Subsequently, it was converted to public company on 10 May 2003.

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14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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2. GENERAL INFORMATION (CONT'D)

2.2 Share capital

The changes in the Company's authorised share capital and issued and fully paid-up share capital since its incorporation were as follows :-

(a) Authorised share capital

Date	No. of shares	Par value RM	Share type	Cumulative total RM
19 March 2003 (date of incorporation)	100,000	1	Ordinary	100,000
13 October 2003	24,900,000	1	Ordinary	25,000,000
15 October 2003	250,000,000	0.10	Subdivision of par value from RM1.00 per share to RM0.10 per share	25,000,000

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2. GENERAL INFORMATION (CONT'D)

2.2 Share capital (cont'd)

(b) Issued and fully paid-up share capital

Date	No. of shares	Share type	Par value RM	Consideration	Cumulative total RM
19 March 2003 (date of incorporation)	2	Subscribers' shares	1	Cash	2
15 October 2003	9,000,000	Ordinary	1	Issued pursuant to the acquisition of Ingenuity Microsystems Sdn Bhd	9,000,002
15 October 2003	90,000,020	Ordinary	0.10	Subdivision of par value from RM1.00 per share to RM0.10 per share	9,000,002
15 October 2003	8,852,300	Ordinary	0.10	Issued pursuant to the acquisition of Reliance Computer Centre Sdn Bhd	9,885,232

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2. GENERAL INFORMATION (CONT'D)

2.3 Principal activities

The Company's principal activity is investment holding, consultancy and management services.

The principal activities of the subsidiary companies are as follows:-

<u>Name of company</u>	<u>Proposed effective ownership</u>	<u>Principal activities</u>	<u>Date and place of incorporation</u>
A. Ingenuity Microsystems Sdn Bhd ("IMSB")	100%	Consultants, advisers, managers, researchers, trainers and total solution providers in all aspects of information technology including the business of marketing and distribution of multimedia products and accessories	29.3.2000 Malaysia
B. Reliance Computer Centre Sdn Bhd ("RCC")	100%	Marketing of computer hardware and software for business solutions	28.11.1981 Malaysia

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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2. GENERAL INFORMATION (CONT'D)

2.4 Share capital history of the subsidiary companies

A. IMSB

The changes in the Company's authorised share capital since its incorporation were as follows:-

Date of creation	No. of shares	Par value RM	Cumulative total RM
29 March 2000	100,000	1	100,000
28 February 2001	100,000	1	200,000
28 February 2001	5,000,000	0.01	250,000
24 April 2003	4,750,000	1	5,000,000

The authorised share capital consists of 4,950,000 Ordinary Share of RM1.00 each and 5,000,000 Redeemable Convertible Preference Share of RM0.01 each.

The changes in the Company's issued and fully paid-up share capital since its incorporation were as follows:-

Date of allotment	No. of shares	Share type	Par value RM	Consideration	Cumulative total RM
29 March 2000	10	Subscribers' ordinary shares	1	Cash	10
15 April 2000	99,990	Ordinary	1	Cash	100,000
28 February 2001	25,000	Ordinary	1	Cash	125,000
* 22 April 2003	9,750	Ordinary	1	Issued at par pursuant to the conversion of redeemable convertible preference shares.	134,750

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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2. GENERAL INFORMATION (CONT'D)

2.4 Share capital history of the subsidiary companies (cont'd)

A. IMSB (CONT'D)

Date of allotment	No. of shares	Share type	Par value RM	Consideration	Cumulative total RM
3 May 2003	965,250	Ordinary	1	Bonus issue on the basis of approximately 7.1633 new ordinary shares of RM1.00 each in IMSB for every 1 existing ordinary share of RM1.00 held in IMSB	1,100,000
* 28 February 2001	975,000	Redeemable Convertible Preference Shares	0.01	Cash	9,750

* This has been subsequently converted to 9,750 ordinary shares of RM1.00 each on 22 April 2003.

B. RCC

The changes in the Company's authorised share capital since its incorporation were as follows:-

Date of creation	No. of ordinary shares	Par value RM	Cumulative total RM
28 November 1981	25,000	1	25,000
14 April 1982	225,000	1	250,000
6 January 1987	250,000	1	500,000
6 August 1993	4,500,000	1	5,000,000

The changes in the Company's issued and fully paid-up share capital since its incorporation were as follows:-

Date of allotment	No. of shares	Share type	Par value RM	Consideration	Cumulative total RM
28 November 1981	2	Subscribers' shares	1	Cash	2
14 April 1982	99,998	Ordinary	1	Cash	100,000
19 March 1984	100,000	Ordinary	1	Cash	200,000
26 June 1986	50,000	Ordinary	1	Cash	250,000
6 January 1987	250,000	Ordinary	1	Cash	500,000
6 August 1993	700,000	Ordinary	1	Cash	1,200,000

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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3. FINANCIAL STATEMENTS AND AUDITORS

The financial statements of IMSB for the relevant financial years/periods under review were audited by our firm and the financial statements of RCC for the relevant financial years under review were audited by another firm of auditor. All the financial statements under this report were reported without any qualification.

4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP

4.1 The proforma consolidated financial results of ISB Group for the five (5) financial years ended 31 March 1999 to 31 March 2003 and six-month financial period ended 30 September 2003 are provided for illustrative purposes based on the audited financial statements of its subsidiary companies, assuming that the ISB Group has been in existence since the beginning of the financial year ended 31 March 1999.

4.1 (a) Summarised Income Statements of ISB Proforma Group

Year/Period ended	31/3/1999 RM' 000	31/3/2000 RM' 000	31/3/2001 RM' 000	31/3/2002 RM' 000	31/3/2003 RM' 000	30/9/2003 RM' 000
Revenue	2,452	3,413	5,859	4,790	5,578	3,751
Gross profit	952	1,288	2,130	2,701	3,592	2,905
(Loss)/Profit before amortisation, depreciation, interest and taxation	44	177	553	1,139	2,020	2,241
Amortisation	(212)	(50)	-	-	(76)	(38)
Depreciation	(89)	(70)	(89)	(96)	(151)	(106)
Interest expenses	(77)	(58)	(51)	(58)	(57)	(28)
(Loss)/Profit before taxation but after amortisation, depreciation and interest expenses	(334)	(1)	413	985	1,736	2,069
Taxation	-	-	17	(57)	(111)	(68)
(Loss)/Profit after taxation	(334)	(1)	430	928	1,625	2,001
Number of ordinary share of RM0.10 each assumed to be issued ('000)	98,852	98,852	98,852	98,852	98,852	98,852

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.1 (a) Summarised Income Statements of ISB Proforma Group (cont'd)

Year/Period ended	31/3/1999 RM' 000	31/3/2000 RM' 000	31/3/2001 RM' 000	31/3/2002 RM' 000	31/3/2003 RM' 000	30/9/2003 RM' 000
Gross (loss)/earnings per share (sen)	(0.34)	**	0.42	1.00	1.76	4.19 *
Net (loss)/earnings per share (sen)	(0.34)	**	0.43	0.94	1.64	4.06 *

(i) There were no extraordinary items in all the financial years/period under review.

(ii) As IMSB was only incorporated on 29 March 2000, the IMSB's results were only included in the proforma Group's result for the financial period ended 31 March 2001 onwards. The proforma Group's results for the earlier financial years ended 31 March 1998, 1999 and 2000 only reflect RCC's result.

* Annualised for comparison purposes only.

** Less than 0.01 sen.

4.1(b) Summarised Balance Sheets of ISB Proforma Group

Year/Period ended	31/3/1999 RM'000	31/3/2000 RM'000	31/3/2001 RM'000	31/3/2002 RM'000	31/3/2003 RM'000	30/9/2003 RM'000
Share capital	9,885	9,885	9,885	9,885	9,885	9,885
Reserves	(8,266)	(8,267)	(7,837)	(6,909)	(5,284)	(3,283)
	1,619	1,618	2,048	2,976	4,601	6,602
Long term liabilities	-	-	74	357	590	581
Deferred taxation	8	8	8	8	30	28
	1,627	1,626	2,130	3,341	5,221	7,211
Property, plant and equipment	157	252	531	731	1,524	1,662
Development costs	50	-	659	1,509	2,407	3,312
Investment in subsidiary company	500	500	500	-	-	-
Current assets	2,983	2,574	2,292	2,588	3,128	4,206
Current liabilities	(2,063)	(1,700)	(1,852)	(1,487)	(1,838)	(1,969)
Net current assets	920	874	440	1,101	1,290	2,237
	1,627	1,626	2,130	3,341	5,221	7,211
Net tangible assets	1,569	1,618	1,389	1,467	2,194	3,290
Net tangible assets per share (RM)	0.02	0.02	0.01	0.01	0.02	0.03

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.2 The following table sets out the summary results of ISB prepared based on the audited financial statements of ISB.

4.2(a) Summarised Income Statement of ISB

Period ended	30/9/2003 RM
Revenue	-
Gross profit	-
Loss before depreciation, interest and taxation	4,172
Depreciation	-
Interest expenses	-
Loss before taxation but after depreciation and interest expenses	4,172
Taxation	-
Loss after taxation	4,172
Weighted average number of ordinary shares issued	2
Gross loss per share ("LPS") (RM)	4,172 *
Net LPS (RM)	4,172 *

- i) Audited financial statements were only prepared for the financial period ended 30 September 2003 as ISB was only incorporated on 19 March 2003.
 - ii) There were no extraordinary items in the financial period under review.
- Annualised

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.2(b) Summarised Balance Sheet of ISB

Period ended	30/9/2003 RM
Share capital	2
Accumulated loss	<u>(4,172)</u>
	<u>4,170</u>
Current assets	2
Current liabilities	<u>(4,172)</u>
Net current liabilities	<u>4,170</u>

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.3 The following table sets out the summary results of ISB prepared based on the audited financial statements of ISB.

4.3(a) Summarised Income Statements of IMSB

Period/Year ended	31/3/2001 RM	31/3/2002 RM	31/3/2003 RM	30/9/2003 RM
Revenue	1,009,823	1,247,107	2,577,136	2,552,970
Gross profit	611,979	1,058,543	1,886,777	2,054,956
Profit before amortisation, depreciation, interest expenses and taxation	252,708	797,136	1,669,610	1,943,833
Amortisation	-	-	(75,700)	(37,850)
Depreciation	(17,638)	(38,705)	(97,720)	(78,446)
Interest expenses	(479)	(2,785)	(3,157)	(1,457)
Profit before taxation but after amortisation, depreciation and interest expenses	234,591	755,646	1,493,033	1,826,080
Taxation	-	-	-	-
Profit after taxation	234,591	755,646	1,493,033	1,826,080
Weighted average number of ordinary shares issued	98,014	125,000	125,000	1,100,000
Gross earnings per share ("EPS") (sen)	237.39*	604.52	1,194.43	332.01*
Net EPS (sen)	237.39*	604.52	1,194.43	332.01*

i) Audited financial statements were only prepared for the financial period ended 31 March 2001 onwards as IMSB was only incorporated on 29 March 2000.

ii) There were no extraordinary items in all the financial years/periods under review.

* Annualised.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.3(b) Summarised Balance Sheets of IMSB

Period/Year ended	31/3/2001 RM	31/3/2002 RM	31/3/2003 RM	30/9/2003 RM
Share capital	134,750	134,750	134,750	1,100,000
Share premium	965,250	965,250	965,250	-
Unappropriated profit	234,591	990,237	2,483,270	4,309,350
	1,334,591	2,090,237	3,583,270	5,409,350
Amount due to a shareholder	-	300,000	550,000	550,000
Finance creditors	40,677	33,170	24,251	20,135
	1,375,268	2,423,407	4,157,521	5,979,485
Property, plant and equipment	267,188	510,197	917,969	1,082,941
Development costs	658,698	1,508,561	2,406,709	3,312,169
Current assets	509,892	510,312	1,384,116	2,472,073
Current liabilities	(60,510)	(105,663)	(551,273)	(887,698)
Net current assets	449,382	404,649	832,843	1,584,375
	1,375,268	2,423,407	4,157,521	5,979,485
Number of ordinary shares issued (units)	125,000	125,000	125,000	1,100,000
Net tangible assets	675,893	581,676	1,176,561	2,097,181
Net tangible assets per share (RM)	5.41	4.65	9.41	1.91

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.4 The following table sets out the summary results of RCC prepared based on the audited financial statements of RCC.

4.4(a) Summarised Income Statements of RCC

Year/Period ended	31/3/1999 RM	31/3/2000 RM	31/3/2001 RM	31/3/2002 RM	31/3/2003 RM	30/9/2003 RM
Revenue	2,451,608	3,413,252	4,849,650	3,542,452	3,001,089	1,197,950
Gross profit	951,994	1,288,356	1,517,720	1,642,557	1,705,003	849,783
(Loss)/Profit before amortisation, depreciation, interest and taxation	43,615	177,565	300,097	342,073	349,921	300,817
Amortisation	(212,000)	(50,000)	-	-	-	-
Depreciation	(88,733)	(69,835)	(71,722)	(57,743)	(52,789)	(27,511)
Interest expenses	(76,755)	(58,138)	(50,174)	(55,065)	(53,851)	(26,295)
(Loss)/Profit before taxation but after amortisation, depreciation and interest	(333,873)	(408)	178,201	229,265	243,281	247,011
Taxation	-	-	17,510	(56,765)	(111,109)	(68,000)
(Loss)/Profit after taxation	(333,873)	(408)	195,711	172,500	132,172	179,011
Weighted average number of ordinary shares issued	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Gross (loss)/earning per share ("EPS") (sen)	(27.82)	(0.03)	14.85	19.11	20.27	41.17 *
Net EPS (sen)	(27.82)	(0.03)	16.31	14.38	11.01	29.84 *

i) There were no extraordinary items in all the financial years/period under review.

- Annualised

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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4. HISTORICAL FINANCIAL INFORMATION OF ISB GROUP (CONT'D)

4.4(b) Summarised Balance Sheets of RCC

Year/Period ended	31/3/1999 RM	31/3/2000 RM	31/3/2001 RM	31/3/2002 RM	31/3/2003 RM	30/9/2003 RM
Share capital	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Accumulated loss	(682,573)	(682,981)	(487,270)	(314,770)	(182,598)	(3,587)
	517,427	517,019	712,730	885,230	1,017,402	1,196,413
Finance creditor	-	-	33,000	24,200	15,400	10,999
Deferred taxation	8,000	8,000	8,000	8,000	30,000	28,000
	525,427	525,019	753,730	917,430	1,062,802	1,235,412
Property, plant and equipment	156,990	251,582	263,570	221,101	606,377	578,866
Development costs	50,000	-	-	-	-	-
Investment in subsidiary company	500,000	500,000	500,000	-	-	-
Current assets	1,881,099	1,473,039	1,782,001	2,078,141	1,743,308	1,733,759
Current liabilities	(2,062,662)	(1,699,602)	(1,791,841)	(1,381,812)	(1,286,883)	(1,077,213)
Net current (liabilities)/ assets	(181,563)	(226,563)	(9,840)	696,329	456,425	656,546
	525,427	525,019	753,730	917,430	1,062,802	1,235,412
Net tangible assets	467,427	517,019	712,730	885,230	1,017,402	1,196,413
Net tangible assets per share (RM)	0.39	0.43	0.59	0.74	0.85	1.00

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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5. STATEMENTS OF ASSETS AND LIABILITIES

The following are the statements of assets and liabilities of ISB and ISB Group prepared based on the audited financial statements of ISB, IMSB and RCC as at 30 September 2003.

The Proforma ISB Group's statement of assets and liabilities has been adjusted for items as set out in Note 5.3. The statements should be read in conjunction with the notes thereto.

	Note	ISB RM' 000	Proforma Group RM' 000
PROPERTY, PLANT AND EQUIPMENT	5.4	-	1,662
DEVELOPMENT COSTS	5.5	-	3,312
CURRENT ASSETS			
Inventories	5.6	-	108
Receivables	5.7	-	3,277
Cash and bank balances		#	16,245
		#	19,630
CURRENT LIABILITIES			
Payables	5.8	4	1,707
Bank overdraft	5.9	-	251
Tax payable		-	11
		4	1,969
NET CURRENT (LIABILITIES) / ASSETS		(4)	17,661
DEFERRED AND LONG TERM LIABILITIES			
Amount due to a shareholder	5.10	-	50
Hire purchase creditors	5.11	-	31
Deferred taxation		-	28
		(4)	22,526
SHARE CAPITAL	5.12	#	13,235
RESERVES	5.13	(4)	9,291
SHAREHOLDERS' FUNDS		(4)	22,526

RM2.00

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES

5.1 FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

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

(a) Interest rate risk

The Group's policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

(b) Market risk

For key product purchases, the Group establishes floating and fixed priced levels that the Group considers acceptable and enters physical supply agreements, where necessary, to achieve these levels. The Group does not face significant exposure from the risk of changes in price levels.

(c) Credit risk

The credit risk is controlled by the application of credit approvals, limits and monitoring procedures. An internal credit review is conducted if the credit risk is material.

(d) Liquidity and cash flow risks

The Group seeks to achieve a balance between certainty of funding even in difficult times for the markets or the Group and a flexible, cost-effective borrowing structure. This is to ensure that at the minimum, all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturity is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance.

5.2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements.

The financial statements of the Group have been prepared in accordance with the provisions of the applicable approved accounting standards in Malaysia.

14. **REPORTING ACCOUNTANTS' REPORT (CONT'D)**

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5.2 **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Ingenuity Solutions Berhad ("ISB") and its subsidiary companies made up to the end of the financial period. The acquisition of IMSB will be accounted for using the merger method of accounting and the acquisition of RCC will be accounted for using the acquisition method of accounting.

Under the merger method of accounting, the result of the subsidiary companies is accounted on a full year basis irrespective of the date of merger. The difference between the nominal value of shares issued as consideration for the merger and the nominal value of shares received will be adjusted against reserves.

Under the acquisition method of accounting, the results of the subsidiary company acquired are included from the date of acquisition. At the date of acquisition, the fair value of the subsidiary company's net assets are determined and reflected in the Group's financial statements. The difference of the consideration paid for shares in the subsidiary company over the fair value of the underlying net assets of the subsidiary company acquired represents goodwill or reserve arising on consolidation. Goodwill on consolidation is retained in the consolidated balance sheet and will be written off only when the Directors are of the opinion that there is a permanent diminution in value.

All significant inter-company transactions are eliminated and the consolidated financial statements reflect external transactions only.

(c) Subsidiary company

A subsidiary company is a company in which the Group or the Company has a long term equity interest of more than 50% where there is management participation through Board's representation.

Investment in subsidiary companies is stated at cost unless in the opinion of the Directors, there has been a permanent diminution in value, in which case provision is made for the diminution in value.

(d) Property, plant and equipment

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

No depreciation is charged on the hotel application software which may be immaterial due to its long useful economic lives and high residual value.

Further expenditure to maintain/improve the standard of performance of the hotel application software will be recognised as an expense in the income statement in the period in which it is incurred. The cost of the software will be reviewed periodically by the Directors for any impairment in value.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (cont'd)

Depreciation is calculated on a straight line method at the following annual depreciation based on their estimated useful life : -

Office equipment	10%-33½%
Furniture and fittings	10%
Motor vehicle	20%

Property, plant and equipment are written down to recoverable amount if, in the opinion of the Directors, it is permanently less than their carrying value. Recoverable amount is the net selling price of the property, plant and equipment i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

(e) Hire purchase

The costs of assets acquired under hire purchase agreements are capitalised. The depreciation policy on these assets is similar to that of the Group's property, plant and equipment depreciation policy. Outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. The finance expenses on hire purchase agreements are allocated to the income statement over the period of the respective agreements.

(f) Development costs

Development costs represents the costs of designing and developing new product and other related expenditure incurred for the purpose of securing projects.

The development costs are recognised as an expense in the year in which they are incurred except insofar as the development costs are expected to generate future economic benefits.

Capitalised development costs are amortised over five years commencing when the product is available for sale.

Should the product or project be aborted, the related expenditure will be charged to the income statement in the year in which such decision is made.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(g) Deferred tax liabilities and assets**

Deferred tax liabilities and assets are provided for under the liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

Deferred tax was not provided for all timing differences where it was reasonable probable that such timing differences will not crystallise in the foreseeable future. In addition, deferred tax benefits were recognised only when there is reasonable assurance of their realisation.

(h) Revenue recognition

Sales of goods and services are recognised as income, net of discount and goods return in the income statement, upon delivery of goods and when services are rendered.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances, short term demand deposits and highly liquid investments which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the year end.

(k) MSC research grant

The MSC research grant for the development of software and system design are received as reimbursement to development costs incurred and deducted from the product development costs incurred.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial instruments

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

Financial instruments are offset when the Company 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.

(m) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have determined (net of amortisation and depreciation) had no impairment loss been recognised.

14. **REPORTING ACCOUNTANTS' REPORT (CONT'D)**

Shamsir Jasani Grant Thornton 

5.3 **SCHEME**

As an integral part of the listing and quotation for the entire issued and paid-up share capital of ISB, ISB undertook a scheme that was approved by the Securities Commission and the Exchange subsequent to 30 September 2003.

The scheme involves the following: -

(i) **Acquisition of IMSB**

On 15 October 2003, ISB acquired the entire issued and fully paid-up share capital of IMSB comprising 1,100,000 ordinary share of RM1.00 each in IMSB for a total purchase consideration of RM9,000,000 to be satisfied by the issuance of 9,000,000 new ordinary shares of RM1.00 each in ISB, at RM1.00 per ordinary share of RM1.00 each in ISB.

(ii) **Share Split**

The sub-division of par value of the existing ordinary shares in ISB from RM1.00 each to RM0.10 each.

(iii) **Acquisition of RCC**

On 15 October 2003, ISB acquired the entire issued and fully paid-up share capital of RCC comprising 1,200,000 ordinary shares of RM1.00 each in RCC for a total purchase consideration of RM885,230 to be satisfied by the issuance of 8,852,300 new ISB Shares, at RM0.10 per ISB Share.

(iv) **Public Issue**

ISB to implement a public issue of 33,500,000 new ISB Shares to identified investors by way of private placement, at an issue price of RM0.55 per ISB Share.

(v) **Listing**

In conjunction with the Public Issue, ISB will seek the admission and the listing of and quotation for its entire enlarged issued and paid-up share capital of ISB comprising 132,352,320 ISB Shares on the Official List of the MESDAQ Market of Malaysia Securities Exchange Berhad.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.4 PROPERTY, PLANT AND EQUIPMENT

Proforma Group	Office equipment RM'000	Electrical, furniture and fittings RM'000	Motor vehicles RM'000	Renovation RM'000	Data processing equipment RM'000	Hotel application system RM'000	Total 30.9.2003 RM'000
Cost							
Additions through acquisition of subsidiary companies/ At 30 September 2003	867	514	110	398	810	420	3,119
Accumulated depreciation							
Additions through acquisition of subsidiary companies/ At 30 September 2003	408	167	59	57	766	-	1,457
Net book value							
At 30 September 2003	459	347	51	341	44	420	1,662

The motor vehicles with net book value of RM68,380 are under hire purchase agreement.

5.5 DEVELOPMENT COSTS

	Proforma Group RM'000
Total development costs	4,485
Less: MSC grants received	(1,060)
	3,425
Less: Accumulated amortisation	(113)
At end of financial period	3,312

5.6 INVENTORIES

Inventories consist of trading goods for resale.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.7 RECEIVABLES

	Proforma Group RM'000
Trade receivables	1,714
Other receivables	1,563
	<u>3,277</u>

5.8 PAYABLES

	ISB RM'000	Proforma Group RM'000
Trade payables	-	456
Other payables	4	1,251
	<u>4</u>	<u>1,707</u>

5.9 BANK OVERDRAFT - UNSECURED

Bank overdraft bears interest at prevailing market rates of 8.3% - 10.0%.

It is obtained via a corporate guarantee of RM800,000 from a third party.

5.10 AMOUNT DUE TO A SHAREHOLDER

Amount due to a shareholder is unsecured, bears no interest and no scheme of repayment has been arranged.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.11 HIRE PURCHASE CREDITORS

	Proforma Group RM'000
Hire purchase creditors	63
Interest in suspense	(15)
Present value of hire purchase creditors	<u>48</u>
Present value of hire purchase creditors	
- within 1 year	17
- after 1 year but not later than 5 years	<u>31</u>
	<u>48</u>

The amount payable within 1 year has been included in other payables.

5.12 SHARE CAPITAL

	Proforma Group RM'000
Issued and fully paid:-	
On incorporation / As at 30 September 2003	*
Acquisition of IMSB	9,000
Acquisition of RCC	<u>885</u>
Before Public issue	9,885
Public issue	<u>3,350</u>
After public issue	<u>13,235</u>

* Comprising two (2) ordinary shares of RM1.00 each. On 15 October 2003, the nominal value of the ordinary shares capital was changed from RM1.00 each to RM0.10 each arising from a share split exercise.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.13 RESERVES

	ISB RM'000	Proforma Group RM'000	
Share premium	-		12,575
Reserve on consolidation	-		311
(Accumulated loss) / Unappropriated profit	(4)	4,305	
Merger deficit	-	(7,900)	(3,595)
	<u>(4)</u>		<u>9,291</u>

5.14 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows :-

	Less than <u>1 year</u> RM'000	1 to 5 <u>years</u> RM'000	<u>Total</u> RM'000	Effective interest rate during the <u>financial period</u>
<u>30.9.2003</u>				
<u>Financial assets</u>				
Cash and bank balances	16,745	-	16,745	-
<u>Financial liabilities</u>				
Finance creditors	17	31	48	5.9%
Bank overdraft	251	-	251	8.3% - 10.0%

(b) Credit risk

The maximum credit risk associated with recognised financial assets is the carrying amount shown in the balance sheet.

The Company has no significant concentration of credit risk with any single counterparty.

(c) Fair values

The carrying amounts of all financial assets and liabilities of the Group at the balance sheet date approximated their fair values.

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

5.15 NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the statements of assets and liabilities of Ingenuity Solutions Berhad as at 30 September 2003, the net tangible assets per share is calculated as follows: -

	ISB	Proforma Group
Net tangible (liabilities) (NTL) / assets (NTA) as per statements of assets and liabilities (RM)	<u>(4,170)</u>	<u>19,214,424</u>
Total number of fully issued and paid-up ordinary shares of RM1.00 each	2	-
Total number of fully issued and paid-up ordinary shares of RM0.10 each	<u>-</u>	<u>132,352,320</u>
NTL per ordinary share of RM1.00 each (RM)	(2,085)	-
NTA per ordinary share of RM0.10 each (sen)	<u>-</u>	<u>14.52</u>

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton 

6. STATEMENT OF PROFORMA CASH FLOW

The consolidated cashflow of the ISB Group set out below is for the six months financial period ended 30 September 2003 prepared on a proforma basis and based on the audited financial statements of all companies within the Group and on the assumption that the ISB Group exercises as detailed in Note 5.3, had been in effect throughout the six months ended 30 September 2003.

	Six months ended 30 September 2003 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	2,069
Adjustments for :-	
Amortisation	38
Depreciation	106
Interest expenses	28
Operating profit before working capital changes	2,241
Changes on working capital:-	
Inventories	(2)
Payables	361
Receivables	(698)
Cash generated from operations	1,902
Interest paid	(28)
Taxation paid	(43)
Net cash from operating activities	1,831
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(314)
Development cost paid	(1,249)
Net cash used in investing activities	(1,563)
CASH FLOW FROM FINANCING ACTIVITIES	
Repayment of hire purchase creditors	(9)
Grants received	376
Issuance of shares	18,425
Repayment to XCSB	(500)
Payment of listing expenses	(2,500)
Net cash from financing activities	15,792
CASH AND CASH EQUIVALENTS	
Net increase	16,060
Brought forward	(66)
Carried forward	15,994

14. REPORTING ACCOUNTANTS' REPORT (CONT'D)

Shamsir Jasani Grant Thornton

6. STATEMENT OF PROFORMA CASH FLOW (CONT'D)

Cash and cash equivalents at the end of the financial period after the Public Issue shown above comprise of the following:-


	RM'000
Bank overdraft	(251)
Cash and bank balances	<u>16,245</u>
	<u>15,994</u>

7. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 September 2003.

Yours faithfully,


SHAMSIR JASANI GRANT THORNTON
Firm number: AF-737
Chartered Accountants


HOOI KOK MUN
Approval number: 2207/01/06(J)
Partner of the Firm

15. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP

15.1 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS

Shamsir Jasani Grant Thornton 

Chartered Accountants

**REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2003
(Prepared for inclusion in this Prospectus)**

Date: 29 January 2004

The Board of Directors
Ingenuity Solutions Berhad
Wisma MINC
36, Jalan Datuk Sulaiman
Taman Tun Dr Ismail
60000 Kuala Lumpur


Gentlemen,


We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Ingenuity Solutions Berhad ("ISB") and its subsidiary companies ("the Group") as at 30 September 2003 together with the notes thereto, for which the Directors are solely responsible, as set out in the Prospectus to be dated 9 February 2004 in connection with the public issue of 33,500,000 new ordinary shares of RM0.10 each ("ISB Share(s)") at an issue price of RM0.55 per ISB Share and the listing of and quotation for the entire issued and paid-up share capital of ISB on the MESDAQ Market of Malaysia Securities Exchange Berhad and should not be relied on for any other purposes.

In our opinion, the Proforma Consolidated Balance Sheets together with the accompanying notes which are provided solely for illustrative purposes only,

- (a) have been properly compiled on the bases of preparation stated;
- (b) such bases are consistent with the accounting policies normally adopted by the Group; and
- (c) the adjustments are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully,


SHAMSIR JASANI GRANT THORNTON
Firm number: AF-737
Chartered Accountants


HOOI KOK MUN
Approval number: 2207/01/06(J)
Partner of the Firm

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15. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP (CONT'D)

15.2 PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP

**INGENUITY SOLUTIONS BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2003**

The Proforma Consolidated Balance Sheets of ISB and its subsidiary companies as at 30 September 2003 as set out below are provided for illustrative purposes only and incorporates the transactions referred to in the notes to the proforma consolidated balance sheets, had these transactions been effected on 30 September 2003: -

	Audited as at 30 September 2003 RM	Proforma I RM	Proforma II RM	Proforma III RM
SHARE CAPITAL	2	9,000,002	9,885,232	13,235,232
RESERVES	(4,172)	(3,594,822)	(3,283,639)	9,291,361
SHAREHOLDERS' FUND	(4,170)	5,405,180	6,601,593	22,526,593
DEFERRED TAXATION	-	-	28,000	28,000
LOAN AND BORROWINGS	-	570,135	581,134	81,134
	<u>(4,170)</u>	<u>5,975,315</u>	<u>7,210,727</u>	<u>22,635,727</u>
REPRESENTED BY:-				
PROPERTY, PLANT AND EQUIPMENT	-	1,082,941	1,661,807	1,661,807
DEVELOPMENT COSTS	-	3,312,169	3,312,169	3,312,169
CURRENT ASSETS				
Inventories	-	-	108,223	108,223
Receivables	-	1,653,896	3,276,932	3,276,932
Cash and bank balances	2	818,179	820,679	16,245,679
	<u>2</u>	<u>2,472,075</u>	<u>4,205,834</u>	<u>19,630,834</u>
CURRENT LIABILITIES				
Payables	4,172	891,870	1,707,488	1,707,488
Bank borrowings	-	-	251,045	251,045
Tax payable	-	-	10,550	10,550
	<u>4,172</u>	<u>891,870</u>	<u>1,969,083</u>	<u>1,969,083</u>
NET CURRENT (LIABILITIES)/ASSETS	<u>(4,170)</u>	<u>1,580,205</u>	<u>2,236,751</u>	<u>17,661,751</u>
	<u>(4,170)</u>	<u>5,975,315</u>	<u>7,210,727</u>	<u>22,635,727</u>
Net tangible (liabilities)/assets per ordinary share of RM1.00 each (RM)	<u>(2,085)</u>	<u>0.23</u>	<u>-</u>	<u>-</u>
Net tangible assets per ordinary share of RM0.10 each (sen)	<u>-</u>	<u>-</u>	<u>3.33</u>	<u>14.52</u>

Stamped for the purpose of identification on:

29 JAN 2004

Shamsir Jasani Grant Thornton

15. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP (CONT'D)

**INGENUITY SOLUTIONS BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2003 (CONT'D)**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1. The Proforma Consolidated Balance Sheets are based on the audited financial statements of ISB, Ingenuity Microsystems Sdn Bhd ("IMSB") and Reliance Computer Centre Sdn Bhd ("RCC") as at 30 September 2003.
2. The Proforma Consolidated Balance Sheets have been prepared using the acquisition method of accounting for RCC while for IMSB, the acquisition has been consolidated using merger method of accounting.

Under the merger method of accounting, the result of the subsidiary company is accounted on a full year basis irrespective of the date of merger. The difference between the nominal value of shares issued as consideration for the merger and the nominal value of shares received will be adjusted against reserves.

3. The Proforma Consolidated Balance Sheets have been prepared based on accounting principles and bases consistent with those normally adopted in the preparation of audited financial statements to illustrate the Consolidated Balance Sheets of the Group assuming that all the transactions mentioned below had taken place on 30 September 2003 :-

Proforma I : Incorporates the effects of the acquisition of the entire issued and fully paid-up share capital of IMSB comprising 1,100,000 ordinary shares of RM1.00 each in IMSB for a total purchase consideration of RM9,000,000 satisfied by the issuance of 9,000,000 new ordinary shares of RM1.00 each in ISB at par value;

Proforma II : Incorporates the effects of Proforma I and the followings:

- (i) Sub-division of par value for every existing ordinary shares in ISB from RM1.00 each to RM0.10 each;
- (ii) Acquisition of the entire issued and fully paid-up share capital of RCC comprising 1,200,000 ordinary shares of RM1.00 each in RCC for a total purchase consideration of RM885,230 satisfied by the issuance of 8,852,300 new ISB Shares at par value; and

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15. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP (CONT'D)

**INGENUITY SOLUTIONS BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2003 (CONT'D)**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

Proforma II : cont'd

- (iii) The divestment of 13,235,232 ordinary shares of RM0.10 each in ISB by Ingenuity Technologies Sdn Bhd to Technology Park Malaysia Corporation Sdn Bhd for a total consideration of RM4,800,000 or approximately RM0.36 per ordinary share which was arrived at based on a willing buyer – willing seller basis.

Proforma III : Incorporates the effects of Proforma II and the followings:-

- (i) Public issue of 33,500,000 new ISB Shares at an issue price of RM0.55 per ordinary share.
- (ii) The gross proceeds arising from the Public Issue amounting to RM18.425 million are expected to be fully utilised for the core business of the Group by December 2006 in the following manner:

	RM
Research and development	7,500,000
Working capital	7,925,000
Repayment to Xplonet Capital Sdn Bhd	500,000
Estimated listing expenses	2,500,000
	<u>18,425,000</u>

The listing expenses estimated at RM2,500,000 will be set off against the share premium account.

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15. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AND PROFORMA CONSOLIDATED BALANCE SHEETS OF THE ISB GROUP (CONT'D)

**INGENUITY SOLUTIONS BERHAD
(Incorporated in Malaysia)
AND ITS GROUP OF COMPANIES**

**PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2003 (CONT'D)**

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)

4. The movement of the issued and paid-up share capital of ISB is as follows :-

	RM
As at date of incorporation	2
Acquisition of IMSB	<u>9,000,000</u>
As per Proforma (I)	9,000,002
Acquisition of RCC	<u>885,230</u>
As per Proforma (II)	9,885,232
Initial Public Offering	<u>3,350,000</u>
As per Proforma (III)	<u>13,235,232</u>

5. The movement of the reserves account is as follows :-

	RM
As at 30 September 2003	(4,172)
Retained profit of IMSB taken over	4,309,350
Merger deficit arising from the acquisition of IMSB	<u>(7,900,000)</u>
As per Proforma (I)	(3,594,822)
Reserves on consolidation arising from the acquisition of RCC	<u>311,183</u>
As per Proforma (II)	(3,283,639)
Share premium arising from shares issued pursuant to the Public Offerings	15,075,000
Estimated listing expenses	<u>(2,500,000)</u>
As per Proforma (III)	<u>9,291,361</u>

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29 JAN 2004

Shamsir Jasani Grant Thornton