

11. ACCOUNTANTS' REPORT

Prepared for the inclusion in this Prospectus



5 November 2004

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Dear Sirs/Madam

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TRICUBES BERHAD ("TRICUBES" OR "THE COMPANY") ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of Tricubes dated 26 November 2004 in connection with the Public Issue of 36,708,400 new ordinary shares of RM0.10 each in Tricubes at an issue price of RM0.41 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of Tricubes comprising 134,000,000 ordinary shares of RM0.10 each on the Malaysian Exchange of Securities Dealing Automated Quotation Berhad ("MESDAQ") Market of Bursa Malaysia Securities Berhad (*formerly known as Malaysia Securities Exchange Berhad*) ("the MESDAQ Market").

2. DETAILS OF TRICUBES AND ITS SUBSIDIARIES

2.1 THE COMPANY

The Company was incorporated on 30 July 2003 in Malaysia as a public company under the Malaysian Companies Act, 1965 under the name of Tricubes Berhad. Its principal activity is that of investment holding.

2.2 RESTRUCTURING AND LISTING SCHEME

The following transactions form an integral part of the proposed listing of Tricubes on the MESDAQ Market:-

- (a) acquisition of the entire issued and paid-up share capital of Tricubes Computers Sdn Bhd ("TCSB") comprising 8,406,048 ordinary shares of RM0.25 each for a purchase consideration of RM9,729,158 satisfied by the issuance of 97,291,580 new ordinary shares of RM0.10 each in Tricubes (the ordinary shares in Tricubes are referred to as "Tricubes Shares" hereinafter) at an issue price of RM0.10 per Tricubes Share;
- (b) acquisition from TCSB 70% of the issued and paid-up share capital of EPNCR (Malaysia) Sdn Bhd ("EPNCR") comprising 700,000 ordinary shares of RM1.00 each for a cash purchase consideration of RM1,012,436;

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**2.2 RESTRUCTURING AND LISTING SCHEME (CONT'D)**

- (c) acquisition of the entire issued and paid-up share capital of Tricubes Consulting Sdn Bhd ("TRCO") comprising 20 ordinary shares of RM0.10 each for a cash purchase consideration of RM2.00;
- (d) acquisition of the entire issued and paid-up share capital of Tricubes Global Sdn Bhd ("TGSB") comprising 20 ordinary shares of RM0.10 each for a cash purchase consideration of RM2.00;
- (e) transfer of 17,915,435 Tricubes Shares held in trust by Jamaludin Abu Bakar for and on behalf of Khairun Zainal Mokhtar for a nominal amount of RM0.10 per share to Khairun Zainal Mokhtar and 32 named employees and directors of Tricubes and its subsidiaries and associate companies ("the Group");
- (f) transfer of 20 Tricubes Shares representing Subscribers' Shares from the existing shareholders to Khairun Zainal Mokhtar for a cash consideration of RM2.00;
- (g) issue of 36,708,400 new Tricubes Shares of RM0.10 each, at an issue price of RM0.41 per new Tricubes Share to the Malaysian general public, selected investors, directors and eligible employees of Tricubes and its subsidiaries and persons who have contributed to the success of Tricubes and its subsidiaries and associates ("Public Issue"); and
- (h) listing of and quotation for the entire enlarged issued and paid-up share capital of Tricubes comprising 134,000,000 Tricubes Shares on the MESDAQ Market.

Items (a), (b), (c) and (d) are collectively referred to as the "Acquisitions" hereinafter. The Acquisitions were completed in August 2004.

11. ACCOUNTANTS' REPORT (Cont'd)



2.3 DETAILS OF THE SUBSIDIARIES AND ASSOCIATE COMPANIES

A summary of the details of the subsidiary and associated companies of Tricubes, all of which are incorporated in Malaysia, as at the date of this report is as follows:-

Name	Date of incorporation	Issued and paid-up share capital RM	Effective equity interest %	Principal activities
Subsidiary companies				
TCSB	10 October 1995	2,101,512	100	Design and development of IT solutions and provision of after-sales service to clients.
EPNCR	3 October 1996	1,000,000	70	Marketing of the Group's products and services to the Government and the private sector.
TRCO	19 August 2003	2	100	Provision of IT consultancy services.
TGSB	19 August 2003	2	100	Marketing of the Group's products and services worldwide.
TC (Sabah)	20 January 2004	40,000	75	Investment holding company to undertake investments in the Borneo region (including East Malaysia).
Associate companies				
GMPC	18 February 1995	5,000,000	14	Provision of the national identity smart card or MyKad solutions to the Government.
TriSuria	12 November 2003	100,000	30	Provision of IT services in the Borneo region (including East Malaysia) through joint venture with Suria Capital Holdings Bhd.

Abbreviations:-

TC (Sabah)	: Tricubes Computers (Sabah) Sdn Bhd (formerly known as Colour Gate Express Sdn Bhd)
GMPC	: GMPC Corporation Sdn Bhd
TriSuria	: Tricubes Suria Sdn Bhd (formerly known as Prima EraGlobal Sdn Bhd)
IT	: Information technology

Tricubes and the above subsidiary and associate companies are hereinafter collectively known as the Tricubes Group.

11. ACCOUNTANTS' REPORT (Cont'd)**3. SHARE CAPITAL**

As at the date of this report, the authorised share capital of Tricubes is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital of Tricubes as of the date of this report is RM9,729,164 comprising 97,291,640 ordinary shares of RM0.10 each.

The changes in the issued and paid-up share capital of the Company since its date of incorporation are as follows:-

Date of allotment	No. of Tricubes Shares allotted	Resultant number of ordinary shares in issue	Par value RM	Consideration/ Type of issue	Cumulative issued and paid-up share capital RM
30.7.2003	20	20	0.10	Subscribers' shares	2
20.8.2004	97,291,580	97,291,600	0.10	Shares issued pursuant to the Acquisitions	9,729,160

Upon completion of the Public Issue as detailed in paragraph 2.2 (g) above, the issued and paid-up share capital of Tricubes will be enlarged to RM13,400,000 comprising 134,000,000 ordinary shares of RM0.10 each.

4. RELEVANT FINANCIAL PERIODS

The relevant financial periods for the purpose of this report (Relevant Financial Periods) are as follows:-

Company	Relevant Financial Periods
Tricubes	30 July 2003 (date of incorporation) to 31 August 2004
TCSB	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 8-month period ended 31 August 2004
EPNCR	Financial years ended 31 December 1999, 2000, 2001, 2002 and 2003 8-month period ended 31 August 2004
TRCO	19 August 2003 (date of incorporation) to 31 August 2004
TGSB	19 August 2003 (date of incorporation) to 31 August 2004
TC (Sabah)	20 January 2004 (date of incorporation) to 31 August 2004

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**5. ACCOUNTING STANDARDS AND POLICIES****5.1 BASIS OF PREPARATION**

The financial statements of the Tricubes Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5.2 SIGNIFICANT ACCOUNTING POLICIES**(a) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(b) Basis of Consolidation

The consolidated financial statements are made up of the financial statements of the Company and its subsidiary as at the reporting date.

A subsidiary is defined as an enterprise in which the Group has the power, directly or indirectly, to exercise control over its financial and operating policies, so as to obtain benefits from its activities.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the result of the subsidiary acquired or disposed of is included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair value of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiary to ensure consistency of accounting policies with those of the Group.

11. ACCOUNTANTS' REPORT (Cont'd)

**5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(b) Basis of Consolidation (Cont'd)**

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

(c) Goodwill or Negative Goodwill on Consolidation

Goodwill represents the excess of the fair value of the purchase consideration of subsidiary acquired over the Group's share of the fair values of their identifiable assets and liabilities at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the separable assets of the subsidiary at the date of acquisition over the fair value of the purchase consideration.

Goodwill on consolidation is stated net of negative goodwill, and the net carrying amount of goodwill is amortised on a straight-line basis to write off the amount of the net goodwill over a period of 20 years.

Goodwill on consolidation is reviewed annually, and is written down for impairment when it is considered necessary. The impairment value of goodwill written off is taken to the income statement.

(d) Associate

Associate is an enterprise in which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not control over those policies.

In the previous financial years, investment in associate was accounted for using the cost method of accounting. As of 1 January 2003, investment in associate is accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the results of associate for the period. The Group's investment in associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the group has incurred obligations or guaranteed obligations in respect of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred.

Where necessary, in applying the equity method, adjustments are made to the financial statements of associate to ensure consistency of accounting policies with those of the Group.

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11. ACCOUNTANTS' REPORT (Cont'd)



5.2 Significant Accounting Policies (Cont'd)

(e) Equipment

Equipment is stated at cost less accumulated depreciation and impairment loss, if any.

Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Computer equipment and software	33.33%
Electronic data capture ("EDC") terminals	20%
Motor vehicle	12% - 20%
Office renovations	20%
Office equipment, furniture and fittings	20% - 25%
Research and development equipment	25%

(f) Impairment of Assets

The carrying amounts of assets, other than those to which MASB Standard 23 Impairment of Assets does not apply, are reviewed at each balance sheet date 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.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(g) Research and Development Expenditure

Research expenditure is written off to the income statement when incurred. Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefit. Development expenditure capitalised comprises costs incurred for development including direct and attributable indirect costs. Development costs initially recognised as an expense are not recognised as assets in the subsequent period.

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11. ACCOUNTANTS' REPORT (Cont'd)

**5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(g) Research and Development Expenditure (Cont'd)**

Development costs that have been capitalised are amortised on a straight-line basis over the period of their expected benefit, but not exceeding 5 years, from the commencement of the commercial production of the product.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and comprises the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods and work-in-progress includes the cost of materials, labour and an appropriate proportion of production overheads.

In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

(i) 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 balance sheet date.

(j) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(k) Assets Under Hire Purchase and Lease

Leases of equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases.

Equipment acquired by way of finance leases are capitalised as long-term assets, based on the lower of the fair values of the lease equipment or present value of the minimum lease payment at the inception of the lease.

Outstanding obligations due under the finance lease terms, after deducting finance charges, are included as liabilities in the financial statements. The finance charges are allocated to periods under the lease terms using the sum of digits method so as to produce a constant periodic rate of interest on the remaining balance of liabilities for each period.

Equipment acquired under the finance lease are depreciated over the estimated useful lives of the assets. Where there is no reasonable certainty that the ownership will be transferred to the Company, the assets are depreciated over the shorter of the lease terms and their estimated useful lives.

11. ACCOUNTANTS' REPORT (Cont'd)

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

Taxation for the period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

(m) Interest Bearing Borrowings

Interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

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

11. ACCOUNTANTS' REPORT (Cont'd)

**5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(n) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

(p) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling on that date. All exchange differences are taken to the income statement.

(q) Employee Benefits**(i) Short term benefits**

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further liabilities in respect of the defined contribution plans.

(r) Revenue Recognition**(i) Sale of Goods and Services**

Sales are recognised upon delivery of goods and customers' acceptance or performance of services and where applicable, net of returns and trade discounts.

11. ACCOUNTANTS' REPORT *(Cont'd)*



5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Revenue Recognition (Cont'd)

(ii) Interest Income

Interest income is recognised on an accrual basis, based on effective yield on the investment.

5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the significant accounting policies adopted by Tricubes Group during the Relevant Financial Period except for the change effected for the accounting policy on deferred taxation in the financial year ended 31 December 2003. The change was made so that the accounting policy is in compliance with MASB 25 - Income Taxes, as MASB 25 became effective for accounting period beginning from or after 1 July 2002. The change in the accounting policy on deferred taxation however does not have any material effects on the results of the Group for the Relevant Financial Periods.

6. AUDITORS AND AUDIT REPORTS

6.1 AUDITORS

The financial statements of Tricubes, TCSB, EPNCR, TRCO, TGSB and TC (Sabah) for the Relevant Financial Periods were audited by other firms of accountants.

6.2 AUDIT REPORTS

The financial statements of Tricubes, TCSB, EPNCR, TRCO, TGSB and TC (Sabah) for the relevant financial years/period were reported upon without any qualifications.

11. ACCOUNTANTS' REPORT (Cont'd)



7. SUMMARISED INCOME STATEMENTS

7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF TRICUBES GROUP

The summarised proforma consolidated income statements of Tricubes Group for the Relevant Financial Periods have been prepared on the assumption that Tricubes Group had been in existence throughout the Relevant Financial Periods. The results of the Proforma Group are presented after elimination of transactions between all the companies in the Group. The proforma consolidated income statements are prepared for illustration purposes only and should be read in conjunction with the notes hereto:-

	← Year ended 31 December →					Period from 1.1.2004
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	to 31.8.2004 RM'000
Revenue	4,552	9,099	45,625	11,669	17,066	15,494
Cost of sales	(3,309)	(6,875)	(31,112)	(5,876)	(9,957)	(8,282)
Gross profit	1,243	2,224	14,513	5,793	7,109	7,212
Other operating income	519	583	432	47	14	125
Administrative and other operating expenses	(2,376)	(3,077)	(4,916)	(5,918)	(6,434)	(4,269)
Finance costs	(124)	(403)	(541)	(84)	(146)	(577)
Operating (loss)/profit	(738)	(673)	9,488	(162)	543	2,491
Amortisation expenses	46	68	125	10	508	510
Depreciation	81	214	347	600	725	514
Interest expense	123	367	534	71	104	215
Earnings before interest, depreciation, taxation and amortisation ("EBIDTA")	(488)	(24)	10,494	519	1,880	3,730
Less:						
Amortisation expenses	(46)	(68)	(125)	(10)	(508)	(510)
Depreciation	(81)	(214)	(347)	(600)	(725)	(514)
Interest expense	(123)	(367)	(534)	(71)	(104)	(215)
Share of loss in associate	(6)	(234)	(176)	(116)	(98)	(29)
(Loss)/("LBT")/Profit before tax ("PBT")	(744)	(907)	9,312	(278)	445	2,462
Taxation	-	-	-	-	-	-
Net (loss)/profit before minority interest	(744)	(907)	9,312	(278)	445	2,462
Minority interest ("MI")	-	67	(1,031)	387	333	(78)
(Loss) ("LAT")/Profit after tax ("PAT")	(744)	(840)	8,281	109	778	2,384

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7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF TRICUBES GROUP (CONT'D)

	← Year ended 31 December →					Period from
	1999	2000	2001	2002	2003	1.1.2004
	RM'000	RM'000	RM'000	RM'000	RM'000	to 31.8.2004 RM'000
Weighted average number of ordinary shares of RM0.10 each in issue ('000)	22,717	53,397	68,613	77,740	87,966	97,292
Gross Loss Per Share ("LPS")/ Per Share ("EPS") (sen)	(3.28)	(1.57)	12.07	0.14	0.88	2.45*
Net (LPS)/EPS (sen)	(3.28)	(1.57)	12.07	0.14	0.88	2.45*

Note:-

* The Gross EPF and Net EPS were computed by dividing the PBT and PAT respectively for the 8-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross EPS and Net EPS computed were not annualised. Had the computation been annualised, the Gross EPS and Net EPS would have been 3.67 sens and 3.67 sens, respectively.

7.1.1 Segmental Information

By products	← Year ended 31 December →										Period from	
	1999		2000		2001		2002		2003		to 31.8.2004	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Revenue												
SAA	-	-	-	-	36	0.1	1,307	11.2	3,055	17.9	589	3.8
MWS	-	-	-	-	26,032	57.1	1,657	14.2	3,295	19.3	7,742	50.0
EPSys	808	17.8	-	-	14,260	31.3	1,869	16.0	1,172	6.9	763	4.9
PS	2,034	44.7	7,431	81.7	3,376	7.4	1,524	13.1	2,609	15.3	1,156	7.5
Maintenance services	-	-	-	-	-	-	2,608	22.3	3,944	23.1	3,258	21.0
Others	1,710	37.6	1,668	18.3	1,921	4.2	2,704	23.2	2,991	17.5	1,986	12.8
	<u>4,552</u>	<u>100.0</u>	<u>9,099</u>	<u>100.0</u>	<u>45,825</u>	<u>100.0</u>	<u>11,669</u>	<u>100.0</u>	<u>17,066</u>	<u>100.0</u>	<u>15,494</u>	<u>100.0</u>
GP margin												
SAA	-	-	-	-	100.0%		28.0%		47.8%		36.9%	
MWS	-	-	-	-	38.0%		49.0%		30.1%		46.3%	
EPSys	(2.4%)		-	-	26.7%		16.0%		33.5%		31.7%	
PS	27.8%		20.5%		9.3%		77.4%		36.5%		27.1%	
Maintenance services	-	-	-	-	-		85.0%		79.7%		73.8%	
Others	40.7%		42.2%		37.8%		34.0%		20.1%		22.8%	
	<u>27.3%</u>		<u>24.4%</u>		<u>31.8%</u>		<u>49.6%</u>		<u>41.7%</u>		<u>46.5%</u>	

Abbreviations:-

SAA	: Secure Access and Authentication
MWS	: Mobile Workforce Solutions
EPSys	: Electronic Payment Systems
PS	: Professional Services

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11. ACCOUNTANTS' REPORT (Cont'd)**7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF TRICUBES GROUP (CONT'D)**

Notes to the proforma consolidated income statements of Tricubes Group:-

- (a) *The proforma consolidated income statements are presented for illustrative purposes only and are prepared based on the audited financial statements of Tricubes, TCSB, TRCO, TGSB, EPNCR and TC (Sabah) for the Relevant Financial Periods.*
- (b) *The proforma consolidated income statements for the Relevant Financial Periods have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements of Tricubes Group.*
- (c) *For all the financial years under review, no taxation was provided for Tricubes Group as TCSB and EPNCR have Multimedia Super Corridor ("MSC") status which exempts the statutory income of TCSB and EPNCR from taxes. Prior to obtaining the MSC status, the subsidiaries sustained losses which resulted in no tax liability.*
- (d) *There were no extraordinary or exceptional items during the Relevant Financial Periods under review.*
- (e) *The proforma gross (LPS)/EPS is computed by dividing the (LBT)/PBT after MI by the assumed weighted average number of ordinary shares in issue, based on the existing paid-up share capital after the Acquisitions but before the Public Issue.*
- (f) *The proforma net (LPS)/EPS is computed by dividing the (LAT)/PAT after MI by the assumed weighted average number of ordinary shares in issue, based on the existing paid-up share capital after the Acquisitions but before the Public Issue.*
- (g) *All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.*

11. ACCOUNTANTS' REPORT (Cont'd)



7.2 INCOME STATEMENT OF TRICUBES

The summarised income statement of Tricubes based on its audited financial statements for the Relevant Financial Period is set out below:-

	Period from 30.7.2003 (date of incorporation) to 31.8.2004 RM'000
Revenue	-
Administrative expenses	(92)
Loss for the financial period	<u>(92)</u>
Weighted average number of ordinary shares of RM0.10 each in issue ('000)	<u>4,386</u>
Gross LPS (sen)	<u>2.1*</u>
Net LPS (sen)	<u>2.1*</u>

Note:-

* The Gross LPS and Net LPS were computed by dividing the loss for the financial period for the 13-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross LPS and Net LPS computed were not annualised. Had the computation been annualised, the Gross LPS and Net LPS would have been 1.9 sens and 1.9 sens, respectively.

Notes to the income statement of Tricubes:-

Administrative expenses incurred during the financial period comprised incorporation expenses and professional fees.

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 INCOME STATEMENTS OF TCSB

The summarised income statements of TCSB based on its audited financial statements for the Relevant Financial Periods are set out below:-

	← Year ended 31 December →					Period from
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	1.1.2004 to 31.8.2004 RM'000
Revenue	1,138	4,262	35,479	6,890	11,743	11,874
Cost of sales	(838)	(3,028)	(26,364)	(2,623)	(6,636)	(6,414)
Gross profit	300	1,234	9,115	4,266	5,107	5,460
Other operating income	-	202	21	30	1	16
Administrative and other operating expenses	(784)	(1,401)	(2,561)	(3,104)	(3,917)	(2,618)
Finance costs	(120)	(390)	(522)	(65)	(94)	(519)
Operating (loss)/profit	(604)	(355)	6,053	1,127	1,097	2,339
Amortisation	46	68	125	-	432	510
Depreciation	57	141	225	304	449	318
Interest	120	390	523	65	94	157
EBIDTA	(381)	244	6,926	1,496	2,072	3,324
Less :						
Amortisation	(46)	(68)	(125)	-	(432)	(510)
Depreciation	(57)	(141)	(225)	(304)	(449)	(318)
Interest	(120)	(390)	(523)	(65)	(94)	(157)
Loss before tax ("LBT")/PBT	(604)	(355)	6,053	1,127	1,097	2,339
Taxation	-	-	-	-	-	-
Loss after tax ("LAT")/PAT	(604)	(355)	6,053	1,127	1,097	2,339
Weighted average number of ordinary shares of RM0.25 each in issue ('000)	850	3,365	4,608	5,753	7,036	8,219
Gross (LPS)/EPS (sen)	(71.1)	(10.5)	131.3	19.6	15.6	28.5*
Net (LPS)/EPS (sen)	(71.1)	(10.5)	131.3	19.6	15.6	28.5*

Note:-

* The Gross EPF and Net EPS were computed by dividing the PBT and PAT respectively for the 8-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross EPS and Net EPS computed were not annualised. Had the computation been annualised, the Gross EPS and Net EPS would have been 42.7 sens and 42.7 sens, respectively.

11. ACCOUNTANTS' REPORT (Cont'd)



7.3 INCOME STATEMENTS OF TCSB (CONT'D)

Notes to the income statements of TCSB:-

- (a) Revenue for the financial year ended 31 December ("FYE") 1999 comprised professional services rendered in respect of the Government Multi Purpose Card ("GMPC") Project. No comparison was made as it was TCSB's first year of operations.
- (b) Revenue in FYE2000 increased by approximately RM3.12 million or 274.5% mainly attributed to higher billings for the GMPC Project, which entered into its first full year of implementation.
- (c) Revenue in FYE2001 increased by 732.4% to RM35.48 million mainly attributed to the supply of hardware for the GMPC Project, which accounted for 88.5% of TCSB's revenue in FYE2001. Accordingly, TCSB turnaround to its results to record a PBT of approximately RM6.0 million in FYE2001. No provision for taxation was made due to the double deduction claims made on research and development expenditure.
- (d) Revenue decreased significantly to RM6.89 million in FYE2002 mainly due to the reduction in revenue from the GMPC Project. Revenue contribution from the GMPC Project was mainly in respect of maintenance income fees. PBT decreased to RM1.13 million in FYE2002 in line with lower revenue.
- (e) During FYE2003, TCSB launched three new products, namely Tricubes 1020, Tripaq 3800 and Secure X-cess which contributed to the rebound in revenue to RM11.7 million. However, as these new products have a lower gross profit margin coupled by the increase in operating expenses, PBT decreased marginally by 2.7% to approximately RM1.10 million.
- (f) On an annualised basis, revenue for the financial period from 1 January 2004 to 31 August 2004 ("FPE2004") increased by 51.7% as compared to FYE2003 due to significantly higher maintenance income. The increase in revenue has resulted in an improvement in annualised PBT by 219.8%.
- (g) There was no exceptional or extraordinary item in the Relevant Financial Periods under review.
- (h) The gross (LPS)/EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.
- (i) The net (LPS)/EPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.
- (j) No taxation was provided for TCSB as TCSB has MSC status which exempts the statutory income of TCSB from taxes. Prior to obtaining the MSC status, TCSB sustained losses which resulted in no tax liability.

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11. ACCOUNTANTS' REPORT (Cont'd)



7.4 INCOME STATEMENTS OF EPNCR

The summarised income statements of EPNCR based on its audited financial statements for the Relevant Financial Periods are set out below:-

	← Year ended 31 December →					Period from
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	1.1.2004 to 1.8.2004 RM'000
Revenue	4,552	9,099	45,625	11,405	15,601	15,062
Cost of sales	(3,609)	(8,109)	(40,228)	(9,879)	(13,600)	(13,310)
Gross profit	943	990	5,397	1,526	2,001	1,752
Other operating income	610	669	599	19	13	110
Administrative and other operating expenses	(1,592)	(1,675)	(2,355)	(2,817)	(3,071)	(1,543)
Finance costs	(95)	(206)	(206)	(17)	(22)	(58)
Operating (loss)/profit	(134)	(222)	3,435	(1,289)	(1,109)	261
Depreciation	24	73	122	296	275	196
Interest expense	94	285	200	5	22	44
EBIDTA	(16)	136	3,757	(988)	(812)	501
Less:						
Depreciation	(24)	(73)	(122)	(296)	(275)	(196)
Interest expense	(94)	(285)	(200)	(5)	(22)	(44)
(Loss before tax)/PBT	(134)	(222)	3,435	(1,289)	(1,109)	261
Taxation	-	-	-	-	-	-
(Loss after tax)/PAT	(134)	(222)	3,435	(1,289)	(1,109)	261
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	500	833	1,000	1,000	1,000	1,000
Gross (LPS)/EPS (sen)	(26.8)	(26.7)	343.5	(128.9)	(110.9)	26.1*
Net (LPS)/EPS (sen)	(26.8)	(26.7)	343.5	(128.9)	(110.9)	26.1*

Note:-

- * The Gross EPF and Net EPS were computed by dividing the PBT and PAT respectively for the 8-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross EPS and Net EPS computed were not annualised. Had the computation been annualised, the Gross EPS and Net EPS would have been 39.2 sens and 39.2 sens, respectively.

11. ACCOUNTANTS' REPORT (Cont'd)**7.4 INCOME STATEMENTS OF EPNCR (CONT'D)***Notes to the income statements of EPNCR:-*

- (a) *Revenue increased by approximately RM2.94 million or 182% to RM4.55 million in FYE1999 mainly due to income from the sale of ATM machines, the trading of spares and consumables for automated teller machines ("ATM") and from the GMPC Project. EPNCR sustained a loss during the financial year due to high administrative and operating expenses.*
- (b) *Revenue in FYE2000 almost doubled from RM4.55 million in FYE1999 to RM9.10 million. The major increase was mainly due to revenue earned from the GMPC Project which was in its first full year of implementation. Despite a higher revenue, EPNCR recorded a loss due to low gross profit margin of 10.9% as compared to 20.7% in FYE1999. The lower gross profit margin was attributed to the trading activities.*
- (c) *The significant increase in revenue in FYE2001 of RM36.53 million or 401% was due to the final delivery of desktops and portable Card Acceptance Devices ("CAD") to the Government in respect of the GMPC Project and the increase in the sale of ATM machines and trading of spares and consumables. As a result, PBT improved substantially to RM3.44 million compared to a loss before taxation of RM0.22 million in the previous financial year.*
- (d) *Revenue decreased by RM34.22 million or 75.0% in FYE2002 mainly due to the completion of the GMPC Project. Revenue from the GMPC Project was mainly maintenance income. As a result, EPNCR sustained a loss of RM1.29 million.*
- (e) *Revenue in FYE2003 increased by 36.8% to RM15.60 million mainly due to the launch of three new products by TCSB as explained in paragraph 7.3(e) above. The increase in revenue was, however, insufficient to cover the administrative and operating expenses for the financial year which resulted in a loss of RM1.11 million.*
- (f) *On an annualised basis, revenue for FPE2004 increased by 44.8% as compared to FYE2003 due to higher sales of MWS products. The increase has resulted in an annualised PBT of RM391,500 during the financial period end.*
- (g) *The gross (LPS)/EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*
- (h) *The net (LPS)/EPS is computed by dividing the profit after taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period under review.*

11. ACCOUNTANTS' REPORT (Cont'd)



7.5 INCOME STATEMENT OF TRCO

The summarised income statement of TRCO based on its audited financial statements for the Relevant Financial Period is set out below:-

	Period from 19.8.2003 (date of incorporation) to 31.8.2004 RM'000
Revenue	-
Administrative expenses	(4)
Loss for the financial period	(4)
Number of ordinary shares of RM0.10 each in issue	20
Gross LPS (RM)	200*
Net LPS (RM)	200*

Note:-

* The Gross LPS and Net LPS were computed by dividing the loss for the financial period for the 13-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross LPS and Net LPS computed were not annualised. Had the computation been annualised, the Gross LPS and Net LPS would have been RM184.6 and RM184.6, respectively.

Notes to the income statement of TRCO:-

Administrative expenses comprised auditors' remuneration, secretarial fee and incorporation expenses.

11. ACCOUNTANTS' REPORT (Cont'd)



7.6 INCOME STATEMENT OF TGSB

The summarised income statement of TGSB based on its audited financial statements for the Relevant Financial Period is set out below:-

	Period from 30.7.2003 (date of incorporation) to 31.8.2004 RM'000
Revenue	-
Administrative and other operating expenses	(3)
Loss for the financial period	(3)
Number of ordinary shares of RM0.10 each in issue	20
Gross LPS (RM)	150*
Net LPS (RM)	150*

Note:-

* The Gross EPF and Net LPS were computed by dividing the loss for the financial period for the 13-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross LPS and Net LPS computed were not annualised. Had the computation been annualised, the Gross LPS and Net LPS would have been RM138.5 and RM138.5, respectively.

Notes to the income statement of TGSB:-

Administrative expenses comprised auditors' remuneration, secretarial fee and incorporation expenses.

11. ACCOUNTANTS' REPORT (Cont'd)



7.7 INCOME STATEMENT OF TC (SABAH)

The summarised income statement of TC (Sabah) based on its audited financial statements for the Relevant Financial Period is set out below:-

	Period from 20.1.2004 (date of incorporation) to 31.8.2004 RM'000
Revenue	-
Administrative and other operating expenses	(3)
Loss for the financial period	(3)
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	20
Gross LPS (sen)	15.0*
Net LPS (sen)	15.0*

Note:-

* The Gross LPS and Net LPS were computed by dividing the loss for the financial period for the 7-month period ended 31 August 2004 by the weighted average number of ordinary shares in issue during the financial period. The Gross LPS and Net LPS computed were not annualised. Had the computation been annualised, the Gross LPS and Net LPS would have been 25.7 sens and 25.7 sens, respectively.

Notes to the income statement of TC (Sabah):-

Administrative and other operating expenses comprised expenses incurred for setting up a permanent office in Sabah.

11. ACCOUNTANTS' REPORT (Cont'd)



8. SUMMARISED BALANCE SHEETS

8.1 Tricubes

The acquisition of four subsidiary companies was completed during the financial period and the purchase considerations were satisfied by cash and issuance of shares in Tricubes. It is impracticable to reflect the investment and share capital of the Proforma Group on a consistent and comparable basis on the assumption that the Group has been in existence throughout the financial years/period under review. As such, the summarised consolidated balance sheets of the Proforma Group are not presented in this report.

The results and balances presented in the report were not significantly affected by transactions and balances between the other companies in the Group and the subsidiary companies acquired during the financial period except to the extent stated in the notes in this report.

The summarised balance sheet of Tricubes based on its audited financial statements as at the end of the Relevant Financial Period is as follows:-

	At 31.8.2004 RM'000
INVESTMENT IN SUBSIDIARIES	10,772
CURRENT ASSETS	357
CURRENT LIABILITIES	(1,492)
NET CURRENT LIABILITIES	(1,135)
	<u>9,637</u>
REPRESENTED BY:-	
Share capital	9,729
Accumulated loss	(92)
	<u>9,637</u>
Net Tangible Assets ("NTA") (RM'000)	<u>9,637</u>
Number of ordinary shares of RM0.10 each in issue	<u>97,291,600</u>
NTA per share (RM)	<u>0.1</u>

11. ACCOUNTANTS' REPORT (Cont'd)



8.2 TCSB

The summarised balance sheets of TCSB based on its audited financial statements as at the end of each respective Relevant Financial Periods are as follows:-

	← At 31 December →					At
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	31 August 2004 RM'000
Equipment	551	423	509	973	716	779
Development expenditure	-	3,022	-	5,091	7,414	8,031
Deferred expenditure	192	125	-	-	-	-
Investment in a subsidiary	-	-	-	1,012	1,012	-
Investment in an associate	-	871	871	-	-	-
	743	4,441	1,380	7,076	9,142	8,810
Current assets	1,658	18,574	9,973	5,535	14,090	19,388
Current liabilities	(2,351)	(22,839)	(2,634)	(2,517)	(8,160)	(10,084)
Net current assets	(691)	(4,265)	7,339	3,018	5,930	9,304
	52	176	8,719	10,094	15,072	18,114
Financed by:-						
Share capital	500	1,012	**1,637	**1,778	**2,250	2,102
Share premium	-	-	1,875	1,875	5,503	6,354
(Accumulated losses)/Retained profits	(603)	(958)	5,094	6,221	7,319	9,658
Shareholders' equity	(103)	54	8,606	9,874	15,072	18,114
Non current liabilities	155	122	113	220	-	-
	52	176	8,719	10,094	15,072	18,114
(Net Tangible Liabilities) ("NL")/NTA	(295)	(3,093)	8,606	4,783	7,659	10,083
Number of ordinary shares of RM0.25 each ('000)	500*	4,048	4,048	4,614	6,500	8,406 [^]
(NL)/NTA per ordinary share (RM)	(0.59)	(0.76)	2.13	1.04	1.18	1.20

Notes:-

* Ordinary share of RM1.00 each.

** Includes 2,500,000 preference shares of RM0.25 each which were issued on 7 September 2001 and converted into 1,681,209 ordinary shares of RM0.25 each on 2 August 2004.

[^] 8,406,050 ordinary shares of RM0.25 each.

11. ACCOUNTANTS' REPORT (Cont'd)



8.3 EPNCR

The summarised balance sheets of EPNCR based on its audited financial statements as at the end of each respective Relevant Financial Period are as follows:-

	← At 31 December →					At
	RM'000	RM'000	RM'000	RM'000	RM'000	31 August RM'000
Equipment	125	242	640	920	674	679
Investment in an associate	305	4,035	1,000	1,000	370	335
	430	4,277	1,640	1,920	1,044	1,014
Current assets	3,643	3,836	14,156	5,929	10,836	14,558
Current liabilities	(4,111)	(8,015)	(12,288)	(5,480)	(10,113)	(13,628)
Net current (liabilities)/assets	(468)	(4,179)	1,868	449	723	930
	(38)	98	3,508	2,369	1,767	1,944
Financed by:-						
Share capital	500	1,000	1,000	1,000	1,000	1,000
(Accumulated losses)/Retained profits	(611)	(928)	2,508	1,218	110	372
Shareholders' equity	(111)	72	3,508	2,218	1,110	1,372
Non current liabilities	73	26	-	151	657	572
	(38)	98	3,508	2,369	1,767	1,944
(NL)/NTA	(111)	72	3,508	2,218	1,110	1,372
No of ordinary shares of RM1.00 each ('000)	500	1,000	1,000	1,000	1,000	1,000
(NL)/ NTA per ordinary share (RM)	(0.20)	0.08	3.50	2.22	1.11	1.37

11. ACCOUNTANTS' REPORT (Cont'd)



8.4 TRCO

The summarised balance sheet of TRCO based on its audited financial statements as at the end of the Relevant Financial Period is as follows:-

	At 31.8.2004 RM'000
CURRENT ASSETS	#
CURRENT LIABILITIES	<u>(4)</u>
NET CURRENT LIABILITIES	<u>(4)</u>
	<u>(4)</u>
REPRESENTED BY:-	
Share capital	#
Accumulated loss	<u>(4)</u>
	<u>(4)</u>
NL (RM'000)	<u>(4)</u>
Number of ordinary shares of RM0.10 each in issue	<u>20</u>
NL per share (RM)	<u>200</u>

Note:

- RM2

11. ACCOUNTANTS' REPORT (Cont'd)



8.5 TGSB

The summarised balance sheet of TGSB based on its audited financial statements as at the end of the Relevant Financial Period is as follows:-

	At 31.8.2004 RM'000
CURRENT ASSETS	#
CURRENT LIABILITIES	<u>(3)</u>
NET CURRENT LIABILITIES	<u>(3)</u>
	<u>(3)</u>
REPRESENTED BY:-	
Share capital	#
Accumulated loss	<u>(3)</u>
	<u>(3)</u>
NL (RM'000)	<u>(3)</u>
Number of ordinary shares of RM0.10 each in issue	<u>20</u>
NL per share (RM)	<u>150</u>

Note:

- RM2

11. ACCOUNTANTS' REPORT (Cont'd)



8.6 TC (Sabah)

The summarised balance sheet of TC (Sabah) based on its audited financial statements as at the end of the Relevant Financial Period is as follows:-

	At 31.8.2004 RM'000
INVESTMENT IN AN ASSOCIATE	40
CURRENT ASSETS	91
CURRENT LIABILITIES	<u>(94)</u>
NET CURRENT LIABILITIES	<u>(3)</u>
	<u>37</u>
REPRESENTED BY:-	
Share capital	40
Accumulated loss	<u>(3)</u>
	<u>37</u>
NTA (RM'000)	<u>37</u>
Number of ordinary shares of RM1.00 each in issue	<u>40,000</u>
NTA per share (RM)	<u>0.92</u>

11. ACCOUNTANTS' REPORT (Cont'd)**9. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIODS**

Tricubes, TCSB, EPNCR, TRCO, TGSB and TC (Sabah) have not paid or declared any dividend during the Relevant Financial Periods.

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

The proforma statements of assets and liabilities of Tricubes Group at 31 August 2004 are prepared based on the audited financial statements of Tricubes as at 31 August 2004.

The Proforma Group's statements of assets and liabilities are provided for illustrative purposes only to show the effects of the Public Issue and the utilisation of the proceeds from the Public Issue as if these transactions had been completed as at 31 August 2004. Proceeds from the Public Issue will be utilised as follows:-

Purpose	RM'000
Research and Development (R&D) expenditure	7,000*
Payment to suppliers	3,000
Repayment of bank loans	1,000
Capital expenditure for office expansion	800
Estimated listing expenses	1,500
Working capital	1,750
	15,050

* *R&D expenditure have been included in cash and bank balances for the purpose of the presentation in the Proforma Consolidated Balance Sheet pending their utilisation.*

The Proforma Group's statement of assets and liabilities should be read in conjunction with the accompanying notes.

11. ACCOUNTANTS' REPORT (Cont'd)



10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

	Notes	Tricubes Group Audited as at 31.8.2004 RM'000	Proforma Group After Public Issue RM'000
NON-CURRENT ASSETS			
Equipment	10.1	1,458	2,258
Investment in associate companies	10.2	353	353
Development expenditure	10.3	8,031	8,031
CURRENT ASSETS			
Inventories	10.4	3,809	3,809
Trade receivables	10.5	6,121	6,121
Other receivables	10.6	8,615	8,615
Cash and bank balances	10.7	3,873	12,624
		<u>22,418</u>	<u>31,169</u>
CURRENT LIABILITIES			
Trade payables	10.8	5,591	2,591
Other payables	10.9	2,820	2,820
Short-term loans	10.10	4,919	3,919
		<u>13,330</u>	<u>9,330</u>
NET CURRENT ASSETS			
		9,088	21,839
		<u>18,930</u>	<u>32,481</u>
FINANCED BY:			
Share capital	10.11	9,729	13,400
Share premium	10.12	-	9,880
Reserve on consolidation	10.13	8,325	8,325
Accumulated loss		(117)	(117)
Shareholders' equity		<u>17,937</u>	<u>31,488</u>
Minority Interest		421	421
Long-term liabilities	10.14	572	572
		<u>18,930</u>	<u>32,481</u>
NTA (RM'000)		<u>9,906</u>	<u>23,457</u>
Par value per share (RM)		<u>0.10</u>	<u>0.10</u>
Number of ordinary shares in issue ('000)		<u>97,290</u>	<u>134,000</u>
NTA/share (RM)		<u>0.10</u>	<u>0.18</u>

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11. ACCOUNTANTS' REPORT (Cont'd)



10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

Notes to the Proforma Statements of Assets and Liabilities:-

10.1 EQUIPMENT

	Cost RM'000	Accumulated depreciation RM'000	Net Book Value RM'000
Research and development equipment	339	(151)	188
Computer equipment and software	1,356	(1,128)	228
Office equipment and furniture and fittings	376	(288)	88
Office renovation	1,140	(501)	639
Motor vehicles	343	(28)	315
At 31 August 2004	3,554	(2,096)	1,458
Capital expenditure from the Public Issue proceeds	800	-	800
Per Proforma Group	4,354	(2,096)	2,258

Included in property, plant and equipment of the Group are assets with cost and net book value of RM752,298 and RM473,904 respectively acquired under finance leases.

10.2 INVESTMENT IN AN ASSOCIATE COMPANIES

	RM'000
Unquoted shares at cost	1,040
Share of post acquisition loss	(687)
	<u>353</u>
Represented by:	
Share of net assets of associate companies	<u>353</u>

The associate companies are held as follows:-

Name of the company	Place of incorporation	Effective interest	Principal activity
GMPC	Malaysia	20%*	Provision of national identity smart card or MyKad solutions to the Government
TriSuria	Malaysia	40%**	Provision of IT services in the Borneo region (including East Malaysia) through joint venture with Suria Capital Holdings Bhd

Notes:-

* Through EPNCR which is a 70% subsidiary of Tricubes.

** Through TC (Sabah) which is a 75% subsidiary of Tricubes.

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11. ACCOUNTANTS' REPORT (Cont'd)**10.3 DEVELOPMENT EXPENDITURE**

	RM'000
Cost	8,973
Accumulated amortisation	(942)
At 31 August 2004	<u>8,031</u>

Development expenditure principally comprises costs incurred on major projects of the Group including the design and production of prototypes, where it is reasonably anticipated that the costs will be recovered through future commercial activities.

The development expenditure are amortised on the straight-line basis over their estimated useful lives of 4 years.

10.4 INVENTORIES

	RM'000
At cost:	
- finished goods	3,484
- work-in-progress	325
	<u>3,809</u>

10.5 TRADE RECEIVABLES

The credit terms of the Group range from 30 days to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

10.6 OTHER RECEIVABLES

Included in other receivables are the following items:

- (i) an amount owing by directors of RM529,000; and
- (ii) an amount owing by the associate company, GMPC of RM6,906,658.

The amounts are unsecured, interest free and have no fixed terms of repayment. The advances made to the directors of a subsidiary were made when the subsidiary was an exempt private company. The amount was fully settled on 21 September 2004.

10.7 CASH AND BANK BALANCES

Included in cash and bank balances are fixed deposits amounting to RM3,642,165 placed with a licensed bank pledged as security for credit facilities granted. The interest rates of the fixed deposits of the Company at the balance sheet date range from 3.5% to 3.7% per annum. The fixed deposits have maturity periods ranging from 15 days to 365 days.

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11. ACCOUNTANTS' REPORT (Cont'd)**10.8 TRADE PAYABLES**

The Group's normal credit terms of trade payables range from 30 days to 90 days.

10.9 OTHER PAYABLES

Included in the other payables is an amount of RM403,620 owing to the minority shareholder of EPNCR. The amount owing is unsecured, interest-free and is not subject to fixed terms of repayment.

10.10 SHORT TERM BORROWINGS

	Average effective interest rate % per annum	RM'000
Current portion of finance leases payable (Note 10.14)	7.9	103
Current portion of term loan (Note 10.14)	6.5	95
Trust receipts	8.0	3,051
Bank overdraft	9.1	<u>1,670</u>
At 31.8.2004		4,919
Repayment of bank loans from the Public Issue proceeds		<u>(1,000)</u>
Per Group Proforma		<u><u>3,919</u></u>

The trust receipts bear interest rate at 2% per annum above the bank's cost of funds. The bank overdraft bears interest rate at 3.5% per annum above Bank Negara Malaysia funding rate.

The bank overdraft of the Group is secured against the following:-

- (a) Facility Agreements for RM2,000,000 and RM9,968,000 executed between the subsidiaries and the licensed banks;
- (b) Supplemental Facility Agreement for RM6,590,000;
- (c) Debenture over all the present and future assets of a subsidiary company for RM2,000,000;
- (d) Upfront fixed deposit receipt of RM200,000 with interest capitalization;
- (e) Deed of Assignment of contract proceeds executed between the subsidiary companies and the licensed bank;
- (f) An Irrevocable Letter of Notification from the subsidiary company and an agreement to assign all payments directly to the subsidiary company's non-withdrawal current account;

11. ACCOUNTANTS' REPORT (Cont'd)



10.10 SHORT TERM BORROWINGS (CONT'D)

- (g) Joint and several guarantees by certain Directors of the subsidiary companies and a third party;
- (h) A sinking fund of 12% of the proceeds received created and placed in the form of Fixed Deposit under lien to the licensed bank;
- (i) Debentures incorporating a fixed and floating charge over all assets of the subsidiary company including all Intellectual Rights derived from a project of the subsidiary company;
- (j) Pledge of third party's Fixed Deposits for RM133,100 together with a duly executed Memorandum of Deposit for Fixed Deposit and letter of set-off;
- (k) Personal guarantee for RM1,000,000 executed by a Director;
- (l) Guarantee cover by Credit Guarantee Corporation guarantee under Flexi Guarantee Scheme of 60% of the clean portion of Overdraft;
- (m) A minimum of 20% of the contract proceeds to be retained up to RM800,000 as security to secure the RM2,000,000 Overdraft facility;
- (n) Pledged of 1st Party Fixed Deposit Receipt for RM1,000,000 under lien to the Bank with interest capitalized together with the duly executed Memorandum of Deposit of Fixed Deposit and Letter of Set-Off shall be affected upon expiry and cancellation of Bank Guarantee 1 of RM2,800,000 as the sinking fund currently used to part secure Bank Guarantee 1 shall be used to place the Fixed Deposit of RM1,000,000;
- (o) Corporate Guarantee of RM1,000,000 executed by a subsidiary company; and
- (p) Pledge of two 3rd Party Fixed Deposit Receipt for RM155,220 and RM11,500 under lien to licensed Bank with interest capitalized together with the duly executed respective Memorandum of Deposit of Fixed Deposit and Letter of Set-Off.

The term loan of the Group is secured against the following:-

- (a) facilities agreement;
- (b) assignment to Malaysian Debt Venture Sdn Bhd of all contract proceeds arising from a project and a contract;
- (c) a personal guarantee by the Directors of a subsidiary company;
- (d) a corporate guarantee by a subsidiary company; and
- (e) debentures incorporating second fixed and floating charge over all the present and future assets and undertakings of a subsidiary company.

11. ACCOUNTANTS' REPORT (Cont'd)



10.11 SHARE CAPITAL

	Number of Ordinary Shares	RM'000
Ordinary shares of RM0.10 each:-		
At 31 August 2004	97,291,600	9,729
Public Issue	36,708,400	3,671
Per Proforma Group	<u>134,000,000</u>	<u>13,400</u>

10.12 SHARE PREMIUM

	RM'000
At 31 August 2004	-
Arising from Public Issue	11,380
Estimated listing expenses written off	(1,500)
Per Proforma Group	<u>9,880</u>

The share premium is not distributable by way of cash dividends and may be utilized only in the manner as set out in Section 60(3) of the Companies Act, 1965.

10.13 RESERVE ON CONSOLIDATION

This represents the excess of the Group's share of fair values of the separable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration, and is not distributable by way of dividends.

10.14 LONG TERM BORROWINGS

	RM'000
Finance leases payable	200
Term loan	372
	<u>572</u>

(i) Finance leases payable are repayable as follows:-

	RM'000
Minimum finance lease payments:	
- not later than one year	145
- later than one year but not later than five years	231
	<u>376</u>
Less: Future finance charges	(73)
	<u>303</u>

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11. ACCOUNTANTS' REPORT (Cont'd)



10.14 LONG TERM BORROWINGS (CONT'D)

	RM'000
Present value of finance leases payables	
- not later than one year	103
- later than one year but not later than five years	200
	<u>303</u>

The effective rates for finance leases payable of the Group range from 7.16% to 8.73% per annum.

(ii) Term loan is repayable as follows:-

	RM'000
Not later than one year	95
Later than one year but not later than five years	372
	<u>467</u>

The term loan bears a fixed interest rate of 6.5% per annum.

Details of the repayment terms of the term loan are as follows:-

Number of monthly instalments	Monthly instalments	Date of commencement of repayment RM
RM19,000 to RM23,000	36	August 2003

11. ACCOUNTANTS' REPORT (Cont'd)



11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of the Tricubes Group set out below has been prepared based on the audited financial statements of Tricubes, TCSB, EPNCR, TRCO, TGSB and TC (Sabah) for financial period ended 31 August 2004, and is presented on the basis that the Tricubes Group had been in existence throughout the Relevant Financial Periods.

	Period from 1.1.2004 to 31.8.2004 RM'000
Cash Flows From Operating Activities	
Cash receipts from customers	15,586
Cash paid to suppliers and employees	<u>(13,171)</u>
Cash From Operations	2,415
Interest received	37
Interest paid	<u>(215)</u>
Net Cash From Operating Activities	<u>2,237</u>
Cash Flows For Investing Activities	
Development expenditure	(1,128)
Proceeds from disposal of property, plant and equipment	193
Purchase of property, plant and equipment	<u>(459)</u>
Net Cash For Investing Activities	<u>(1,394)</u>
Cash Flows From Financing Activities	
Proceeds from issuance of shares of TCSB	703
Repayment of finance obligations	(380)
Repayment of term loan	<u>(176)</u>
Net Cash From Financing Activities	<u>147</u>
Net Increase In Cash And Cash Equivalents	990
Cash And Cash Equivalents At 1 January 2004	<u>1,213</u>
Cash And Cash Equivalents At 31 August 2004	<u>2,203</u>

11. ACCOUNTANTS' REPORT (Cont'd)**11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)****ANALYSIS OF CASH AND CASH EQUIVALENTS**

	RM'000
Fixed deposits with a licensed bank	3,642
Cash and bank balances	231
Bank overdraft	(1,670)
	<u>2,203</u>

12. CONTINGENT LIABILITIES

Save as disclosed below, the Tricubes Group does not have any contingent liabilities which have become enforceable or is likely to become enforceable, or may have a substantial financial impact on the financial position of the Group as at 31 August 2004.

TCSB is subject to the following contingent liabilities:

- (a) an unsecured corporate guarantee given to a licenced bank for banking facilities granted to EPNCR amounting to RM1,000,000 (2002 : RM1,000,000);
- (b) A corporate guarantee was executed on 18 August 2003 by TCSB in favour of Malaysian Debt Ventures Sdn Bhd to secure a loan of RM748,000 extended to EPNCR; and
- (c) The Inland Revenue Board of Malaysia ("IRB") had on 18 May 2004 rejected the Double Deduction for Research Expenditure claimed by TCSB under Section 34 of the Income Tax Act, 1967 for the Year of Assessment 2000 Current Year Basis to Year of Assessment 2002. TCSB has submitted an appeal to IRB and a decision is pending. The potential shortfall for income tax liabilities for the above Years of Assessment may amount to RM1,600,000 in the event the appeal is not successful. The Directors of TCSB are of the opinion that the appeal will be successful and hence no provision has been made in the financial statements.

13. NET TANGIBLE ASSETS PER ORDINARY SHARE

The net tangible assets cover of Tricubes Group based on the Proforma Group's statements of assets and liabilities as at 31 August 2004 as set out in Paragraph 10 above is illustrated below:-

	RM'000
Audited Net tangible assets of Tricubes Group at 31 August 2004	9,906
Proceeds from Public Issue	15,051
Less: Estimated listing expenses	(1,500)
Proforma net tangible asset	<u>23,457</u>

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11. ACCOUNTANTS' REPORT (Cont'd)**13. NET TANGIBLE ASSETS PER ORDINARY SHARE (CONT'D)**

Number of ordinary shares of RM0.10 each in Tricubes that are in issue:-

	Number of ordinary shares '000
At 31 August 2004	97,292
Ordinary shares issued pursuant to the Public Issue	36,708
Enlarged share capital	<u>134,000</u>

On the basis of the enlarged issued and paid-up share capital of 134,000,000 ordinary shares of RM0.10 each in Tricubes, the Group's net tangible assets cover per ordinary share is approximately RM0.18.

14. SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which will affect materially the content of this report.

15. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 August 2004 for Tricubes Group.

Yours faithfully

Horwath
Firm No : AF 1018
Chartered Accountants

Onn Kien Hoe
Approval No : 1772/11/04 (J/PH)
Partner