

12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)



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Kuala Lumpur Office
Chartered Accountants

08 JUN 2006

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Dear Sirs

ISS CONSULTING SOLUTIONS BERHAD ("ISS" OR "Company") ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of ISS to be dated 30 June 2006 in connection with the listing of ISS on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). The details of the listing scheme are disclosed in paragraph 2.2 of this report.

2. DETAILS OF THE RESTRUCTURING AND LISTING SCHEME

2.1 THE COMPANY

ISS was incorporated in Malaysia on 15 December 2004 under the Companies Act, 1965 as a private limited company, under the name of ISS Consulting Solutions Sdn Bhd and subsequently on 3 March 2005, converted to a public limited company. The Company has been dormant since incorporation.

2.2 LISTING SCHEME

In conjunction with and as an integral part of the listing of ISS on the MESDAQ Market of the Bursa Securities, the Company undertook the following proposed transactions which have been approved by the relevant authorities:-

(1) Restructuring Scheme

ISS has undertaken an internal restructuring scheme comprising the following:-

- (a) Sub-division of the par value of the ordinary shares in ISS from RM1.00 per share to RM0.10 per share (the "Share Split"). The Share Split was completed on 24 April 2006;

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



2. DETAILS OF ISS AND ITS SUBSIDIARIES (CONT'D)

2.2 LISTING SCHEME (CONT'D)

(1) Restructuring Scheme (Cont'd)

(b) The acquisition of the following by ISS:

(i) ISS Consulting (S) Pte Ltd ("ISS Singapore")

Acquisition of the entire equity interest in ISS Singapore comprising 50,000 ordinary shares of SGD1.00 each in ISS Singapore for a cash consideration of RM3,814,202 which has been accounted for as an amount owing to ISS Consulting (Malaysia) Sdn Bhd ("ISS Malaysia"). The purchase consideration was arrived at on a "willing buyer-willing seller" basis after taking into consideration the audited net assets of ISS Singapore as at 31 December 2005 of RM3,814,202;

(ii) ISS Consulting (Thailand) Ltd ("ISS Thailand")

Acquisition of 49% equity interest in ISS Thailand comprising 24,500 ordinary shares of THB100 each in ISS Thailand for a cash consideration of RM542,294 which has been accounted for as an amount owing to ISS Consulting (Malaysia) Sdn Bhd ("ISS Malaysia"). The purchase consideration was arrived at on a "willing buyer-willing seller" basis after taking into consideration the audited net assets of ISS Thailand as at 31 December 2005 of RM542,294;

(iii) PT ISS Consulting Indonesia ("ISS Indonesia")

Acquisition of 99.99% equity interest in ISS Indonesia comprising 24,999 ordinary shares of Rp9,000 each in ISS Indonesia for a cash consideration of RM1. The purchase consideration was arrived at on a "willing buyer-willing seller" basis after taking into consideration the audited net liabilities of ISS Indonesia as at 31 December 2005 of RM(1,308,358);

(iv) ISS Consulting (M) Sdn Bhd ("ISS Malaysia")

Acquisition of the entire equity interest in ISS Malaysia comprising 106,389 ordinary shares of RM1.00 each in ISS Malaysia for a purchase consideration of RM17,721,307 to be satisfied by the issue of 177,213,070 new ordinary shares of RM0.10 each in ISS. The purchase consideration was arrived at on a willing buyer-willing seller" basis after taking into consideration the audited net assets of ISS Malaysia as at 31 December 2005 of RM14,020,060 and gain on disposal of ISS Singapore, ISS Thailand and ISS Indonesia of RM3,701,247.

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12. ACCOUNTANTS' REPORT (Cont'd)



2. DETAILS OF ISS AND ITS SUBSIDIARIES (CONT'D)

2.2 LISTING SCHEME (CONT'D)

(1) Restructuring Scheme (Cont'd)

The above acquisitions are collectively referred to as the "Acquisitions" hereinafter and were completed on 25 May 2006.

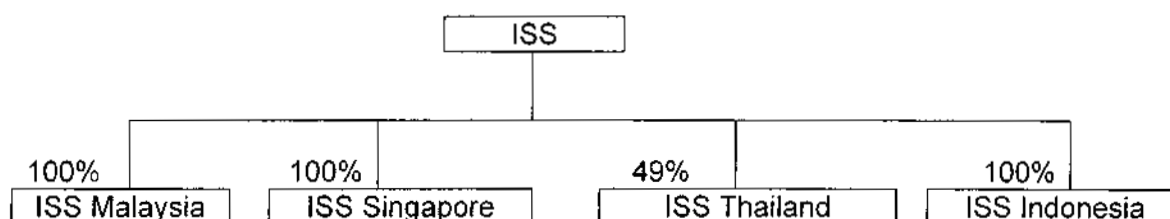
(2) Listing Scheme

The flotation exercise of ISS comprises the following:-

- (a) Public issue of 41,164,000 new ordinary shares of RM0.10 each in ISS at an issue price of RM0.41 per new ordinary share payable in full on application comprising:-
 - (i) 10,919,000 new ordinary shares of RM0.10 each reserved for application by Malaysian public;
 - (ii) 5,162,000 new ordinary shares of RM0.10 each reserved for application by eligible directors and employees of the ISS Group; and
 - (iii) 25,083,000 new ordinary shares of RM0.10 each reserved for placement to identified investors.
- (b) The listing of and quotation for the entire enlarged issued and paid-up share capital of ISS comprising 218,377,090 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Securities.

3. GROUP STRUCTURE

The group structure of ISS Group at the date of this report is as follows:-



Prior to the above structure, ISS Malaysia was the holding company of ISS Singapore, ISS Thailand, ISS Indonesia and ISS Support Services Sdn Bhd. ISS Support Services Sdn Bhd was disposed of during the financial year ended 31 December 2004.

12. ACCOUNTANTS' REPORT (Cont'd)



4. RELEVANT FINANCIAL PERIOD

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows: -

Company	Relevant Financial Period	Auditors
ISS	- Financial period from 15 December 2004 (Date of incorporation) to 31 December 2005	Messrs Horwath
ISS Malaysia	- Financial years ended 31 December 2003 to 2005	Messrs Horwath
ISS Singapore	- Financial years ended 31 December 2003 and 2004 - Financial year ended 31 December 2005	Messrs Chio Lim & Associates (Horwath Affiliate) Messrs RSM Chio Lim
ISS Thailand	- Financial year ended 31 December 2003 to 2005	Messrs Horwath (Thailand) Ltd
ISS Indonesia	- Financial year ended 31 December 2003 to 2005	Messrs Drs. Lukman Hadianto & Rekan
ISS Support Services Sdn Bhd	- Financial year ended 31 December 2003	Messrs Horwath

The audited financial statements of ISS, ISS Malaysia, ISS Singapore, ISS Thailand, ISS Indonesia and ISS Support Services Sdn Bhd for the Relevant Financial Period were reported upon without any qualification.

The auditors' reports on the financial statements of ISS and the consolidated financial statements of ISS Malaysia ("ISS Malaysia Group") for the Relevant Financial Period are set out in Appendix I and II respectively.

12. ACCOUNTANTS' REPORT (Cont'd)

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

The financial statements of ISS and ISS Malaysia Group have been prepared under the historical cost convention and modified to include other bases of valuation as disclosed in the summary of significant accounting policies below. The financial statements have been prepared in accordance with applicable approved accounting standards in Malaysia.

5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Consolidation**

The consolidated financial statements include the financial statements of the ISS Malaysia and all its subsidiaries made up to 31 December 2005.

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

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' 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 subsidiaries to ensure consistency of accounting policies with those of the ISS Malaysia Group.

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

(b) Financial Instruments

Financial instruments are recognised in the balance sheets when ISS and ISS Malaysia Group have 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 expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

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



5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Financial Instruments

Financial instruments are offset when ISS and ISS Malaysia Group have 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.

(c) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses, 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:-

Computers and printers	25%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%
Renovation	15%

(d) Impairment of Assets

The carrying amounts of assets, other than those to which FRS 136 - 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.

12. ACCOUNTANTS' REPORT (Cont'd)**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Impairment of Assets (Cont'd)**

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.

(e) Development Costs

Development costs incurred for the development of computer software are capitalised and are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in computer technologies. Costs that are capitalised include the purchase price of software, direct labour and related overheads.

Development costs that have been capitalised are amortised on a straight-line basis over the period of their expected benefit, but not exceeding 15 years, from the commencement of the sale of the products.

Where the future benefits are uncertain or cannot be reasonably assured, the costs are written off immediately to the income statement.

(f) 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.

(g) 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.

12. ACCOUNTANTS' REPORT (Cont'd)

**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Assets under Finance Lease and Hire Purchase**

Leases of equipment where substantially all the benefits and risks of ownership are transferred to the ISS Malaysia Group are classified as finance leases.

Equipment acquired under finance lease and hire purchase are capitalised in the financial statements.

Each lease or hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding outstanding obligations due under the finance lease and hire purchase after deducting finance charges are included as liabilities in the financial statements.

Finance charges are allocated to the income statement over the period of the respective lease and hire purchase agreements.

Equipment acquired under finance leases and hire purchase are depreciated over the useful lives of the assets. If there is no reasonable certainty that the ownership will be transferred to ISS Malaysia Group, the assets are depreciated over the shorter of the lease terms and their useful lives.

(i) 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.

12. ACCOUNTANTS' REPORT (Cont'd)

**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(j) Taxation**

Taxation for the year comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period 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.

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



5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)

5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Foreign Currencies

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange gains or losses are dealt with in the income statement.

Income statements of the foreign subsidiaries are translated into Ringgit Malaysia at the average rates, and the balance sheets are translated at exchange rates ruling at the balance sheet date. Exchange differences are taken to the exchange fluctuation reserve account. On the disposal of the subsidiaries, such translation differences are recognised in the income statements as part of the gain or loss on the disposal.

(l) 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.

(m) Revenue Recognition

Revenue is recognised upon rendering of services and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

(n) Retirement Benefits

(i) Short-term Benefits

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

(ii) Defined Contribution Plans

ISS Malaysia 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, ISS Malaysia Group has no further liability in respect of the defined contribution plans.

12. ACCOUNTANTS' REPORT (Cont'd)

**5. ACCOUNTING STANDARDS AND POLICIES (CONT'D)****5.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(n) Retirement Benefits (Cont'd)***(iii) Provision For Employee Entitlements*

Provisions are made when ISS Malaysia Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be recognised to settle the obligation, and when a reliable estimate of the amount can be made.

A foreign subsidiary has an unfunded defined contribution termination plan for all eligible employees and is computed based on a certain percentage of the basic salary and the length of service of all eligible employees.

5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the accounting policies adopted by ISS and ISS Malaysia Group during the Relevant Financial Period.

12. ACCOUNTANTS' REPORT (Cont'd)

**6. AUDITED FINANCIAL STATEMENTS**

ISS was incorporated on 15 December 2004 to be the investment holding company of the ISS Group for the listing of ISS on the MESDAQ Market. For the financial years ended 31 December 2003 to 2005, ISS Malaysia was the holding company of ISS Singapore, ISS Thailand, ISS Indonesia and ISS Support Services Sdn Bhd (disposed of during the financial year ended 31 December 2004) (collectively referred to as "ISS Malaysia Group").

As ISS was incorporated for less than 3 complete financial years and the profit before taxation for the financial year ended 31 December 2005 of ISS Malaysia Group accounted for more than 75% of the profit before taxation of the proforma ISS Group, the audited financial statements of ISS for the financial period 15 December 2004 to 31 December 2005 and the audited consolidated financial statements of ISS Malaysia Group are presented in this report.

The financial statements of ISS and ISS Malaysia Group as presented in Section 6.1 and 6.2 are based on the audited financial statements, modified as appropriate, for the purpose of this report.

All information are extracted from the audited financial statements except those in italics which are prepared based on calculation, representation and explanation provided by the management.

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 ISS

6.1.1 INCOME STATEMENT OF ISS

	Note	Financial period ended 31.12.2005 RM'000
Revenue		-
Operating overheads		(14)
Loss before tax ("LBT")	6.1.5	(14)
Taxation		-
Loss after tax ("LAT")		(14)
Gross profit margin (%)		N/A
LBT margin (%)		N/A
LAT margin (%)		N/A
Effective tax rate (%)		N/A
Weighted average number of ordinary shares of RM1.00 each in issue ('000)		2
Gross loss per share ("LPS") (sen)		#
Net LPS		#

Note:-

More than RM(1,000)

Commentary on the Income Statement: -

- The Company has remained dormant since incorporation.
- The gross LPS is calculated by dividing the LBT by the weighted average number of ordinary shares in issue.
- The net LPS is calculated by dividing the LAT by the weighted average number of ordinary shares in issue.

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 ISS (CONT'D)

6.1.2 BALANCE SHEET OF ISS

	Note	31 December 2005 RM'000
CURRENT ASSET		
Cash in hand		^
CURRENT LIABILITY		
Other payable and accrual		14
		<u>(14)</u>
REPRESENTED BY:		
Share capital	6.1.6	^
Accumulated loss		<u>(14)</u>
		<u>(14)</u>
<i>Number of ordinary shares of RM1 each in issue</i>		2
<i>Net tangible liability ("NTL")</i>		(14)
<i>NTL per ordinary share (RM)</i>		#

Notes:-

^ RM2.00.

More than RM(1,000)

The Company has remained dormant since incorporation.

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 ISS (CONT'D)

6.1.3 CASH FLOW STATEMENT OF ISS

	Financial period ended 31.12.2005 RM'000
CASH FLOW FROM OPERATING ACTIVITY	
Loss before taxation	(14)
Increase in other payables	14
	<hr/>
NET CASH FROM OPERATING ACTIVITY	-
NET CASH FROM FINANCING ACTIVITY	
Proceeds from issuance of shares	*
	<hr/>
CASH AND BANK BALANCES AT END OF THE FINANCIAL PERIOD	*
	<hr/>

Note:-

* RM2

6.1.4 STATEMENT OF CHANGES IN EQUITY OF ISS

	Share capital RM'000	Accumulated loss RM'000	Total RM'000
At date of incorporation	*	-	*
Loss for the financial period	-	(14)	(14)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	*	(14)	(14)
	<hr/>	<hr/>	<hr/>

6.1.5 LOSS BEFORE TAX

	RM'000
Loss for the financial period is arrived after charging:-	
Audit fee	1
Directors' fees	10
Preliminary expenses	3
	<hr/>

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.1 ISS (CONT'D)

6.1.6 SHARE CAPITAL

	Number of shares ('000)	RM'000
ORDINARY SHARES OF RM1 EACH		
AUTHORISED At 15.12.2004 (Date of incorporation)/31.12.2005	100	100
ISSUED AND FULLY PAID-UP Subscriber shares	*	*

Note:-

* RM2

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP

6.2.1 INCOME STATEMENTS OF ISS MALAYSIA GROUP

	Note	Financial Year Ended 31 December ("FY")		
		2003 RM'000	2004 RM'000	2005 RM'000
Revenue	6.2.5	12,614	15,058	18,388
Cost of sales		(5,482)	(6,211)	(6,952)
Gross profit		7,132	8,847	11,436
Other operating income		512	352	202
Operating overheads		(6,218)	(6,407)	(6,711)
Profit before tax ("PBT")		1,426	2,792	4,927
Amortisation of development cost		-	529	723
Depreciation		533	526	440
Interest expense		41	34	25
Interest income		(2)	-	-
Earnings before interest, depreciation, tax and amortisation ("EBIDTA")		1,998	3,881	6,115
Amortisation of development cost		-	(529)	(723)
Depreciation		(533)	(526)	(440)
Interest expense		(41)	(34)	(25)
Interest income		2	-	-
PBT	6.2.6	1,426	2,792	4,927
Taxation	6.2.7	57	201	(199)
Profit after tax ("PAT")		1,483	2,993	4,728
<i>Gross profit margin (%)</i>		56.54	58.75	62.19
<i>PBT margin (%)</i>		11.30	18.54	26.79
<i>PAT margin (%)</i>		11.76	19.88	25.71
<i>Effective tax rate (%)</i>		(4.00)	(7.20)	4.04
<i>Weighted average number of ordinary shares of RM1.00 each in issue ('000)</i>		100	100	106
<i>Gross earnings per share ("EPS") (RM)</i>		14.26	27.92	46.48
<i>Net EPS (RM)</i>		14.83	29.93	44.60

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6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.1 INCOME STATEMENTS OF ISS MALAYSIA GROUP (CONT'D)

Commentary on the Income Statements: -

- (a) *The Group's revenue decreased by approximately 14% to RM12.6 million in FY2003 as compared to FY2002 due to lower revenue from ISS Singapore as the DaimlerChrysler project was completed in FY2003 and no new major project was secured in FY2003. The Group recorded a PBT of approximately RM1.4 million for the financial year mainly attributable to higher PBT from ISS Malaysia. The increase in PBT in ISS Malaysia was mainly due to the increase in GP margin as a result of lower number of employees, and the decrease in operating expenses.*
- (b) *The Group's revenue of approximately RM15 million in FY2004, an increase of approximately 19% as compared to FY2003 was mainly due to higher revenue from ISS Singapore from two new contacts secured and higher implementation and maintenance income from an existing customer, Tyco Flow Control Pte Ltd. PBT of the Group increased to approximately RM2.8 million or 96% which was mainly attributable to the higher PBT from ISS Singapore and ISS Thailand. The increase in PBT for ISS Singapore and ISS Thailand was mainly due to better gross profit margins and operating overheads remained fairly constant.*
- (c) *The Group's revenue for FY2005 increased by approximately 22% as compared to FY2004 due to higher revenue in ISS Malaysia and ISS Singapore, which in aggregate accounted for about 81% of the total revenue. The increase in revenue was mainly due to major contracts secured in FY2005. The increase in PBT was mainly due to better gross profit margins and operating overheads being kept fairly constant.*
- (d) *ISS Malaysia has been granted the Multimedia Super Corridor (MSC) status on 19 August 1998 and enjoys pioneer status under the Promotion of Investments Act, 1986 for which 100% of its statutory income from pioneer activities is tax exempted for a period of 5 years to 18 August 2003. The expired pioneer status was further renewed and extended for an additional 5 years to 31 July 2008.*
- (e) *There were no exceptional and/or extraordinary items during the Relevant Financial Period under review.*
- (f) *The results of ISS Malaysia Group for FY2003 and FY2004 included the results of ISS Support Services Sdn Bhd which was disposed of in FY2004. However, the results of ISS Support Services Sdn Bhd were not material to the Group in both financial years.*

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.2 BALANCE SHEETS OF ISS MALAYSIA GROUP

	Note	Financial Year Ended 31 December ("FY")		
		2003 RM'000	2004 RM'000	2005 RM'000
NON-CURRENT ASSETS				
Equipment	6.2.8	1,156	814	524
Software development costs	6.2.9	3,099	7,834	11,418
Deferred tax assets	6.2.10	57	338	318
		<u>4,312</u>	<u>8,986</u>	<u>12,260</u>
CURRENT ASSETS				
Trade receivables	6.2.11	3,101	4,041	5,106
Other receivables, deposits and prepayment	6.2.12	1,497	1,211	3,454
Amount owing by directors	6.2.13	775	633	-
Cash and bank balances	6.2.14	1,173	726	563
		<u>6,546</u>	<u>6,611</u>	<u>9,123</u>
CURRENT LIABILITIES				
Trade payables	6.2.15	1,325	2,132	1,439
Other payables and accruals	6.2.16	313	731	1,492
Amount owing to directors	6.2.13	-	574	1,478
Dividend payable		821	773	-
Hire purchase and lease payables	6.2.17	245	120	110
Provision for taxation		248	202	381
		<u>2,952</u>	<u>4,532</u>	<u>4,900</u>
NET CURRENT ASSETS				
		<u>3,594</u>	<u>2,079</u>	<u>4,223</u>
		<u>7,906</u>	<u>11,065</u>	<u>16,483</u>
REPRESENTED BY:				
Share capital	6.2.19	100	100	106
Share premium	6.2.20	-	-	1,144
Reserves	6.2.21	7,334	10,652	14,959
		<u>7,434</u>	<u>10,752</u>	<u>16,209</u>
Minority interests		50	-	-
NON-CURRENT LIABILITIES				
Deferred taxation	6.2.22	-	-	22
Provision for employee entitlements	6.2.18	193	170	160
Hire purchase and lease payables	6.2.17	229	143	92
		<u>7,906</u>	<u>11,065</u>	<u>16,483</u>

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.2 BALANCE SHEETS OF ISS MALAYSIA GROUP

	Financial Year Ended 31 December ("FY")		
	2003	2004	2005
<i>Number of ordinary shares of RM1 each in issue ('000)</i>	100	100	106
<i>Net tangible assets ("NTA") (RM'000)</i>	4,335	2,918	4,791
<i>Net tangible assets ("NTA") per share (RM)</i>	43.35	29.19	45.20
<i>Trade receivables turnover period (days)</i>	90	98	101
<i>Trade payables turnover period (days)</i>	88	125	76
<i>Gearing ratio (times)</i>	0.06	0.02	0.01

Commentary:-

- (a) *The increase in trade receivables turnover period is mainly due to the increase in sales towards the year end and certain customers taking longer to settle their debts. However, the average trade receivables turnover period is still within the credit terms granted by ISS Malaysia Group which range from 30 to 121 days. Nevertheless, the Board of Directors is confident of the recoverability of these receivables as evidenced by low records of allowance for doubtful debts during the Relevant Financial Period.*
- (b) *The normal credit terms granted to the ISS Malaysia Group range from 30 to 148 days. The trade payables turnover period during the Relevant Financial Period is within the credit terms granted.*
- (c) *ISS Malaysia Group has generally relied on minimal borrowings which comprised hire purchase and lease facilities and thus has low gearing during the Relevant Financial Period.*

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.3 CASH FLOW STATEMENTS OF ISS MALAYSIA GROUP

	Financial Year Ended 31 December ("FY")		
	2003 RM'000	2004 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	1,426	2,792	4,927
Adjustments for:-			
Allowance for doubtful debts	173	-	65
Amortisation of development costs	-	529	723
Bad debts written off	-	7	-
Depreciation of equipment	533	526	440
Interest expense	41	34	25
Loss on disposal of equipment	-	33	-
Loss on disposal of a subsidiary	-	7	-
Unrealised gain on foreign exchange	-	-	(355)
(Reversal)/Provision for employee entitlements	188	(5)	-
Interest income	(2)	-	-
Writeback of allowance for doubtful debts	-	(106)	-
Operating profit before working capital changes	2,359	3,817	5,825
Increase in trade and other receivables	(212)	(555)	(3,348)
Increase in trade and other payables	871	861	77
CASH FLOWS FROM OPERATIONS	3,018	4,123	2,554
Interest paid	(41)	(34)	(25)
Income tax (paid)/refunded	(327)	155	(77)
NET CASH FROM OPERATING ACTIVITIES	2,650	4,244	2,452
CASH FLOWS FOR INVESTING ACTIVITIES			
Interest received	2	-	-
Proceeds from disposal of equipment	4	4	-
Purchase of equipment	(93)	(150)	(74)
Increase in development costs	(3,099)	(5,264)	(4,416)
Proceeds from of issuance of shares to minority interests	50	-	-
Disposal of a subsidiary	-	8	-
NET CASH FOR INVESTING ACTIVITIES	(3,136)	(5,402)	(4,490)
BALANCE CARRIED FORWARD	(486)	(1,158)	(2,038)

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.3 CASH FLOW STATEMENTS OF ISS MALAYSIA GROUP

	2003 RM'000	2004 RM'000	2005 RM'000
BALANCE BROUGHT FORWARD	(486)	(1,158)	(2,038)
CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	-	-	1,150
Net advances from directors	(689)	716	1,537
Dividend paid	(48)	(48)	(773)
Repayment of hire purchase and lease payables	(303)	(279)	(140)
NET CASH (FOR)/FROM FINANCING ACTIVITIES	(1,040)	389	1,774
NET DECREASE IN CASH AND BANK BALANCES	(1,526)	(769)	(264)
CASH AND BANK BALANCES AT BEGINNING OF THE FINANCIAL YEAR	2,769	1,173	726
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND BANK BALANCES	(70)	322	101
CASH AND BANK BALANCES AT END OF THE FINANCIAL YEAR	1,173	726	563

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.4 STATEMENTS OF CHANGES IN EQUITY OF ISS MALAYSIA GROUP

	Share capital RM'000	Share premium RM'000	Negative goodwill RM'000	Exchange fluctuation reserve RM'000	Retained profits RM'000	Total RM'000
Balance at 1.1.2003	100	-	131	77	5,705	6,013
Currency exchange translation difference	-	-	-	(62)	-	(62)
Profit after taxation for the financial year	-	-	-	-	1,483	1,483
Balance at 31.12.2003/ 1.1.2004	100	-	131	15	7,188	7,434
Currency exchange translation difference	-	-	-	325	-	325
Profit after taxation for the financial year	-	-	-	-	2,993	2,993
Balance at 31.12.2004/ 1.1.2005	100	-	131	340	10,181	10,752
Allotment of shares	6	1,144	-	-	-	1,150
Currency exchange translation difference	-	-	-	(421)	-	(421)
Profit after taxation for the financial year	-	-	-	-	4,728	4,728
At 31.12.2005	106	1,144	131	(81)	14,909	16,209

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.5 REVENUE

Revenue of ISS Malaysia Group represents billings for consultancy services rendered less discounts and service tax.

6.2.6 PROFIT BEFORE TAXATION

	Financial Year Ended 31 December ("FY")		
	2003 RM'000	2004 RM'000	2005 RM'000
Profit before taxation is arrived at after charging/(crediting):-			
Allowance for doubtful debts	173	-	65
Amortisation of development costs	-	529	723
Audit fee			
- for the financial year	37	55	49
- underprovision in the previous financial year	4	5	5
Bad debts written off	-	7	-
Depreciation of equipment	533	526	440
Directors' fee	58	-	-
Directors' non-fee emoluments	231	153	457
Interest expense			
- bank overdraft	8	-	-
- hire purchase and lease	33	34	25
Loss on disposal of equipment	-	32	-
Loss on disposal of a subsidiary	-	7	-
Pre-operating and preliminary expenses	2	-	-
Provision/(Writeback) for employee entitlements	188	(5)	-
Rental of office	304	442	436
Rental of office equipment	86	6	6
Staff costs	5,933	4,811	6,131
Realised loss on foreign exchange	-	1	270
Interest income	(2)	-	-
Realised gain on foreign exchange	(120)	(161)	-
Unrealised gain on foreign exchange	-	-	(355)
Writeback of allowance for doubtful debts	-	(106)	-

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.7 TAXATION

	2003 RM'000	2004 RM'000	2005 RM'000
Foreign taxation:			
- current tax	-	85	177
Deferred taxation:			
- underprovision in previous financial year (Note 6.2.22)	-	-	22
- transfer from deferred tax assets (Note 6.2.10)	(57)	(286)	-
	<u>(57)</u>	<u>(201)</u>	<u>199</u>

ISS Malaysia has been granted the Multimedia Super Corridor status which qualifies for the pioneer status incentive under the Promotion of Investments Act, 1986, whereby 100% of the statutory income from pioneer activities are tax exempted during the pioneer period from 19 August 2003 to 31 July 2008.

Subject to agreement with the tax authorities, ISS Malaysia does not have any unutilised tax losses and unabsorbed capital allowances available at the balance sheet date to be carried forward for offset against future pioneer business income. The tax losses from pioneer activities can be carried forward to offset against the taxable income from the post pioneer period if certain criteria are met.

A reconciliation of the income tax expense applicable to the profit before taxation at the statutory tax rate to income tax expense at the effective tax rate of ISS Malaysia Group is as follows:-

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.7 TAXATION (CONT'D)

	2003 RM'000	2004 RM'000	2005 RM'000
Profit before taxation	1,426	2,792	4,927
Tax at the statutory tax rate	353	683	1,406
Tax effect of:-			
Non-deductible expenses	180	307	253
Deferred tax liability not recognized due to pioneer status	(633)	-	(101)
Deferred tax liabilities not recognised during the financial year	-	(890)	(789)
Underprovision in the previous financial year	-	-	22
Deferred tax assets not recognised during the financial year	563	-	-
Reversal of deferred tax assets not recognised in the prior years	-	(286)	(565)
Tax exempted income	(529)	(22)	(24)
Others	9	7	(3)
	<u>(57)</u>	<u>(201)</u>	<u>199</u>

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.8 EQUIPMENT

NET BOOK VALUE AT 31.12.2005	OPENING BALANCE RM'000	TRANSLATION DIFFERENCE RM'000	ADDITIONS RM'000	DISPOSAL RM'000	DEPRECIATION CHARGE RM'000	CLOSING BALANCE RM'000
Computers and printers	459	(2)	154	-	(281)	330
Furniture and fittings	27	-	-	-	(6)	21
Motor vehicles	236	-	-	-	(116)	120
Office equipment	63	(2)	-	-	(19)	42
Renovation	29	-	-	-	(18)	11
	814	(4)	154	-	(440)	524

NET BOOK VALUE AT 31.12.2004

Computers and printers	579	1	180	(4)	(297)	459
Furniture and fittings	92	2	-	(33)	(34)	27
Motor vehicles	352	-	-	-	(116)	236
Office equipment	77	-	36	-	(50)	63
Renovation	56	1	2	-	(29)	29
	1,156	4	218	(37)	(526)	814

NET BOOK VALUE AT 31.12.2003

Computers and printers	773	5	72	(4)	(267)	579
Furniture and fittings	146	2	-	-	(56)	92
Motor vehicles	323	-	126	-	(97)	352
Office equipment	151	3	8	-	(85)	77
Renovation	79	1	4	-	(28)	56
	1,472	11	210	(4)	(533)	1,156

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.8 EQUIPMENT (CONT'D)

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
At 31.12.2005			
Computers and printers	1,894	(1,564)	330
Furniture and fittings	207	(186)	21
Motor vehicles	582	(462)	120
Office equipment	381	(339)	42
Renovation	189	(178)	11
	3,253	(2,729)	524
At 31.12.2004			
Computers and printers	1,740	(1,281)	459
Furniture and fittings	207	(180)	27
Motor vehicles	582	(346)	236
Office equipment	381	(318)	63
Renovation	189	(160)	29
	3,099	(2,285)	814
At 31.12.2003			
Computers and printers	1,567	(988)	579
Furniture and fittings	314	(222)	92
Motor vehicles	582	(230)	352
Office equipment	346	(269)	77
Renovation	188	(132)	56
	2,997	(1,841)	1,156

Included in equipment of ISS Malaysia Group at the balance dates are the following assets acquired under hire purchase and lease terms:-

	2003 RM'000	2004 RM'000	2005 RM'000
Computers and printers	324	252	195
Motor vehicles	352	236	120
	676	488	315

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.9 SOFTWARE DEVELOPMENT COSTS

	2003 RM'000	2004 RM'000	2005 RM'000
Software development costs incurred			
At 1 January	-	3,099	8,363
Additions during the financial year	3,099	5,264	4,416
Translation difference	-	-	(109)
	<u>3,099</u>	<u>8,363</u>	<u>12,670</u>
Accumulated amortisation			
At 1 January	-	-	(529)
Amortisation charge	-	(529)	(723)
At 31 December	<u>-</u>	<u>(529)</u>	<u>(1,252)</u>
	<u>3,099</u>	<u>7,834</u>	<u>11,418</u>

Included in the software development costs incurred during the financial year are the following items:-

	2003 RM'000	2004 RM'000	2005 RM'000
Directors' fee	100	179	-
Directors' non-fee emoluments	423	303	306
Rental of office	114	76	110
Staff costs	1,842	2,439	3,128
	<u>1,842</u>	<u>2,439</u>	<u>3,128</u>

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.10 DEFERRED TAX ASSETS

	2003 RM'000	2004 RM'000	2005 RM'000
At 1 January	-	57	338
Translation differences	-	(5)	(20)
Transferred to income statement (Note 6.2.7)	57	286	-
At 31 December	57	338	318

Deferred tax assets are attributable to the following:-

	2003 RM'000	2004 RM'000	2005 RM'000
Provision for employee entitlements	57	52	49
Unutilised tax credit	-	286	269

6.2.11 TRADE RECEIVABLES

	2003 RM'000	2004 RM'000	2005 RM'000
Trade receivables	3,310	4,143	5,271
Allowance for doubtful debts:-			
At 1 January	(33)	(209)	(103)
Translation difference	(3)	1	3
Allowance for the financial year	(173)	-	(65)
Writeback of allowance for doubtful debts	-	106	-
At 31 December	(209)	(102)	(165)
	3,101	4,041	5,106

The Group's normal trade credit terms range from 30 to 121 days.

The foreign currency exposure profile of trade receivables is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
United States Dollar	995	1,051	3,523
Singapore Dollar	389	493	634
Thai Baht	177	328	401

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.12 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The foreign currency exposure profile of other receivables, deposits and prepayments is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
United States Dollar	5	5	17
Singapore Dollar	215	153	2,174
Thai Baht	142	162	111
Indonesian Rupiah	762	566	766

6.2.13 AMOUNT OWING BY/TO DIRECTORS

The amounts owing are unsecured, interest-free and not subject to fixed terms of repayment.

6.2.14 CASH AND BANK BALANCES

The foreign currency exposure profile of cash and bank balances is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
Euro	-	-	88
United States Dollar	300	-	14
Singapore Dollar	291	382	366
Indonesian Rupiah	62	10	4
Thai Baht	234	202	15

6.2.15 TRADE PAYABLES

The normal credit terms granted to the Group range from 30 to 148 days.

The foreign currency exposure profile of trade payables is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
Singapore Dollar	717	1,255	999
Thai Baht	143	251	42

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.16 OTHER PAYABLES AND ACCRUALS

The foreign currency exposure profile of other payables and accruals is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
Singapore Dollar	-	22	-
Thai Baht	108	164	185
Indonesian Rupiah	5	10	59

6.2.17 HIRE PURCHASE AND LEASE PAYABLES

	2003 RM'000	2004 RM'000	2005 RM'000
Minimum hire purchase and lease payments:			
- not later than one year	276	140	129
- later than one year and not later than five years	277	174	108
	553	314	237
Future finance charges	(79)	(51)	(35)
Present value of hire purchase and lease payables	474	263	202
The net hire purchase and lease payables are repayable as follows:-			
Current	245	120	110
Non-current	229	143	92
	474	263	202

The hire purchase and lease payables bore effective interest rates at the balance sheet dates which range from 6.18% to 8.99% per annum.

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.18 PROVISION FOR EMPLOYEE ENTITLEMENTS

	2003 RM'000	2004 RM'000	2005 RM'000
At 1 January	-	193	170
Translation difference	5	(18)	(10)
Addition/(Reversal) during the financial year	188	(5)	-
At 31 December	193	170	160

The foreign currency exposure profile of the provision for employee entitlements is as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
Indonesian Rupiah	193	170	160

The provision for employee entitlements represents a foreign subsidiary's unfunded defined contribution termination plan for its eligible employees and is computed based on a certain percentage of the basic salary and the length of service of all eligible employees.

6.2.19 SHARE CAPITAL

	2003 Number of shares	2004 Number of shares	2005 Number of shares	2003 RM'000	2004 RM'000	2005 RM'000
ORDINARY SHARES OF RM1 EACH:-						
AUTHORISED						
At 1 January	100	100	100	100	100	100
Increase during the financial year	-	-	400	-	-	400
At 31 December	100	100	500	100	100	500
ISSUED AND FULLY PAID-UP						
At 1 January	100	100	100	100	100	100
Allotment during the financial year	-	-	6	-	-	6
At 31 December	100	100	106	100	100	106

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12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA GROUP (CONT'D)

6.2.20 SHARE PREMIUM

The share premium is not distributable by way of cash dividends.

6.2.21 RESERVES

	2003 RM'000	2004 RM'000	2005 RM'000
Non-distributable reserves:-			
Negative goodwill	131	131	131
Exchange fluctuation reserve	15	340	(81)
	146	471	50
Distributable reserve:-			
Retained profits	7,188	10,181	14,909
	7,334	10,652	14,959

6.2.22 DEFERRED TAXATION

	2003 RM'000	2004 RM'000	2005 RM'000
At 1 January	-	-	-
Transfer to income statement			
- underprovision in previous financial year (Note 6.2.7)	-	-	22
At 31 December	-	-	22

The deferred taxation is in respect of temporary differences between depreciation and capital allowances on the qualifying cost of equipment.

12. ACCOUNTANTS' REPORT (Cont'd)



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.23 NUMBER OF EMPLOYEES

	2003	2004	2005
Number of employees at the balance sheet date	111	48	47

6.2.24 FOREIGN EXCHANGE RATES

The applicable closing foreign exchange rates used (expressed on the basis on one unit of foreign currency to Ringgit Malaysia equivalent, unless otherwise stated) in the translation of foreign currency monetary assets and liabilities and the financial statements of overseas subsidiaries are as follows:

	2003 RM'000	2004 RM'000	2005 RM'000
United States Dollar	3.800	3.775	3.783
Singapore Dollar	2.234	2.326	2.271
100 Thai Baht	9.594	9.760	9.227
100 Indonesian Rupiah	0.045	0.041	0.038

6.2.25 NON-CANCELLABLE OPERATING LEASE COMMITMENTS

The non-cancellable operating lease is repayable as follows:-

	2003 RM'000	2004 RM'000	2005 RM'000
Current:			
- Not later than one year	430	258	190
Non-Current:			
- Later than one year and not later than five years	350	117	-
	780	375	190

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



6. AUDITED FINANCIAL STATEMENTS (CONT'D)

6.2 ISS MALAYSIA (CONT'D)

6.2.26 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:-

(a) Bank Balances and Other Liquid Funds and Short Term Receivables/Payables

The carrying amounts approximated their fair values due to the relatively short term maturity of these instruments.

(b) Amounts Owing To Directors

It is not practicable to estimate the fair value of the amounts owing to directors due principally to the lack of fixed repayment terms. However, the Company does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

(c) Hire Purchase and Lease Payables

The fair value of hire purchase and lease payables is determined by discounting the relevant cash flow using current interest rates for similar instruments at the balance sheet date.

7. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIOD

ISS and ISS Malaysia have not paid or declared any dividend during the Relevant Financial Period.

8. RESTATEMENT TO THE AUDITED FINANCIAL STATEMENTS

During the preparation of this report, no restatement has been made to the audited financial statements of ISS and consolidated financial statements of ISS Malaysia Group for the Relevant Financial Period.

12. ACCOUNTANTS' REPORT (Cont'd)

**9. 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 contents of this report.

10. AUDITED FINANCIAL STATEMENTS

As at the date of this Report, no audited financial statements have been prepared in respect of any period subsequent to 31 December 2005 for ISS and ISS Malaysia Group.

Yours faithfully

A handwritten signature in black ink, appearing to be "J. K. W.", written over a horizontal line.

Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "O. K. H.", written over a horizontal line.

Onn Kien Hoe
Approval No : 1772/11/06 (J/PH)
Partner

12. ACCOUNTANTS' REPORT (Cont'd)**APPENDIX I**

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**REPORT OF THE AUDITORS TO THE MEMBERS OF
 ISS CONSULTING SOLUTIONS BERHAD**

(Incorporated in Malaysia)
 Company No: 675362 - P

We have audited the financial statements set out on pages 8 to 16. The preparation of the financial statements is the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
- (i) the state of affairs of the Company at 31 December 2005 and its results and cash flows for the financial period ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

Horwath
 Firm No: AF 1018
 Chartered Accountants

Kuala Lumpur

24 APR 2006

Onn Kien Hoe
 Approval No: 1772/11/06 (J/PH)
 Partner

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12. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX II

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 horwath@po.jaring.my

REPORT OF THE AUDITORS TO THE MEMBERS OF ISS CONSULTING (MALAYSIA) SDN. BHD.

Company No : 446809 - P

We have audited the financial statements set out on pages 9 to 40. The preparation of the financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the state of affairs of the Group and of the Company at 31 December 2003 and their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries for which we have not acted as auditors, as indicated in Note 6 to the financial statements.

12. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX II

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ISS CONSULTING (MALAYSIA) SDN. BHD. (CONT'D)**

Company No : 446809 - P

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

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

A handwritten signature in cursive script, appearing to read 'Horwath'.

Horwath
Firm No: AF 1018
Chartered Accountants

Kuala Lumpur

13 DEC 2004

A handwritten signature in cursive script, appearing to read 'Mok Wai Ling'.

Mok Wai Ling
Approval No: 1090/04/06 (J)
Partner

12. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX II

Horwath AF No 1018
Kuala Lumpur Office
 Chartered Accountants

Level 16 Tower C
 Megan Avenue II
 12 Jalan Yap Kwan Seng
 50450 Kuala Lumpur

603.2166.0000 Main
 603.2166.1000 Fax

www.horwath.com.my
 horwath@po.jaring.my

REPORT OF THE AUDITORS TO THE MEMBERS OF ISS CONSULTING (MALAYSIA) SDN. BHD.

(Incorporate in Malaysia)
 Company No : 446809 - P

We have audited the financial statements set out on pages 9 to 39. The preparation of the financial statements is the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

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 - (i) the state of affairs of the Group and of the Company at 31 December 2004 and their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries for which we have not acted as auditors, as indicated in Note 6 to the financial statements.

Horwath Offices in Malaysia:

Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang • Prai

12. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX II

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ISS CONSULTING (MALAYSIA) SDN. BHD. (CONT'D)**

(Incorporated in Malaysia)
Company No : 446809 - P

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

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

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Horwath
Firm No: AF 1018
Chartered Accountants

Kuala Lumpur

A handwritten signature in cursive script, appearing to read 'Mok Wai Ling'.

Mok Wai Ling
Approval No: 1090/04/06 (J)
Partner

14 JUN 2005

12. ACCOUNTANTS' REPORT (Cont'd)



APPENDIX II

Horwath AF No 1018
Kuala Lumpur Office
 Chartered Accountants

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REPORT OF THE AUDITORS TO THE MEMBERS OF ISS CONSULTING (MALAYSIA) SDN. BHD.

(Incorporate in Malaysia)
 Company No : 446809 - P

We have audited the financial statements set out on pages 9 to 40. The preparation of the financial statements is the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the state of affairs of the Group and of the Company at 31 December 2005 and their results and cash flows for the financial year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries for which we have not acted as auditors, as indicated in Note 6 to the financial statements.

Horwath Offices in Malaysia:

Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang • Prai

12. ACCOUNTANTS' REPORT (Cont'd)

**APPENDIX II****REPORT OF THE AUDITORS TO THE MEMBERS OF
ISS CONSULTING (MALAYSIA) SDN. BHD. (CONT'D)**

(Incorporated in Malaysia)
Company No : 446809 - P

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

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Section 174(3) of the Companies Act, 1965.

Horwath
Firm No: AF 1018
Chartered Accountants

Mok Wai Ling
Approval No: 1090/04/08 (J)
Partner

Kuala Lumpur

25 APR 2006

13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



Registered Office:

Suite 16.03, 16th Floor, Plaza
Permata
Jalan Kampar
Off Jalan Tun Razak
50400 Kuala Lumpur

Date: 21 JUN 2006

The Shareholders of ISS Consulting Solutions Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of ISS Consulting Services Berhad ("ISS" or "Company") ("Board"), I report, after making due inquiries in relation to the interval between 31 December 2005, being the date to which the last audited financial statements of the Company and its subsidiary companies ("Group") have been made up, and the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus that:

- (i) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (iii) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) no contingent liabilities have arisen by reason of guarantees or indemnities given by the Group;
- (v) the Board is not aware of any default or known event that could give rise to a default situation in respect of payments of either interest and/or principal sums in relation to any borrowings of the Group since the last audited financial statements of the Group; and
- (vi) save as disclosed in the Accountants' Report and the Reporting Accountants' Letter on the Proforma Consolidated Financial Information set out in this Prospectus, there have been no material changes in the published reserves or unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully

For and on behalf of the Board of Directors of
ISS CONSULTING SOLUTIONS BERHAD

HARALD WEINBRECHT
MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER