(Prepared for inclusion in the Prospectus

Deloitte.

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The Board of Directors
IQ Group Holdings Berhad
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September 9, 2005

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Deloitte KassimChan, an approved company auditor, for inclusion in the Prospectus of IQ Group Holdings Berhad (hereinafter referred to as "IQGHB" or "Company") dated September 16, 2005 in connection with the following:

i. public issue of 13,006,000 new ordinary shares of RM1 each in IQGHB at an issue price of RM1.80 per ordinary share;

ii. offer for sale of 11,101,200 ordinary shares of RM1 each in IQGHB to Bumiputera investors approved by the Ministry of International Trade and Industry at an offer price of RM1.80 per ordinary share; and

iii. listing of and quotation for the entire enlarged issued and paid-up share capital of IQGHB comprising 85,000,000 ordinary shares of RM1 each on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

2. GENERAL INFORMATION

2.1 Background

IQGHB was incorporated in Malaysia as a private company under the Companies Act, 1965 on December 13, 2003 under the name of IQ Group Holdings Sdn. Bhd.. IQGHB was converted to a public company and changed its name to IQ Group Holdings Berhad on August 20, 2004. IQGHB is principally involved in investment holding and provision of management services.

2.2 Corporate Exercise

In conjunction with, and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of IQGHB on the Main Board of Bursa Securities, IQGHB's Corporate Exercise which was approved by the relevant authorities involves the following inter-conditional transactions:

(i) Acquisitions

(a) IQGHB acquired the entire issued and fully paid-up share capital of IQ Group Sdn. Bhd. ("IQM") comprising 25,500,000 ordinary shares of RM1 each for a total purchase consideration of RM71,993,998 satisfied by the issuance of 71,993,998 new ordinary shares of RM1 each in IQGHB at par. The purchase consideration of RM71,993,998 was arrived at based on the audited consolidated net assets value of IQM as of March 31, 2004 of RM71,993,803. The consolidated net assets value of IQM as of March 31, 2005 based on the audited financial statements of IQM for the financial year ended March 31, 2005 stood at RM76.63 million (excluding the proposed tax-exempt dividend of RM7,650,000 which was approved by the Securities Commission on June 6, 2005 and the said dividend were subsequently fully paid to the former shareholders of IQM on June 23, 2005, June 24, 2005, August 17, 2005 and August 18, 2005);

(b) IQGHB acquired the entire capital of Dong Guan Zhong Jia Electronics Co. Ltd. ("IQC") amounting to RMB11,909,601 from IQM for a nominal cash consideration of RM1;

(c) IQGHB acquired the entire issued and fully paid-up share capital of IQ (Europe) Limited ("IQE") comprising 150,000 ordinary shares of £1 each from IQM for a nominal cash consideration of RM1;

(d) IQGHB acquired the entire issued and fully paid-up share capital of IQ Japan Co., Ltd. ("IQJ") comprising 600 ordinary shares of ¥50,000 each from IQM for a nominal cash consideration of RM1; and

(e) IQGHB acquired the entire issued and fully paid-up share capital of IQ Group Limited ("IQGL") comprising 1,000 ordinary shares of USD1 each from IQM for a nominal cash consideration of RM1.

The Acquisitions are accounted for using the acquisition method of consolidation. The Acquisitions of IQM, IQC, IQE, IQJ and IQGL were completed on the following dates:

IQM	-	April 4, 2005
IQC	-	July 7, 2005
IQE	-	April 21, 2005
IQJ	-	April 5, 2005
IQGL	-	April 5, 2005

(ii) Public issue and offer for sale

After the Acquisition, IQGHB and certain former shareholders of IQM concurrently propose the following:

(a) Public issue of 13,006,000 new ordinary shares of RM1 each in IQGHB ("IQGHB Shares") at an issue price of RM1.80 per ordinary share; and

(b) Offer for sale of 11,101,200 ordinary shares of RM1 each in IQGHB to Bumiputera investors approved by the Ministry of International Trade and Industry at an offer price of RM1.80 per ordinary share.

The gross proceeds from the Public Issue will be utilised as follows:-

	RM'000
Investment in application of new technology/ developing new products and enhancing existing products:	
i) Purchase of plant and equipment	11,405
ii) Research and development expenditure	3,595
Working capital	5,711
Estimated listing expenses	2,700
Total	23,411

Upon completion of the Acquisitions and Public Issue, the issued and paid-up share capital of IQGHB will increase to RM85,000,000 comprising 85,000,000 IQGHB Shares credited as fully paid-up.

(iii) Employees Share Option Scheme ("ESOS")

IQGHB establishes an ESOS for eligible employees and directors of the Group. The number of ESOS options to be offered under the ESOS shall not exceed 15% of the issued and paid-up share capital of IQGHB at any one time during the duration of the ESOS.

(iv) Listing

In conjunction with the Public Issue, IQGHB has sought the approval of Bursa Securities for the admission and the listing of and quotation for the entire enlarged issued and paid-up share capital comprising 85,000,000 IQGHB Shares on the Official List of the Main Board of Bursa Securities, which was approved by Bursa Securities on May 25, 2005.

2.3 Share Capital

The authorised and issued and paid-up share capital of IQGHB as of the date of this report is as follows:

	No. of Shares	Par value RM	Amount RM
Authorised			
Shares	150,000,000	1	150,000,000
Issued and fully paid-up			
Ordinary shares	71,994,000	1	71,994,000

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

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration/ Type of issue	Cumulative issued and paid-up share capital RM
December 13, 2003	2	1	Subscribers' shares	2
April 4, 2005	71,993,998	1	Consideration for the acquisition of IQM	71,994,000

Upon completion of the Public Issue, the issued and paid-up share capital of IQGHB would be increased by 13,006,000 new IQGHB Shares to 85,000,000 IQGHB Shares credited as fully paid-up.

2.4 Subsidiary Companies

Details of the subsidiary companies of IQGHB as of the date of this report are as follows:

Name	Date/ Country of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
IQM	January 12, 1989/ Malaysia	RM25,500,000	100	Manufacture of passive infrared detectors and motion sensor light controllers.
IQC	June 23, 2000/ People's Republic of China	*RMB11,909,601	100	Manufacture of passive infrared detectors, motion sensor light controllers and plastic products.
IQE	September 28, 1993/ United Kingdom	£150,000	100	Distribution of security lighting systems.
IQJ	May 15, 1998/ Japan	¥30,000,000	100	Distribution of security lighting systems.
IQGL	March 23, 2000/ British Virgin Islands	USD1,000	100	Distribution of passive infrared detectors and motion sensor light controllers.

* This represents capital contributed in IQC

3. AUDITORS AND AUDITED FINANCIAL STATEMENTS

The financial statements of IQGHB, IQM, IQGL and IQC from the dates of their incorporation to March 31, 2005 were audited by Deloitte KassimChan, Penang, Malaysia and were not subject to any qualification.

The financial statements of IQE from the date of its incorporation, September 28, 1993 to March 31, 2005 were audited by Deloitte & Touche, Leeds, United Kingdom and were not subject to any qualification.

The financial statements of IQJ from the date of its incorporation, May 15, 1998 to March 31, 2005 were audited by Deloitte Touche Tohmatsu, Osaka, Japan and were not subject to any qualification.

The financial statements of IQGHB and its subsidiary companies, IQM, IQGL and IQC have been prepared in accordance with the applicable approved accounting standards of the Malaysian Accounting Standards Board.

The financial statements of IQE has been prepared in accordance with the applicable United Kingdom law and accounting standards and group accounting policies of IQM, while the financial statements of IQJ has been prepared in accordance with the International Financial Reporting Standards and group accounting policies of IQM.

4. DIVIDENDS

No dividends have been paid or declared by IQGHB since the date of its incorporation.

Details of dividends declared by the subsidiary of IQGHB for the past five financial years are as follows:

Financial Year ended	Issued and paid-up share capital RM	Interim/ final dividend	Gross dividend per ordinary share Tax exempt RM	Gross dividend per ordinary share Less tax RM	Net dividend RM	Financial year in which dividend was/ to be paid
IQM						
31.3.2003	25,500,000	Final	0.15	-	3,825,000	31.3.2004
31.3.2004	25,500,000	Final	0.15	-	3,825,000	31.3.2005
31.3.2005	25,500,000	Interim	0.30	-	7,650,000	31.3.2006

5. SUMMARISED INCOME STATEMENTS

5.1 The Proforma Group

The summarised proforma consolidated income statement of IQGHB and its subsidiary companies ("IQGHB Group") for the past five financial years ended from March 31, 2001 to March 31, 2005 have been prepared for illustrative purposes only after making such adjustments that we consider necessary and assuming that the IQGHB Group has been in existence throughout the financial years under review.

	<---------- Financial years ended March 31 --------->				
	2001 RM'000	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**	**2005 RM'000**
Revenue	89,560	89,947	112,776	110,388	138,587
Profit before interest, depreciation, taxation and amortization	11,549	8,012	19,951	22,891	26,196
Interest expense	(333)	(441)	(326)	(155)	(15)
Depreciation expense	(3,073)	(3,455)	(3,794)	(4,107)	(4,503)
Amortisation of development costs	-	(225)	(572)	(623)	(1,024)
Profit before tax and exceptional items	8,143	3,891	15,259	18,006	20,654
Exceptional items	-	-	-	-	(1,760)
Profit before tax	8,143	3,891	15,259	18,006	18,894
Tax expense	(2,619)	(1,070)	(1,767)	(2,938)	(2,301)
Profit after tax	5,524	2,821	13,492	15,068	16,593
Number of ordinary shares assumed in issue ('000)	71,994	71,994	71,994	71,994	71,994
Gross earnings per ordinary share (sen)	11.31	5.40	21.19	25.01	26.24
Net earnings per ordinary share (sen)	7.67	3.92	18.74	20.93	23.05

Notes:

i. The proforma consolidated income statement of IQGHB Group has been prepared based on the audited financial statements of the subsidiary companies and assuming that the effective shareholdings in subsidiary companies held by IQGHB as mentioned under Note 2.4 have been in effect throughout the financial years under review.

ii. For the financial year ended March 31, 2002, IQGHB Group managed to maintain its sales at the level registered in the financial year ended March 31, 2001 of about RM90 million. The reduction in selling price by about 5% to 10% for certain customers and for certain models of lighting products was partially offset by the market expansion by a subsidiary company, IQE which concentrated more on the sales of its high priced models. Another subsidiary company, IQJ managed to secure a major customer who purchased in higher volume but at a lower profit margin. Consequently, gross profit and gross profit margin decreased during the financial year as compared to the previous financial year. The setting-up of two new subsidiary companies namely IQC and IQGL in the previous year caused a substantial increase in operating expenses, thus the pre-tax profit margin of the Group has dropped from 9.09% in the financial year ended March 31, 2001 to 4.33% in the financial year ended March 31, 2002.

iii. For the financial year ended March 31, 2003, selling price for its products tapered in view of the stiff competition in the market. However, revenue improved remarkably from RM90 million in the financial year ended March 31, 2002 to RM112.8 million in the financial year ended March 31, 2003 due to the boom in housing market in United Kingdom. With new house building being buoyant, most new houses have some form of outside lighting fitted as standard thereby leading to higher general spending on do-it-yourself lighting as well as other new product ranges. Moreover, IQGHB Group managed to reduce its cost of sales as a result of a slight decrease in purchase price of raw materials coupled with the implementation of cell manufacturing system in IQM which had increased production efficiency and hence resulted in cost reduction. The gain on foreign exchange due to the strengthening of Sterling Pound against Ringgit Malaysia also had a favourable impact on the net profit of IQGHB Group, resulting in an improvement in pre-tax profit margin to 13.53% in the financial year ended March 31, 2003.

iv. For the financial year ended March 31, 2004, notwithstanding the slight decrease in revenue from RM112.8 million in the financial year ended March 31, 2003 to RM110.4 million in the financial year ended March 31, 2004, gross profit improved. The decrease in revenue was largely attributed to the decrease in customer orders in United Kingdom as a result of the drop in IQ representation in a major customer's catalogues and the destocking exercise of another major customer prior to the launch of new product line in the financial year ended March 31, 2005. In its effort to counter the declining customer orders, several new models of PIR sensor lighting products such as MPT-MDII90SA-B, RAB-STL-360-BR, MM-MS90V2-MSV and PK-DC9V-SDT were introduced during the financial year. The slight shift in the product mix with more sales of stand alone sensor modules without lightings and door chime products which have higher margins resulted in the overall improvement in the profit margin during the financial year.

v. For the financial year ended March 31, 2005, as a result of IQGHB Group's effort to diversify the range of the products and increase their market penetration and regional coverage, the Group's revenue improved by 26% to RM138.6 million in the financial year ended March 31, 2005 as compared to preceding year. Although the IQGHB Group faced competitive pricing in the market, the Group managed to maintain its major customers such as B&Q plc (UK), Novar ED&S (UK) and Massive Lighting Products NV (Europe) due to the Group's continuing product innovation and differentiation as well as stringent quality control on its products. However, the Group's other operating income decreased tremendously due mainly to the decrease in gain on foreign exchange on its sales proceeds. Besides, during the financial year, IQM paid a commercial settlement sum to one of its customers, Massive Lighting Products NV (Europe) as compensation for a legal case involving patent infringement of infrared motion detector. As such, the pre-tax profit margin dropped from 16.31% in the financial year ended March 31, 2004 to 13.63% in the financial year ended March 31, 2005.

vi. There were no extraordinary items or exceptional items in respect of all the financial years under review except for one of the subsidiary company, IQM paid a commercial settlement sum amounting to approximately RM1.76 million to one of its customers, Massive Lighting Products NV (Europe) as compensation for a legal case involving patent infringement of infrared motion detector during the financial year ended March 31, 2005.

vii. The effective tax rate of IQGHB Group for the financial year ended March 31, 2001 reflects an effective tax rate which was higher than the Malaysian statutory income tax rate of 28% mainly due to the losses of certain subsidiary companies which cannot be set off against the profit of the other subsidiary companies for income tax purposes. The effective tax rates for the financial years ended March 31, 2002 to 2005 were lower than the Malaysian statutory income tax rate of 28% mainly due to the profit of IQC was exempted from income tax for two years starting from the first cumulative profit-making year and will be subject to income tax at a reduction of 50% of the standard tax rate for the following three years and also utilisation of carryforward tax losses of the other subsidiary companies.

viii. The gross earnings per ordinary share have been calculated by dividing the proforma consolidated profit before tax by the number of IQGHB Shares assumed in issue, based on the existing paid-up ordinary share capital of the Company before the Public Issue.

ix. The net earnings per ordinary share have been calculated by dividing the consolidated profit after tax by the number of IQGHB Shares assumed in issue, based on the existing paid-up ordinary share capital of the Company before the Public Issue.

5.2 IQGHB and its subsidiary companies

The summarised income statements of each company within the IQGHB Group for the relevant financial years/ periods are as follows:

5.2.1 IQGHB

	4 months ended March 31 2004 RM'000	Year ended March 31 2005 RM'000
Revenue	-	-
Loss before interest, depreciation and taxation	(3)	(4)
Interest expense	-	-
Depreciation expense	-	-
Loss before tax	(3)	(4)
Tax expense	-	-
Loss after tax	(3)	(4)
Number of ordinary shares in issue	2	2
Gross loss per ordinary share (RM)	(1,500)	(2,000)
Net loss per ordinary share (RM)	(1,500)	(2,000)

Notes:

i. IQGHB was incorporated on December 13, 2003 and the first set of financial statements drawn up was for the financial period from December 13, 2003 to March 31, 2004.

ii. There were no extraordinary items or exceptional items in respect of the financial period/ year under review.

iii. No provision for income tax was made for the financial period from December 13, 2003 (date of incorporation) to March 31, 2004 and financial year ended March 31, 2005 as IQGHB has not commenced operations and incurred losses.

iv. The gross loss per ordinary share has been calculated by dividing the loss before tax by the number of ordinary shares of IQGHB in issue during the financial period/ year under review.

v. The net loss per ordinary share has been calculated by dividing the loss after tax by the number of ordinary shares of IQGHB in issue during the financial period/ year under review.

5.2.2 IQM

	<---------- Financial years ended March 31			---------->
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	88,148	81,801	69,135	62,683	72,343
Profit before interest, depreciation, amortisation and taxation	12,802	8,250	10,256	14,705	16,482
Interest expense	(329)	(282)	(306)	(131)	-
Depreciation expense	(2,451)	(2,596)	(2,969)	(2,980)	(3,114)
Amortisation of development costs	-	(81)	(304)	(348)	(734)
Profit before tax and exceptional items	10,022	5,291	6,677	11,246	12,634
Exceptional items	-	(3,346)	-	-	(1,760)
Profit before tax	10,022	1,945	6,677	11,246	10,874
Tax expense	(2,278)	(1,138)	(1,772)	(2,978)	(1,934)
Profit after tax	7,744	807	4,905	8,268	8,940
Weighted average number of ordinary shares in issue ('000)	22,875	25,500	25,500	25,500	25,500
Gross earnings per ordinary share (RM)	0.44	0.08	0.26	0.44	0.43
Net earnings per ordinary share (RM)	0.34	0.03	0.19	0.32	0.35

Notes:

i. There were no extraordinary items or exceptional items in respect of the financial years under review except for the exceptional loss on disposal of investment in a subsidiary company, IQ (America) Inc. ("IQA") of approximately RM946,000 together with the write-off of the debt owing by IQA of approximately RM2.4 million during the financial year ended March 31, 2002 and IQM paid a commercial settlement sum amounting to approximately RM1.76 million to one of its customers, Massive Lighting Products NV (Europe) as compensation for a legal case involving patent infringement of infrared motion detector during the financial year ended March 31, 2005.

ii. The effective income tax rates of IQM for the past five financial years, with the exception of year 2002, were lower than the statutory income tax rates due mainly to the claim of reinvestment allowances. The effective income tax rate for the financial year ended March 31, 2002 was higher than the statutory income tax rate due mainly to certain expenses which were not allowable as deduction for income tax purposes.

iii. The gross earnings per ordinary share have been calculated by dividing the profit before tax by the weighted average number of ordinary shares of IQM in issue during the financial years under review.

iv. The net earnings per ordinary share have been calculated by dividing the profit after tax by the weighted average number of ordinary shares of IQM in issue during the financial years under review.

5.2.3 IQC

In RM

The financial figures in Renminbi (RMB) were converted into RM either at the weighted average month end rate or year end rate for the financial period/ years under review.

	10 months Ended March 31 2001 RM'000	<--------- Financial years ended March 31---------> 2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Foreign exchange conversion rate per RMB (RM)					
-weighted average month end rate	0.4590	0.4596	0.4591	0.4580	0.4582
-year end rate	0.4590	0.4599	0.4590	0.4590	0.4585
Revenue	10,774	34,373	45,063	41,994	61,050
(Loss)/ profit before interest, depreciation, amortisation and taxation	(1,006)	1,780	6,348	5,272	2,313
Interest expense	-	-	-	-	-
Depreciation expense	(129)	(393)	(656)	(742)	(936)
Amortisation of development costs	-	(144)	(268)	(275)	(290)
(Loss)/ profit before tax	(1,135)	1,243	5,424	4,255	1,087
Tax expense	-	-	-	(638)	(163)
(Loss)/ profit after tax	(1,135)	1,243	5,424	3,617	924
Capital contributed (RM'000)	5,422	5,422	5,422	5,422	5,422
Gross (loss)/ earnings per RM1 capital contributed (RM)	(0.21)	0.23	0.99	0.78	0.20
Net (loss)/ earnings per RM1 capital contributed (RM)	(0.21)	0.23	0.99	0.66	0.17

In RENMINBI (RMB)

	10 months Ended March 31	<---------- Financial years ended March 31---------->			
	2001	**2002**	**2003**	**2004**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue	23,472	74,790	98,154	91,690	133,238
(Loss)/ profit before interest, depreciation, amortisation and taxation	(2,191)	3,874	13,827	11,511	5,047
Interest expense	-	-	-	-	-
Depreciation expense	(282)	(856)	(1,429)	(1,620)	(2,043)
Amortisation of development costs	-	(314)	(583)	(601)	(633)
(Loss)/ profit before tax	(2,473)	2,704	11,815	9,290	2,371
Tax expense	-	-	-	(1,393)	(355)
(Loss)/ profit after tax	(2,473)	2,704	11,815	7,897	2,016
Capital contributed (RMB'000)	11,910	11,910	11,910	11,910	11,910
Gross (loss)/ earnings per RMB1 capital contributed (RMB)	(0.21)	0.23	0.99	0.78	0.20
Net (loss)/ earnings per RMB1 capital contributed (RMB)	(0.21)	0.23	0.99	0.66	0.17

Notes:

i. There were no extraordinary items or exceptional items in respect of all the financial period/ years under review.

ii. No provision for income tax expense was made in 2001 in view of the losses incurred by IQC. There were no income tax expense in 2002 and 2003 and the effective income tax rate is 15% for 2004 and 2005 as IQC's profit is exempted from income tax for two years starting from the first cumulative profit-making year and will be subject to income tax at a reduction of 50% of the standard tax rate for the following three years.

iii. The gross (loss)/ earnings per RMB1 capital contributed have been calculated by dividing the (loss)/ profit before tax by IQC's capital contributed during the financial period/ years under review.

iv. The net (loss)/ earnings per RMB1 capital contributed have been calculated by dividing the (loss)/ profit after tax by IQC's capital contributed during the financial period/ years under review.

5.2.4 IQE

IN RM

The financial figures in Pound Sterling (£) were converted into RM either at the weighted average month end rate or year end rate for the financial years under review.

	<---------- Financial years ended March 31				---------->
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Foreign exchange conversion rate per £ (RM)					
-weighted average month end rate	5.5944	5.4501	5.8601	6.4892	7.0169
-year end rate	5.3830	5.4160	5.9809	6.9990	7.1415
Revenue	33,992	36,260	48,135	44,957	66,941
(Loss)/ profit before interest, depreciation and taxation	(683)	338	808	441	218
Interest expense	(5)	-	(18)	(26)	(14)
Depreciation expense	(453)	(245)	(152)	(370)	(393)
(Loss)/ profit before tax	(1,141)	93	638	45	(189)
Tax expense	-	-	-	-	-
(Loss)/ profit after tax	(1,141)	93	638	45	(189)
Weighted average number of ordinary shares in issue ('000)	150	150	150	150	150
Gross (loss)/ earnings per ordinary share (RM)	(7.61)	0.62	4.25	0.30	(1.26)
Net (loss)/ earnings per ordinary share (RM)	(7.61)	0.62	4.25	0.30	(1.26)

IN POUND STERLING (£)

	<---------- Financial years ended March 31---------->				
	2001	**2002**	**2003**	**2004**	**2005**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	6,076	6,653	8,214	6,928	9,540
(Loss)/ profit before interest, depreciation and taxation	(122)	62	138	68	31
Interest expense	(1)	-	(3)	(4)	(2)
Depreciation expense	(81)	(45)	(26)	(57)	(56)
(Loss)/ profit before tax	(204)	17	109	7	(27)
Tax expense	-	-	-	-	-
(Loss)/ profit after tax	(204)	17	109	7	(27)
Weighted average number of ordinary shares in issue ('000)	150	150	150	150	150
Gross (loss)/ earnings per ordinary share (£)	(1.36)	0.11	0.73	0.05	(0.18)
Net (loss)/ earnings per ordinary share (£)	(1.36)	0.11	0.73	0.05	(0.18)

Notes:

i. There were no extraordinary items or exceptional items in respect of the financial years under review.

ii. No income tax expense was provided for the financial years ended March 31, 2001 and 2005 due to the losses incurred, while for financial years ended March 31, 2002 to 2004 were due to the utilisation of carryforward tax losses.

iii. The gross (loss)/ earnings per ordinary share have been calculated by dividing the (loss)/ profit before tax by the weighted average number of ordinary shares of IQE in issue during the financial years under review.

iv. The net (loss)/ earnings per ordinary share have been calculated by dividing the (loss)/ profit after tax by the weighted average number of ordinary shares of IQE in issue during the financial years under review.

5.2.5 IQJ

IN RM

The financial figures in Japanese Yen (¥) were converted into RM either at the weighted average month end rate or year end rate for the financial years under review.

	<---Financial years ended March 31--->				
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Foreign exchange conversion rate per ¥ (RM)					
-weighted average month end rate	0.0342	0.0303	0.0312	0.0338	0.0354
-year end rate	0.0301	0.0285	0.0317	0.0365	0.0354
Revenue	3,243	11,660	12,978	17,162	13,353
(Loss)/ profit before interest, depreciation and taxation	(714)	177	167	697	543
Interest expense	-	-	-	-	-
Depreciation expense	(41)	(25)	(18)	(16)	(16)
(Loss)/ profit before tax	(755)	152	149	681	527
Tax expense	(6)	(6)	(6)	(6)	(6)
(Loss)/ profit after tax	(761)	146	143	675	521
Weighted average number of ordinary shares in issue ('000)	0.6	0.6	0.6	0.6	0.6
Gross (loss)/ earnings per ordinary share (RM)	(1,258)	253	248	1,135	878
Net (loss)/ earnings per ordinary share (RM)	(1,268)	243	238	1,125	868

IN JAPANESE YEN (¥)

	<----------------Financial years ended March 31-------------->				
	2001	**2002**	**2003**	**2004**	**2005**
	¥'000	**¥'000**	**¥'000**	**¥'000**	**¥'000**
Revenue	94,823	384,826	415,970	507,757	377,193
(Loss)/ profit before interest, depreciation and taxation	(20,878)	5,825	5,340	20,622	15,329
Interest expense	-	-	-	-	-
Depreciation expense	(1,211)	(825)	(561)	(465)	(452)
(Loss)/ profit before tax	(22,089)	5,000	4,779	20,157	14,877
Tax expense	(180)	(180)	(180)	(180)	(180)
(Loss)/ profit after tax	(22,269)	4,820	4,599	19,977	14,697
Weighted average number of ordinary shares in issue ('000)	0.6	0.6	0.6	0.6	0.6
Gross (loss)/ earnings per ordinary share (¥)	(36,815)	8,333	7,965	33,595	24,795
Net (loss)/ earnings per ordinary share (¥)	(37,115)	8,033	7,665	33,295	24,495

Notes:

i. There were no extraordinary items or exceptional items in respect of the financial years under review.

ii. The applicable statutory tax rate is 42% but the Company had neither current nor deferred tax expense for the years ended 2001 to 2005 due to the utilisation of tax losses carried forward. The above tax expense represents minimum regional taxes based on the share capital amount and number of employees.

iii. The gross (loss)/ earnings per ordinary share have been calculated by dividing the (loss)/ profit before tax by the weighted average number of ordinary shares of IQJ in issue during the financial years under review.

iv. The net (loss)/ earnings per ordinary share have been calculated by dividing the (loss)/ profit after tax by the weighted average number of ordinary shares of IQJ in issue during the financial years under review.

5.2.6 IQGL

	13 months ended March 31 2001 RM'000	<——Financial years ended March 31——> 2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Revenue	15,472	39,197	51,573	49,639	69,484
(Loss)/ profit before interest, depreciation and taxation	(45)	(69)	3,091	3,281	5,712
Interest expense	-	-	-	-	-
Depreciation expense	-	-	-	-	(1)
(Loss)/ profit before tax	(45)	(69)	3,091	3,281	5,711
Tax expense	-	-	-	-	-
(Loss)/ profit after tax	(45)	(69)	3,091	3,281	5,711
Weighted average number of shares of USD1 each in issue ('000)	1	1	1	1	1
Gross (loss)/ earnings per share (RM)	(45)	(69)	3,091	3,281	5,711
Net (loss)/ earnings per share (RM)	(45)	(69)	3,091	3,281	5,711

Notes:

i. There were no extraordinary items or exceptional items in respect of the financial period/ years under review.

ii. No income tax expense is provided as the Company is registered under the International Business Company Ordinance, which was exempted from British Virgin Islands income tax.

iii. The gross (loss)/ earnings per share have been calculated by dividing the (loss)/ profit before tax by the weighted average number of shares of IQGL in issue during the financial period/ years under review.

iv. The net (loss)/ earnings per share have been calculated by dividing the (loss)/ profit after tax by the weighted average number of shares of IQGL in issue during the financial period/ years under review.

6. SUMMARISED BALANCE SHEETS

As the Acquisitions stated in Note 2.2 of this report were completed after March 31, 2005, it is therefore impracticable to present the proforma balance sheets of IQGHB Group throughout the financial period/ years under review. The proforma financial position of IQGHB Group has been prepared based on the audited balance sheets of IQGHB, IQM, IQC, IQE, IQJ and IQGL as of March 31, 2005 in Note 7 of this report and on the assumptions that the corporate exercise as mentioned under Note 2.2 has been effected on that date.

The summarised balance sheets of each company within the IQGHB Group based on their respective audited financial statements as of the end of the relevant financial period/ years are as follows:

6.1 IQGHB

	As of March 31	
	2004	**2005**
	RM'000	**RM'000**
Current assets	4	4
Current liabilities	(7)	(11)
	(3)	(7)
Share capital	*	*
Accumulated losses	(3)	(7)
	(3)	(7)
Number of ordinary shares in issue	2	2
Net tangible liabilities per ordinary share (RM)	(1,500)	(3,500)

* RM2

Note:

IQGHB was incorporated on December 13, 2003 and the first set of the financial statements was drawn up for the financial period from December 13, 2003 to March 31, 2004.

6.2 IQM

	<-----As of March 31-----				---->
	2001 RM'000	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**	**2005 RM'000**
Property, plant and equipment	21,771	20,617	19,686	18,623	19,867
Development costs	987	2,621	2,315	1,966	3,949
Investment in subsidiary companies	8,162	7,212	7,212	7,212	7,212
Current assets	57,544	67,492	50,834	56,430	68,772
Current liabilities	(28,039)	(37,076)	(15,038)	(16,104)	(26,049)
Net current assets	29,505	30,416	35,796	40,326	42,723
	60,425	60,866	65,009	68,127	73,751
Share capital	25,500	25,500	25,500	25,500	25,500
Reserves	30,977	31,784	32,864	37,307	38,597
Proposed dividends	-	-	3,825	3,825	7,650
Shareholders' equity	56,477	57,284	62,189	66,632	71,747
Long-term and deferred liabilities	3,948	3,582	2,820	1,495	2,004
	60,425	60,866	65,009	68,127	73,751
Number of ordinary shares in issue ('000)	25,500	25,500	25,500	25,500	25,500
Net tangible assets per ordinary share (RM)	2.18	2.14	2.35	2.54	2.66

6.3 IQC

IN RM

The financial figures in Renminbi (RMB) were converted into RM either at the weighted average month end rate or year end rate for the financial years under review.

	<---As of March 31--->				
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Foreign exchange conversion rate per RMB (RM)					
-weighted average month end rate	0.4590	0.4596	0.4591	0.4580	0.4582
-year end rate	0.4590	0.4599	0.4590	0.4590	0.4585
Property, plant and equipment	3,143	5,264	5,184	5,121	5,539
Development costs	279	984	795	564	273
Current assets	5,329	9,842	31,830	46,622	59,845
Current liabilities	(4,420)	(10,506)	(26,813)	(37,686)	(50,129)
Net current assets/ (liabilities)	909	(664)	5,017	8,936	9,716
	4,331	5,584	10,996	14,621	15,528
Share capital	5,422	5,422	5,422	5,422	5,422
Exchange reserve	44	54	42	50	33
(Accumulated losses)/ Retained profit	(1,135)	108	5,532	9,149	10,073
	4,331	5,584	10,996	14,621	15,528
Capital contributed (RM'000)	5,422	5,422	5,422	5,422	5,422
Net tangible assets per RM1 capital contributed (RM)	0.75	0.85	1.88	2.59	2.81

IN RENMINBI (RMB)

	<-------------------	------------	As of March 31	------------	------------------->
	2001	**2002**	**2003**	**2004**	**2005**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Property, plant and equipment	6,849	11,445	11,294	11,156	12,081
Development costs	608	2,139	1,732	1,228	595
Current assets	11,610	21,400	69,346	101,573	130,524
Current liabilities	(9,630)	(22,844)	(58,416)	(82,105)	(109,332)
Net current assets/ (liabilities)	1,980	(1,444)	10,930	19,468	21,192
	9,437	12,140	23,956	31,852	33,868
Share capital	11,910	11,910	11,910	11,910	11,910
(Accumulated losses)/ Retained profit	(2,473)	230	12,046	19,942	21,958
	9,437	12,140	23,956	31,852	33,868
Capital contributed (RMB'000)	11,910	11,910	11,910	11,910	11,910
Net tangible assets per RMB1 capital contributed (RMB)	0.74	0.84	1.87	2.57	2.79

6.4 IQE

IN RM

The financial figures in Pound Sterling (£) were converted into RM either at the weighted average month end rate or year end rate for the financial years under review.

	<---As of March 31--->				
	2001	**2002**	**2003**	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Foreign exchange conversion rate per £ (RM)					
-weighted average month end rate	5.5944	5.4501	5.8601	6.4892	7.0169
-year end rate	5.3830	5.4160	5.9809	6.9990	7.1415
Property, plant and equipment	339	271	586	798	821
Current assets	23,109	26,078	27,889	27,534	35,850
Current liabilities	(26,861)	(29,599)	(31,250)	(31,628)	(40,435)
Net current liabilities	(3,752)	(3,521)	(3,361)	(4,094)	(4,585)
	(3,413)	(3,250)	(2,775)	(3,296)	(3,764)
Share capital	913	913	913	913	913
Exchange reserve	511	489	155	(358)	(434)
Accumulated losses	(4,837)	(4,744)	(4,106)	(4,061)	(4,250)
Capital deficiency	(3,413)	(3,342)	(3,038)	(3,506)	(3,771)
Long-term liabilities	-	92	263	210	7
	(3,413)	(3,250)	(2,775)	(3,296)	(3,764)
Number of ordinary shares in issue ('000)	150	150	150	150	150
Net tangible liabilities per ordinary share (RM)	(22.75)	(22.28)	(20.25)	(23.37)	(25.14)

IN POUND STERLING (£)

	<----------As of March 31--------->				
	2001 **£'000**	**2002** **£'000**	**2003** **£'000**	**2004** **£'000**	**2005** **£'000**
Property, plant and equipment	63	50	98	114	115
Current assets	4,293	4,815	4,663	3,934	5,020
Current liabilities	(4,990)	(5,465)	(5,225)	(4,519)	(5,662)
Net current liabilities	(697)	(650)	(562)	(585)	(642)
	(634)	(600)	(464)	(471)	(527)
Share capital	150	150	150	150	150
Accumulated losses	(784)	(767)	(658)	(651)	(678)
Capital deficiency	(634)	(617)	(508)	(501)	(528)
Long-term liabilities	-	17	44	30	1
	(634)	(600)	(464)	(471)	(527)
Number of ordinary shares in issue ('000)	150	150	150	150	150
Net tangible liabilities per ordinary share (£)	(4.23)	(4.11)	(3.39)	(3.34)	(3.52)

6.5 IQJ

IN RM

The financial figures in Japanese Yen (¥) were converted into RM either at the weighted average month end rate or year end rate for the financial years under review.

	As of March 31				
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Foreign exchange conversion rate per ¥ (RM)					
-weighted average month end rate	0.0342	0.0303	0.0312	0.0338	0.0354
-year end rate	0.0301	0.0285	0.0317	0.0365	0.0354
Property, plant and equipment	78	50	38	37	32
Intangible assets	7	6	7	8	8
Current assets	1,610	2,856	1,989	2,689	3,646
Current liabilities	(3,228)	(4,212)	(3,317)	(2,976)	(3,101)
Net current liabilities	(1,618)	(1,356)	(1,328)	(287)	545
	(1,533)	(1,300)	(1,283)	(242)	585
Share capital	873	873	873	873	873
Exchange reserve	292	367	218	67	92
Accumulated losses	(2,733)	(2,587)	(2,444)	(1,769)	(1,248)
Capital deficiency	(1,568)	(1,347)	(1,353)	(829)	(283)
Long-term liabilities	35	47	70	587	868
	(1,533)	(1,300)	(1,283)	(242)	585
Number of ordinary shares in issue ('000)	0.6	0.6	0.6	0.6	0.6
Net tangible liabilities per ordinary share (RM)	(2,625)	(2,255)	(2,267)	(1,395)	(485)

IN JAPANESE YEN (¥)

	As of March 31				
	2001	**2002**	**2003**	**2004**	**2005**
	¥'000	**¥'000**	**¥'000**	**¥'000**	**¥'000**
Property, plant and equipment	2,585	1,760	1,199	1,003	894
Intangible assets	218	218	218	218	218
Current assets	53,487	100,213	62,753	73,674	102,990
Current liabilities	(107,226)	(147,807)	(104,638)	(81,511)	(87,590)
Net current liabilities	(53,739)	(47,594)	(41,885)	(7,837)	15,400
	(50,936)	(45,616)	(40,468)	(6,616)	16,512
Share capital	30,000	30,000	30,000	30,000	30,000
Accumulated losses	(82,098)	(77,278)	(72,680)	(52,703)	(38,006)
Capital deficiency	(52,098)	(47,278)	(42,680)	(22,703)	(8,006)
Long-term liabilities	1,162	1,662	2,212	16,087	24,518
	(50,936)	(45,616)	(40,468)	(6,616)	16,512
Number of ordinary shares in issue ('000)	0.6	0.6	0.6	0.6	0.6
Net tangible liabilities per ordinary share (¥)	(87,193)	(79,160)	(71,497)	(38,202)	(13,707)

6.6 IQGL

	As of March 31				
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000
Property, plant and equipment	-	5	4	4	3
Current assets	11,899	30,089	43,582	58,379	79,033
Current liabilities	(11,940)	(30,204)	(40,605)	(52,121)	(67,063)
Net current (liabilities)/ assets	(41)	(115)	2,977	6,258	11,970
	(41)	(110)	2,981	6,262	11,973
Share capital	4	4	4	4	4
(Accumulated losses)/ Retained profit	(45)	(114)	2,977	6,258	11,969
	(41)	(110)	2,981	6,262	11,973
Number of ordinary shares of USD 1 each in issue ('000)	1	1	1	1	1
Net tangible (liabilities)/ assets per ordinary share (RM)	(41)	(110)	2,981	6,262	11,973

7. STATEMENT OF ASSETS AND LIABILITIES

The following are the detailed statement of assets and liabilities of the IQGHB and its subsidiaries ("Proforma Group" or "Group") which have been prepared for illustrative purposes only and based on the audited balance sheets of IQGHB, IQM, IQC, IQE, IQJ and IQGL as of March 31, 2005. The statement of assets and liabilities of the Proforma Group have been prepared on the assumption that the corporate exercise as mentioned under Note 2.2 had been effected on March 31, 2005 and should be read in conjunction with the notes thereon.

	Note	IQGHB RM'000	Proforma Group RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	9.3	-	37,686
Development costs	9.4	-	7,818
CURRENT ASSETS			
Inventories	9.5	-	25,858
Trade receivables	9.6	-	28,914
Other receivables and prepaid expenses	9.7	4	1,616
Tax recoverable		-	1,579
Amount owing by a related company	9.8	-	37
Short-term deposits with a licensed bank		-	3,500
Cash and bank balances		*	35,286
Total Current Assets		4	96,790
CURRENT LIABILITIES			
Trade payables	9.9	-	10,855
Other payables and accrued expenses	9.10	11	8,045
Amount owing to directors	9.11	-	96
Hire-purchase payables	9.12	-	148
Tax liabilities		-	808
Total Current Liabilities		11	19,952
NET CURRENT (LIABILITIES)/ ASSETS		(7)	76,838
		(7)	122,342

	Note	IQGHB RM'000	Proforma Group RM'000
SHARE CAPITAL	9.13	*	97,750
SHARE PREMIUM	9.14	-	17,905
ACCUMULATED LOSSES		(7)	(7)
SHAREHOLDERS' EQUITY		(7)	115,648
NEGATIVE GOODWILL		-	4,634
LONG-TERM AND DEFERRED LIABILITIES			
Hire-purchase payables	9.12	-	4
Deferred tax liabilities	9.15	-	1,187
Provision for retirement allowance	9.16	-	869
Total Long-Term and Deferred Liabilities		-	2,060
		(7)	122,342
Number of ordinary shares assumed in issue ('000)		0.002	97,750
Net Tangible (Liabilities)/ Assets (RM'000)		(7)	107,830
Net Tangible (Liabilities)/ Assets per ordinary share (RM)		(3,500)	1.10

* RM2

8. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following proforma consolidated cash flow statement of IQGHB Group has been prepared for illustrative purposes only based on the audited financial statements of IQGHB, IQM, IQC, IQE, IQJ and IQGL for the year ended March 31, 2005 on the assumption that the IQGHB Group had been in existence throughout the said financial period and based on the assumption that the corporate exercise as mentioned under Note 2.2 had been effected.

	Proforma Group RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	18,894
Adjustments for:	
Depreciation of property, plant and equipment	4,503
Amortisation of development costs	1,024
Inventories written off	410
Provision for retirement allowance	298
Allowance for doubtful debts	242
Unrealised loss on foreign exchange	41
Property, plant and equipment written off	24
Interest expenses	15
Interest income	(174)
Allowance for doubtful debts no longer required	(141)
Gain on disposal of property, plant and equipment	(9)
Operating profit before working capital changes	25,127
(Increase)/ Decrease in:	
Inventories	(6,689)
Trade receivables	(11,518)
Other receivables and prepaid expenses	1,031
Amount owing by a related company	2
Increase in:	
Trade payables	2,296
Other payables and accrued expenses	480
Cash generated from operations	10,729
Tax paid	(3,318)
Net cash generated from operating activities	7,411

	Proforma Group RM'000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	174
Proceeds from disposal of property, plant and equipmnet	57
Purchase of property, plant and equipment	(17,676)
Payment of capitalised development costs	(6,312)
Exchange difference on translation of net assets of foreign subsidiary companies	(552)
Net cash used in investing activities	(24,309)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from public issue	23,411
Proceeds from ESOS	22,950
Dividends paid	(11,475)
Listing expenses paid	(2,700)
Repayment of hire-purchase payables	(163)
Decrease in amount owing to a related company	(20)
Interest paid	(15)
Net cash generated from financing activities	31,988
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	23,682
Effect of foreign exchange movements on foreign currency bank balances	14
CASH AND CASH EQUIVALENTS AT END OF YEAR	38,786
Cash and cash equivalents comprise:	
Short-term deposits with a licensed bank	3,500
Cash and bank balances	35,286
	38,786

9. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

9.1 BASIS OF PREPARATION OF STATEMENT OF ASSETS AND LIABILITIES

The statement of assets and liabilities has been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards of the Malaysian Accounting Standards Board.

9.2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless stated otherwise in the accounting policies mentioned below.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to the end of the financial year. All significant inter-company transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The Group adopts the acquisition method of consolidation. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition.

The results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal. The gain or loss on the disposal of a subsidiary company represents the difference between the proceeds from the disposal and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the Group's income statements.

Goodwill on Consolidation

The difference between the consideration paid for shares in the subsidiary companies and the value of attributable net assets acquired at the date of acquisition is included in the consolidated balance sheet as goodwill arising on consolidation or negative goodwill. Goodwill arising on consolidation is either written off to the consolidated income statement or amortised evenly on a straight-line basis over its estimated useful life. Negative goodwill on consolidation is included in the consolidated balance sheet and is not amortised.

Revenue and Revenue Recognition

Revenue of the Group and of the Company represents gross invoiced values of sales less returns, discounts and value added tax and gross income from sales commission.

Sales revenue are recognised upon delivery of products and when the risks and rewards of ownership have passed.

Revenue from the rendering of management services, interest income and other operating income are recognised on an accrual basis.

Foreign Currency Conversion

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the time of the transactions. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at balance sheet date. Translation gains and losses are recognised in the income statements as they arise.

For the purpose of consolidation, the financial statements of foreign subsidiary companies have been translated into Ringgit Malaysia as follows:

Assets and liabilities	- at closing rate
Issued capital	- at historical rate
Revenue and expenses	- at average rate

Exchange differences due to such currency translation are dealt with through translation reserve account under shareholders equity. Such translation gains or losses are recognised as income or expenses in the income statements, in the period in which the operations are disposed of.

The principal closing rates used in translation of foreign currency amounts and the financial statements of foreign entities are as follows:

	RM
1 Euro Dollar	4.9713
1 New Taiwan Dollar	0.1138
1 Great Britain Pound	7.2200
1 United States Dollar	3.8000
100 Japanese Yen	3.5900
100 Renminbi Yuan	45.9000
1 Singapore Dollar	2.3225
1 Hong Kong Dollar	0.4873

Income Tax

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

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

Borrowings costs

All interest and other costs incurred in connection with borrowings are expensed as incurred.

Impairment of Assets

At each balance sheet date, the Group and the Company reviews the carrying amounts of assets to determine if there is any indication that those assets may be impaired. If any such indication exists, the asset's recoverable amount, which is the higher of net selling price and value in use, is estimated.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statements, unless the asset is carried at revalued amount, in which case, the impairment loss is treated as a revaluation decrease.

An impairment loss in respect of other assets is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal is recognised in the income statements, unless it reverses an impairment loss on revalued assets, in which case, the reversal is treated as a revaluation increase.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Assets in progress is not depreciated. Depreciation of property, plant and equipment is computed on the straight-line method and the reducing balance method in order to write off the cost of each asset to its residual value over its estimated useful life.

The annual depreciation rates are as follows:

Straight line method	Rates
Short leasehold land	60 years & 50 years
Buildings	2%
Plant and machinery	9%, 12.5% & 20%
Factory equipment	9%, 20% & 33.3%
Air conditioners	9% & 10%
Furniture, fittings and office equipment	9% - 33.3%
Renovation	10%
Motor vehicles	9%, 20% & 25%
Electrical installations	10%
Reducing balance method	
Furniture, fittings and office equipment	16.7%
Motor vehicles	16.7%

Gains or losses arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Research and Development Costs

Research and development expenditure is written off as an expense except that certain development expenditure relating to specific projects intended for commercial exploitation and for which there is a clear indication of the marketability of the products being developed, is carried forward. Such deferred development expenditure will be amortised over the period of 4 years in which benefits are expected to be derived commencing in the period in which related sales are first made.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. Inventories are determined on the weighted average method and first-in, first-out method.

Cost of raw materials consists of purchase price plus the cost of bringing the inventories to their present location. Cost of work-in-progress and finished goods consists of the cost of raw materials, direct labour and an appropriate proportion of factory overheads. Goods-in-transit is stated at cost.

Receivables

Receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivables accounts.

Borrowings and Payables

Borrowings and payables are stated at cost.

Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by the employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the employees' provident fund. Such contributions are recognised as expenses in the income statements as incurred.

Certain subsidiary companies outside Malaysia contributed to money purchase pension schemes for employees. Pension costs represent contributions payable to the pension scheme and are recognised as expenses in the income statements as incurred.

(iii) Defined benefit plans

A subsidiary company outside Malaysia has a retirement benefit plan covering all of its employees. The scheme was valued by independent actuaries using the Projected Unit Credit method. The latest actuarial valuation is for the Group's obligation as of March 31, 2005.

The expected cost of providing pensions as calculated periodically by professionally qualified actuaries, is charged to the income statements so as to spread the cost over the service lives of employees in the scheme, in such a way that the pension cost is a percentage of current and expected future pensionable payroll.

Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the Scheme exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

(iv) Equity Compensation Benefits

The IQ Group Holdings Berhad's Employees' Share Option Scheme ("ESOS") allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

Hire-Purchase

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations are treated as liabilities. Interest is allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Leased Assets

Assets under leases which in substance transfer the risks and benefits of ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the fair value of the leased assets which approximates the present value of the minimum lease payments, at the beginning of the respective lease terms.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease period so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. All other leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.

Share Capital

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of the shares are accounted for as a deduction from share premium, otherwise the cost is charged to the income statements if there is insufficient share premium.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Company have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

9.3 PROPERTY, PLANT AND EQUIPMENT

Proforma Group

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Short leasehold land	2,506	364	2,142
Buildings	8,048	1,269	6,779
Plant and machinery	7,510	4,423	3,087
Factory equipment	31,393	12,996	18,397
Air conditioners	958	621	337
Furniture, fittings and office equipment	6,923	3,688	3,235
Renovation	1,823	723	1,100
Motor vehicles	3,252	1,397	1,855
Electrical installations	445	191	254
Assets in progress	500	-	500
	63,358	25,672	37,686

As of March 31, 2005, the unexpired lease periods of the two short leasehold land of the Group are 44 years.

As of March 31, 2005, certain motor vehicles of the Group with a total carrying value of RM289,000 were acquired under hire-purchase arrangements of which instalments are still outstanding.

Property, plant and equipment of the Group with a total carrying value of RM822,000 are pledged to a foreign licensed bank as securities for banking facilities mentioned in Note 9.17.

9.4 DEVELOPMENT COSTS

	Proforma Group RM'000
At cost:	
At beginning of year	3,952
Capitalised during the year	6,312
At end of year	10,264
Less: Amortisation of development costs	
At beginning of year	(1,420)
Amortisation during the year	(1,024)
At end of year	(2,444)
Exchange reserve	(2)
	7,818

9.5 INVENTORIES

	Proforma Group RM'000
At cost:	
Raw materials	12,565
Work-in-progress	2,433
Finished goods	10,652
Goods-in-transit	208
	25,858

The inventories with a total carrying value of RM11,900,000 are pledged to a foreign licensed bank as securities for the banking facilities mentioned in Note 9.17.

9.6 TRADE RECEIVABLES

	Proforma Group RM'000
Trade receivables	29,159
Less: Allowance for doubtful debts	(245)
	28,914

Trade receivables comprise amounts receivable for the sales of goods. The credit periods granted on sales of goods range from 7 to 90 days. An allowance has been made for estimated irrecoverable amounts from the sales of goods of RM245,000. This allowance has been determined by reference to past default experience.

Analysis of trade receivables by currencies:

	Proforma Group RM'000
Ringgit Malaysia	32
United States Dollar	18,176
Great Britain Pound	9,426
Japanese Yen	1,280
	28,914

9.7 OTHER RECEIVABLES AND PREPAID EXPENSES

	Proforma Group RM'000
Other receivables	412
Prepaid expenses	840
Refundable deposits	364
	1,616

Analysis of other receivables by currencies:

	Proforma Group RM'000
Ringgit Malaysia	184
Hong Kong Dollar	174
Renminbi Yuan	53
United States Dollar	1
	412

9.8 AMOUNT OWING BY A RELATED COMPANY

The amount by a related company, IQ (America) Inc. ("IQA") arose mainly from trade transactions. The credit period granted to IQA is 30 days.

The currency of the amount owing by a related company is in United States Dollar.

9.9 TRADE PAYABLES

Trade payables comprise amounts outstanding for trade purchases. The credit periods granted to the Group for trade purchases range from 5 to 90 days.

Analysis of trade payables by currencies:

	Proforma Group RM'000
Ringgit Malaysia	2,819
Hong Kong Dollar	3,828
United States Dollar	2,629
Great Britain Pound	943
Renminbi Yuan	568
New Taiwan Dollar	68
	10,855

9.10 OTHER PAYABLES AND ACCRUED EXPENSES

	Proforma Group RM'000
Other payables	3,591
Accrued expenses	4,454
	8,045

Other payables comprise mainly amounts outstanding for ongoing costs.

Analysis of other payables and accrued expenses by currencies:

	Proforma Group RM'000
Ringgit Malaysia	2,658
Great Britain Pound	2,585
Renminbi Yuan	950
United States Dollar	862
Hong Kong Dollar	707
Japanese Yen	275
Singapore Dollar	8
	8,045

9.11 AMOUNT OWING TO DIRECTORS

The amount owing to directors represent directors' remuneration payable to them.

9.12 HIRE-PURCHASE PAYABLES

	Proforma Group RM'000
Total outstanding	156
Less: Interest-in-suspense outstanding	(4)
Principal outstanding	152
Less: Portion due within one year	(148)
Non-current portion	4

The non-current portion is repayable in 2007.

It is the Group's policy to acquire certain of its property, plant and equipment under hire-purchase arrangements. The average term for hire-purchase is about 3 to 4 years. The effective borrowing rate is 7.6% per annum. Interest rate is fixed at the inception of the hire-purchase arrangements.

The Group's hire-purchase payables are secured by the financial institutions' charge over the assets under hire-purchase.

9.13 SHARE CAPITAL

	IQGHB		Proforma Group	
	No. of shares of RM1 each '000	RM'000	No. of shares of RM1 each '000	RM'000
Authorised:				
Shares:				
At end of year	100	100	100	100
Created on April 1, 2005	-	-	149,900	149,900
After corporate exercise	100	100	150,000	150,000
Issued and fully paid:				
Ordinary shares:				
At end of year	*	*	*	*
New shares issued pursuant to the Acquisition of IQM	-	-	71,994	71,994
Public Issue	-	-	13,006	13,006
ESOS	-	-	12,750	12,750
After corporate exercise	*	*	97,750	97,750

* The issued and fully paid share capital consists of 2 ordinary shares of RM1 each.

9.14 SHARE PREMIUM

Share premium arose from allotment of ordinary shares at premium net of share issue expenses.

9.15 DEFERRED TAX LIABILITIES

The deferred tax liabilities are in respect of the followings:

	Proforma Group RM'000
Tax effect of temporary differences between tax capital allowances and depreciation of property, plant and equipment	1,522
Tax effect of other temporary differences	(335)
	1,187

As mentioned in Note 9.2, the tax effects of temporary differences which would give rise to net deferred tax assets are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. As of March 31, 2005, the amount of deferred tax assets, calculated at applicable tax rates, which is not recognised in the financial statements, is as follows:

	Proforma Group RM'000
Tax effect of temporary differences between tax capital allowances and depreciation of property, plant and equipment	480
Tax effect of carryforward tax losses	1,253
Tax effect of other temporary differences	545
	2,278

9.16 PROVISION FOR RETIREMENT ALLOWANCE

The amount recognised in the statement of assets and liabilities is determined as follows:

	Proforma Group RM'000
Present value of the unfunded obligations	869
Fair value of the plan assets	-
	869
Unrecognised actuarial losses	-
Unrecognised past service cost	-
	869

Movement in the net liability in the current year is as follows:

	Proforma Group RM'000
At beginning of year	587
Provision made during the year	298
Payment made during the year	-
Exchange reserve	(16)
At end of year	869

Principal actuarial assumptions used:

	Proforma Group %
Discount rate	2
Expected rate of salary increases	5

9.17 BANKING FACILITIES

The Group has bank overdraft and other banking facilities which are generally covered by a negative pledge over a subsidiary company's assets and secured by a fixed and floating charge over the assets of another subsidiary company.

The bank overdraft and other banking facilities bear interests at rates ranging from 1.0% to 1.5% per annum above the lending banks' base lending rates and cost of funds.

9.18 LEASE COMMITMENTS

As of March 31, 2005, non cancellable long-term lease commitments in respect of rental of premises, land and building and office equipment are as follows:

	Proforma Group RM'000
Not later than 1 year	571
Later than 1 year and not later than 5 years	1,482
	2,053

9.19 CAPITAL COMMITMENTS

As of March 31, 2005, the Group's capital expenditures contracted but not provided for in the financial statements in respect of purchase of factory and office equipment amounted to approximately RM251,000.

10. CONSOLIDATED NET TANGIBLE ASSETS

Based on the statement of assets and liabilities of the Proforma Group as of March 31, 2005, the proforma consolidated net tangible assets per ordinary share of RM1 each is as follows:

	Proforma Group
Net tangible assets of IQGHB Group as of March 31, 2005 (RM'000)	107,830
Number of ordinary shares in issue as of March 31, 2005 ('000)	*
Issue of ordinary shares of RM1 each pursuant to the Acquisition of IQM ('000)	71,994
Public Issue ('000)	13,006
ESOS ('000)	12,750
Number of ordinary shares in issue after corporate exercise ('000)	97,750
Net tangible assets per ordinary share of the Proforma Group (RM)	1.10

* The number of ordinary shares in issue as of March 31, 2005 is 2 ordinary shares of RM1 each in IQGHB.

11. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to March 31, 2005.

Yours faithfully,

Deloitte KassimChan

DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants

LEE CHENG HEOH
2225/04/06(J)
Partner

Penang