

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

**PORTRADE**

Registered Office :  
F07, 1st Floor  
2300 Century Square  
Jalan Usahawan  
63000 Cyberjaya  
Selangor Darul Ehsan

20 December 2002

The Shareholders of  
Portrade dotcom Berhad ("Portrade" or "Company")

Dear Sir/ Madam

On behalf of the Board of Directors of Portrade, I report that after making due enquiries in relation to the interval between 30 June 2002, being the date to which the last audited accounts of Portrade and its subsidiary have been made up, and 20 December 2002, being a date not earlier than fourteen (14) days before the issue of this Prospectus that :-

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

Yours faithfully  
For and on behalf of the Board of Directors of  
**PORTRADE DOTCOM BERHAD**



Chua Boon Hua  
Executive Director/ Chief Executive Officer

**Portrade dotcom Bhd.** (517487-A)  
(Formerly known as Portrade dotcom Sdn. Bhd.)  
F07, 1st Floor, 2300 Century Square, Jalan Usahawan, 63000 Cyberjaya, Selangor, Malaysia.  
Tel: (603) 8318-3388 Fax: (603) 8318-1866



**14. ACCOUNTANTS' REPORT**  
(Prepared for inclusion in this Prospectus)

**ACCOUNTANTS' REPORT**  
(Prepared for inclusion in this Prospectus)

**Arthur Andersen & Co**  
Chartered Accountants

Level 2 B61 Taman Sri Sarawak Mall  
Jalan Tunku Abdul Rahman  
93100 Kuching Sarawak  
P O Box 2383  
93748 Kuching Sarawak  
Malaysia

Tel 6082 429822  
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18 December, 2002

The Board of Directors  
Portrade Dotcom Berhad  
F07 1<sup>st</sup> Floor  
2300 Century Square  
Jalan Usahawan  
63000 Cyberjaya  
Selangor Darul Ehsan

Dear Sirs,

This report has been prepared by us, an approved company auditor, for inclusion in the Prospectus of Portrade Dotcom Berhad ("Portrade" or "the Company") to be dated 31 December, 2002 in connection with the public issue of 13,300,000 new ordinary shares of RM0.10 each in Portrade at an issue price of RM0.30 per ordinary share ("Public Issue") and the listing of and quotation for its entire issued and fully paid-up share capital on the MESDAQ Market of the Kuala Lumpur Stock Exchange.

**A. GENERAL INFORMATION ON PORTRADE, ITS SUBSIDIARY, TRILLIUM SOLUTIONS SDN BHD ("TSSB") AND ITS ASSOCIATED COMPANIES, PORTRADE DOTCOM CO. LTD ("PDCL") AND PORTRADE PHILIPPINES, INC. ("PPI") ("PORTRADE GROUP")**

**1. PORTRADE**

Portrade was incorporated on 20 June, 2000 in Malaysia under the Companies Act, 1965 as a private limited company and was converted to a public limited company on 12 December, 2001.

Portrade is principally involved in the provision of information technology related products and services. On 16 July, 2001, the Company acquired the entire equity interest in TSSB from Malitnet Resources Sdn. Bhd. for a consideration of RM6,500,000.

The present authorised share capital of Portrade is RM20,000,000 comprising 200,000,000 ordinary shares of RM0.10 each. The issued and paid-up share capital is RM8,000,000, comprising 80,000,000 ordinary shares of RM0.10 each.

The movement in Portrade's authorised share capital since the date of incorporation is as follows:

	<b>Number of Ordinary Shares of RM1.00 each</b>
As at the date of incorporation	100,000
Created on 2 March, 2001	400,000
Created on 14 June, 2001	9,500,000
Created on 30 November, 2001	10,000,000
	<u>20,000,000</u>

**14. ACCOUNTANTS' REPORT (cont'd)**

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On 30 November, 2001, the authorised share capital of Portrade comprising 20,000,000 ordinary shares of RM1.00 each was sub-divided into 200,000,000 ordinary shares of RM0.10 each.

The movement in Portrade's issued and paid-up share capital since the date of incorporation is as follows:

<b>Date of Allotment</b>	<b>No. of shares</b>	<b>Par Value (RM)</b>	<b>Consideration</b>	<b>Resultant Issued and Paid-up share capital (cumulative) (RM)</b>
20.6.2000	2	1.00	Cash – Subscribers' shares	2
24.11.2000	99,998	1.00	Cash	100,000
2.3.2001	100,000	1.00	Cash	200,000
14.6.2001	1,000,000	1.00	Cash	1,200,000
20.6.2001	4,800,000	1.00	Cash	6,000,000
15.9.2001	2,000,000	1.00	Cash	8,000,000
30.11.2001	-	0.10	Share split	8,000,000

Upon completion of the Public Issue, the issued and paid-up capital of Portrade will be increased to RM9,330,000 by way of issue of 13,300,000 new Portrade shares of RM0.10 each at an issue price of RM0.30 per share.

**2. Subsidiary**

The information on the subsidiary, a private limited company incorporated in Malaysia, is as follows:

**TSSB**

TSSB was incorporated on 18 September, 1993 under the name of Gentle Reaction Sdn. Bhd. On 28 January, 1997, Gentle Reaction Sdn. Bhd. changed its name to Malitnet Consultancy Sdn. Bhd. On 15 October, 2002, the name was changed to Trillium Solutions Sdn. Bhd.

TSSB's principal activities are provision of information technology related products and services.

The present authorised share capital of TSSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital is RM250,000, comprising 250,000 ordinary shares of RM1.00 each.

**14. ACCOUNTANTS' REPORT (cont'd)**

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The movement in TSSB's authorised share capital since the date of incorporation is as follows:

	<b>Number of Ordinary Shares of RM1.00 each</b>
As at the date of incorporation	100,000
Created on 1 July, 1997	400,000
Total authorised share capital as at 30 June, 2001	<u>500,000</u>

The movement in the issued and paid-up share capital of TSSB since incorporation is as follows:

	<b>Number of Ordinary Shares of RM1.00 each</b>
Subscribers' shares	2
Issued on 1 July, 1997 for capitalisation of outstanding balances due to shareholders	249,998
Total issued and paid-up share capital as at 30 June, 2001	<u>250,000</u>

**3. Associated Companies**

The information on the associated companies is as follows:

**PDCL**

PDCL was incorporated on 5 April, 2002 in Thailand and its principal activities are marketing and provision of information technology related products and services in Thailand.

**PPI**

PPI was incorporated on 28 October, 2002 in Philippines and its principal activities are marketing and provision of information technology related products and services in Philippines.

**B. AUDITORS AND AUDITED FINANCIAL STATEMENTS**

We have been the auditors of Portrade and TSSB for the entire period under review and the financial statements of Portrade and TSSB were reported on without any qualification.

**C. ACCOUNTING POLICIES AND STANDARDS**

The report is prepared on a basis consistent with accounting policies normally adopted by Portrade and TSSB and in accordance with Malaysian Accounting Standards Board ("MASB") standards.

**14. ACCOUNTANTS' REPORT (cont'd)**

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**D. SUMMARISED INCOME STATEMENTS****1. Portrade Group – Summarised Pro forma Consolidated Results**

We set out below the summarised pro forma consolidated results of Portrade Group for the four financial years ended 31 December, 1997 to 31 December, 2000, six months' period ended 30 June, 2001 and the audited results for the financial year ended 30 June, 2002.

	←-----Pro forma----->					Audited
	Financial Year Ended 31 December				Six Months Period Ended 30 June,	Financial Year Ended 30 June,
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	2,425	890	1,591	903	2,505	7,854
Earnings before interest, depreciation, amortisation and taxation	(77)	290	729	(304)	1,197	2,101
Interest	(6)	(5)	(13)	(40)	(3)	(14)
Depreciation	(20)	(17)	(22)	(21)	(143)	(574)
Amortisation	(33)	(162)	(214)	(182)	(26)	(1,309)
(Loss)/profit before share of results of associated company and taxation	(136)	106	480	(547)	1,025	204
Share of results of associated company	-	-	-	-	-	(10)
(Loss)/profit before taxation	(136)	106	480	(547)	1,025	194
Taxation	-	-	(48)	48	(130)	(50)
(Loss)/profit after taxation	(136)	106	432	(499)	895	144
Number of ordinary shares assumed in issue ('000)	80,000	80,000	80,000	80,000	80,000	80,000
Gross earnings per share (Sen)	(0.17)	0.13	0.60	(0.68)	2.56*	0.24
Net earnings per share (Sen)	(0.17)	0.13	0.54	(0.62)	2.24*	0.18
Enlarged number of ordinary shares after Public Issue ('000)	93,300	93,300	93,300	93,300	93,300	93,300
Gross earnings per share after Public Issue (Sen)	(0.15)	0.11	0.51	(0.59)	2.20*	0.21
Net earnings per share after Public Issue (Sen)	(0.15)	0.11	0.46	(0.53)	1.92*	0.15
Gross dividend rate (%)	Nil	Nil	Nil	Nil	Nil	Nil

\* Annualised

**14. ACCOUNTANTS' REPORT (cont'd)**

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## Notes:

- (i) The pro forma consolidated financial results of Portrade Group for the financial years ended 31 December, 1997 to 2000 and six months period ended 30 June, 2001 have been prepared for illustrative purposes only, on the assumption that the Portrade Group had been in existence throughout the period under review, based on the audited financial statements of Portrade and TSSB. The effects of goodwill on consolidation and pre-acquisition profit were not taken into account in the above pro forma consolidated financial results.
- (ii) Portrade was incorporated on 20 June, 2000 and, thus, the proforma consolidated results of Portrade Group for the financial years ended 31 December, 1997 to 1999 comprise the financial results of TSSB only.
- (iii) In 1997, the Group's revenue was generated from the provision of handheld billing system, council system and software maintenance revenue. Nevertheless, substantial costs were incurred for software, cabling and hardware and increased manpower also resulted in higher staff costs. As a result, the Group incurred a loss of approximately RM136,000 for the year.
- (iv) In 1998, the Group's revenue was generated from the projects carried forward from 1997. The lack of new projects during the year resulted in a 63% drop in revenue. Nevertheless, as the Group started development of software for use in the port environment, most of the related costs were capitalised into software development costs and the Group was able to turnaround and achieve a profit of approximately RM106,000.
- (v) The revenue increased by 79% in year 1999 as compared to the year 1998 and profit before taxation was approximately RM480,000 for the year 1999. The high revenue for this particular year was mainly due to securing projects from ports operators for implementing new IT projects and upgrading of existing system as the year 2000 drew near.
- (vi) The revenue for the financial year 2000 were mainly derived from systems maintenance and upgrade for the co-operative organisations and ports in Sabah. The Group incurred a loss before taxation of RM547,000 mainly because of high staff cost and lack of new projects.
- (vii) For the six months period ended 30 June, 2001, the revenue of the Portrade Group were mainly derived from the ports in Sabah, handheld billing system and council system projects. These projects contributed to about 85% of the revenue. In addition, in-house developed software also lowered the costs of implementing these projects. Similarly, there was no major cost incurred for the handheld and council system projects. Nevertheless, staff costs remained high for the implementation of the port project in Sabah. The Group achieved a pre-tax profit of RM1.0 million for the six months period.

**14. ACCOUNTANTS' REPORT (cont'd)**

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- (viii) Revenue for the year 2002 increased significantly mainly due to securing of new project from Sabah Port Authority. However, the group profit before taxation was RM194,000 for the year 2002 as compared to RM1.0 million for the six months period ended 30 June, 2001 mainly because of writing off of goodwill arising on consolidation amounting to RM1.1 million in year 2002.
- (ix) For year 1999, the effective tax rate is lower than the statutory tax rate applicable because the tax payable is waived in accordance with the Income Tax (Amendment) Act, 1999. The tax charge for the year was in respect of deferred taxation. For year 2000, the taxation charge was in respect of reversal of deferred taxation charged in prior year. For years 2001 and 2002, the effective tax rate is lower than the statutory tax rate applicable because Portrade is exempted from tax in respect of its statutory business income as the Company is granted MSC (Multimedia Super Corridor) status with Pioneer Status Tax Incentive for 5 years beginning 25 April, 2001.
- (x) There were no extraordinary items for the above reporting periods under review.

**2. Portrade**

The Company was incorporated on 20 June, 2000 and its first set of audited financial statements was made up to 30 June, 2001. The results of Portrade based on the audited income statement for the financial period from the date of incorporation 20 June, 2000 to 30 June, 2001 and year ended 30 June, 2002 are as follows:

	<b>Year Ended 30 June</b>	
	<b>2001</b>	<b>2002</b>
	<b>RM'000</b>	<b>RM'000</b>
Revenue	<u>1,400</u>	<u>6,405</u>
Earnings before interest, depreciation, amortisation and taxation	304	627
Interest	-	(6)
Depreciation	(132)	(551)
Amortisation	-	(158)
Profit/(loss) before taxation	<u>172</u>	<u>(88)</u>
Taxation	-	-
Profit/(loss) after taxation	<u>172</u>	<u>(88)</u>
Number of ordinary shares in issue ('000)	6,000	80,000
Weighted average number of shares ('000)	276	75,890
Gross earnings per share (RM)	0.62	0.00
Net earnings per share (RM)	0.62	0.00
Gross dividend rate (%)	Nil	Nil

Notes:

- (i) For the financial period ended 30 June, 2001, Portrade achieved a profit before taxation of RM172,000. The revenue of RM1.4 million was derived from consultancy fees for the Kota Kinabalu Port project.

**14. ACCOUNTANTS' REPORT (cont'd)**

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- (ii) The increase in revenue for the financial year ended 30 June, 2002 was due to securing new project with the Sabah Port Authority (SPA). This SPA project was subcontracted from TSSB. However, Portrade incurred a loss before taxation of RM88,000 for 2002 compared to profit before taxation of RM172,000 for 2001 due to provision for diminution in value of investment in subsidiary amounting to RM1.3million during the year 2002.
- (iii) There was no tax charge for Portrade as Portrade is exempted from tax in respect of its statutory business income as the Company is granted MSC (Multimedia Super Corridor) status with Pioneer Status Tax Incentive for 5 years beginning 25 April, 2001.
- (iv) There were no extraordinary items for the above reporting periods under review.

**3. TSSB**

The summarised income statements of TSSB for the past four financial years ended 31 December, 1997 to 31 December, 2000, six months' period ended 30 June, 2001 and the year ended 30 June, 2002 are as follows:

	Financial Year Ended 31 December				Six Months Period Ended 30 June,	Year Ended 30 June,
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	2,425	890	1,591	903	1,105	7,061
Earnings before interest, depreciation, amortisation and taxation	(77)	290	729	92	497	174
Interest	(6)	(5)	(13)	(40)	(3)	(8)
Depreciation	(20)	(17)	(22)	(21)	(11)	(22)
Amortisation	(33)	(162)	(214)	(182)	(26)	(26)
(Loss)/profit before taxation	(136)	106	480	(151)	457	118
Taxation	-	-	(48)	48	(130)	(50)
(Loss)/profit after taxation	(136)	106	432	(103)	327	68
Number of ordinary shares in issue ('000)	250	250	250	250	250	250
Weighted average number of shares ('000)	126	250	250	250	250	250
Gross earnings per share (RM)	(1.08)	0.42	1.92	(0.60)	3.66*	0.47
Net earnings per share (RM)	(1.08)	0.42	1.73	(0.41)	2.62*	0.27
Gross dividend rate (%)	Nil	Nil	Nil	Nil	Nil	Nil

\* Annualised



**14. ACCOUNTANTS' REPORT (cont'd)**

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## Notes:

- (i) In 1997, TSSB's revenue was generated from the provision of handheld billing system, council system and software maintenance revenue. Nevertheless, substantial costs were incurred for software, cabling and hardware and increased manpower also resulted in higher staff costs. As a result, TSSB incurred a loss of approximately RM136,000 for the year.
- (ii) In 1998, TSSB's revenue was generated from the projects carried forward from 1997. The lack of new project during the year resulted in a 63% drop in revenue. Nevertheless, as TSSB started development on software for use in the port environment, most of the related costs were capitalised into software development costs and TSSB was able to turnaround and achieve a profit of approximately RM106,000.
- (iii) The revenue increased by 79% in year 1999 as compared to the year 1998 and profit before taxation was approximately RM480,000 for the year 1999. The high revenue for this particular year was mainly due to securing projects from ports operators for implementing new IT projects and upgrading of existing system as the year 2000 drew near.
- (iv) The revenue for the financial year 2000 were mainly derived from systems maintenance and upgrade for the co-operative organisations and ports in Sabah. TSSB incurred a loss before taxation of RM151,000 during the year mainly due to high staff costs and lack of new projects.
- (v) For the six months period ended 30 June, 2001, TSSB achieved a revenue of RM1,105,000 as compared to RM903,000 for the twelve months ended 31 December, 2000. The significant increase in revenue was mainly due to securing new project for the supply and delivery of hardware for the handheld billing system. TSSB made a profit before taxation of RM457,000 for the six months period ended 30 June, 2001 due to the reduction of staff costs and other operating expenses as majority of the staffs were transferred to Portrade during the period.
- (vi) Revenue for the year 2002 increased significantly mainly due to securing of new project from Sabah Port Authority. However, TSSB made a profit before taxation of RM118,000 during the year 2002 as compared to RM457,000 for the six months period ended 30 June, 2001 mainly due to low profit margin for the Sabah Port Authority project and additional costs incurred for assisting in strategic planning, marketing and software support.
- (vii) For year 1999, the effective tax rate is lower than the statutory tax rate applicable because the tax payable is waived in accordance with the Income Tax (Amendment) Act, 1999. The tax charge for the year was in respect of deferred taxation. For year 2000, the taxation charge was in respect of reversal of deferred taxation charged from prior year. For year 2002, the effective tax rate is higher than the statutory tax rate applicable mainly due to certain expenses being disallowed for taxation purposes.
- (viii) There were no extraordinary items for the above reporting periods under review.

**14. ACCOUNTANTS' REPORT (cont'd)**

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**E. SUMMARISED BALANCE SHEETS****1. Summarised balance sheets of Portrade and its subsidiary**

We set out below the summarised balance sheets of Portrade and its subsidiary based on the audited accounts for the last four financial years as at 31 December, 1997 to 31 December, 2000 and as at 30 June, 2001 and 30 June, 2002.

**1.1 Portrade**

	<b>As at 30 June</b>	
	<b>2001</b>	<b>2002</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	3,425	2,965
Deferred expenditure	474	2,232
Subsidiary	-	5,200
Associated company	-	32
	<u>3,899</u>	<u>10,429</u>
<b>CURRENT ASSETS</b>		
Trade receivables	403	1,006
Other receivables	32	612
Cash and bank balances	2,361	780
	<u>2,796</u>	<u>2,398</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	479	765
Other payables	44	1,678
	<u>523</u>	<u>2,443</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<u>2,273</u>	<u>(45)</u>
	<u>6,172</u>	<u>10,384</u>
<b>FINANCED BY:</b>		
Share capital	6,000	8,000
Retained profits	172	83
Shareholders' equity	<u>6,172</u>	<u>8,083</u>
Long term payable	-	2,240
Hire purchase payables	-	61
Non-current liabilities	<u>-</u>	<u>2,301</u>
	<u>6,172</u>	<u>10,384</u>
Net tangible assets (RM'000)	5,698	5,851
Net tangible assets per ordinary share (RM)	0.95	0.07

Note :

Portrade was incorporated on 20 June, 2000 and its first set of accounts was made up to 30 June, 2001.

**14. ACCOUNTANTS' REPORT (cont'd)**

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**1.2 TSSB**

	<-----As at 31 December----->				As at	As at
	1997	1998	1999	2000	30 June, 2001	30 June, 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>NON-CURRENT ASSETS</b>						
Property, plant and equipment	101	113	92	86	76	60
Deferred expenditure	65	291	234	52	26	-
Subsidiary	-	-	67	-	-	-
	<u>166</u>	<u>404</u>	<u>393</u>	<u>138</u>	<u>102</u>	<u>60</u>
<b>CURRENT ASSETS</b>						
Trade receivables	217	906	470	652	148	1,582
Other receivables	141	200	583	791	889	1,097
Cash and bank balances	10	3	41	12	33	80
	<u>368</u>	<u>1,109</u>	<u>1,094</u>	<u>1,455</u>	<u>1,070</u>	<u>2,759</u>
<b>CURRENT LIABILITIES</b>						
Trade payables	66	137	83	39	28	1,340
Other payables	279	1,080	656	980	150	424
Taxation	-	-	-	-	115	105
	<u>345</u>	<u>1,217</u>	<u>739</u>	<u>1,019</u>	<u>293</u>	<u>1,869</u>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>						
	<u>23</u>	<u>(108)</u>	<u>355</u>	<u>436</u>	<u>777</u>	<u>890</u>
	<u>189</u>	<u>296</u>	<u>748</u>	<u>574</u>	<u>879</u>	<u>950</u>
<b>FINANCED BY:</b>						
Share capital	250	250	250	250	250	250
(Accumulated losses)/retained profits	(136)	(30)	402	299	626	694
Shareholders' equity	<u>114</u>	<u>220</u>	<u>652</u>	<u>549</u>	<u>876</u>	<u>944</u>
Hire purchase payables	75	76	48	25	-	-
Deferred taxation	-	-	48	-	3	6
Non-current liabilities	<u>75</u>	<u>76</u>	<u>96</u>	<u>25</u>	<u>3</u>	<u>6</u>
	<u>189</u>	<u>296</u>	<u>748</u>	<u>574</u>	<u>879</u>	<u>950</u>

**14. ACCOUNTANTS' REPORT (cont'd)**

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**F. STATEMENT OF ASSETS AND LIABILITIES OF PORTRADE GROUP AS AT 30 JUNE, 2002**

The following statement of assets and liabilities has been prepared based on the audited financial statements of Portrade and TSSB as at 30 June, 2002 and should be read in conjunction with the notes thereto.

	Note	Audited as at 30 June, 2002 RM'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	2	3,025
Deferred expenditure	3	2,232
Associated company	4	21
Goodwill arising on consolidation	5	4,499
		<u>9,777</u>
<b>CURRENT ASSETS</b>		
Trade receivables	6	1,643
Other receivables	7	1,447
Cash and bank balances	8	860
		<u>3,950</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	9	1,160
Other payables	10	1,839
Taxation		105
		<u>3,104</u>
<b>NET CURRENT ASSETS</b>		<u>846</u>
		<u>10,623</u>
<b>FINANCED BY:</b>		
Share capital	11	8,000
Retained profits		316
Shareholders' equity		<u>8,316</u>
Long term payable	12	2,240
Hire purchase payables	13	61
Deferred taxation	14	6
Non-current liabilities		<u>2,307</u>
		<u>10,623</u>
<b>Net tangible assets per ordinary share (RM)</b>		<u>0.02</u>

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**14. ACCOUNTANTS' REPORT (cont'd)**

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Arthur Andersen & Co

**G. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The statement of assets and liabilities have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

**(b) Revenue Recognition**

**(i) Sales of goods**

Revenue relating to sales of goods is recognised net of discounts when transfer of risks and rewards have been completed.

**(ii) Revenue from services**

Revenue from services rendered is recognised net of discounts as and when the services are performed.

**(c) Basis of Consolidation**

The consolidated statement of assets and liabilities have been prepared based on the audited financial statements of Portrade and TSSB as at 30 June, 2002.

Subsidiaries are those companies in which Portrade Group has power to exercise control over the financial and operating policies so as to obtain benefit therefrom. Companies acquired or disposed are included in the consolidated financial statements from the date of acquisition or to the date of disposal. Subsidiaries are consolidated using the acquisition method of accounting.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The difference between the cost of an acquisition over the fair value of the Portrade Group's share of the net assets of acquired subsidiaries at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation and is amortised or credited to income statement over 5 years. Goodwill on consolidation is reviewed at each balance sheet date and will be written down for impairment where it is considered necessary.

**(d) Associated Companies**

Portrade Group treats as associated companies those companies in which Portrade Group has a long term equity interest and where it exercises significant influence over the financial and operating policies.

Investments in associated companies are accounted for in the consolidated statement of assets and liabilities by the equity method of accounting based on the audited or management financial statements of the associated companies.

**14. ACCOUNTANTS' REPORT (cont'd)**

Arthur Andersen &amp; Co

**1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(d) Associated Companies (Cont'd)**

Portrade Group's share of post acquisition profits less losses of associated companies is included in the consolidated income statement and Portrade Group's interest in associated companies is stated at cost plus Portrade Group's share of post acquisition retained profits and reserves.

Unrealised gains on transactions between Portrade Group and the associated companies are eliminated to the extent of Portrade Group's interest in the associated companies. Unrealised losses are eliminated unless cost cannot be recovered.

**(e) Investments**

Investments in subsidiary and associated company are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

**(f) Property, Plant and Equipment and Depreciation**

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

Depreciation of property, plant and equipment is provided on a straight line basis to write off the cost of each asset to their residual value over the estimated useful life at the following annual rates :

Computer equipment	15% - 16%
Furniture, fittings & equipment	8% - 10%
Motor vehicles	15%
Renovation	10%

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

**(g) Deferred Expenditure**

Deferred expenditure comprises costs incurred on software development and Web-portal development costs and are amortised over three years.

**14. ACCOUNTANTS' REPORT (cont'd)**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(h) Deferred Taxation**

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse.

**(i) Finance Lease and Hire Purchase**

A lease is recognised as a finance lease if it transfers substantially to Portrade Group all the risks and rewards incident to ownership.

Portrade Group recognises finance leases as assets and liabilities in the balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased asset is consistent with that for depreciable property, plant and equipment as described in Note 2(f).

**(j) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and at banks and deposits at call and short term highly liquid investments which have an insignificant risk of changes in value.

**(k) Trade and Other Receivables**

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

**(l) Currency Conversion and Translation**

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

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used is as follows:

	<b>RM</b>
Thai Baht	0.11

**14. ACCOUNTANTS' REPORT (cont'd)**

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**2. PROPERTY, PLANT AND EQUIPMENT**

<b>Portrade Group</b>	<b>Computer equipment RM'000</b>	<b>Furniture, fittings &amp; equipment RM'000</b>	<b>Office renovation RM'000</b>	<b>Motor vehicles RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>					
At 1 July, 2001	3,239	44	247	28	3,558
Acquisition of subsidiary's assets	118	46	-	-	164
Additions	93	1	22	123	239
Disposals	(140)	-	-	-	(140)
Written off	-	(2)	-	-	(2)
At 30 June, 2002	3,310	89	269	151	3,819
<b>Accumulated Depreciation</b>					
At 1 July, 2001	113	2	15	2	132
Acquisition of subsidiary's assets	76	12	-	-	88
Charge for the year	524	8	26	16	574
At 30 June, 2002	713	22	41	18	794
<b>Net Book Value</b>					
At 30 June, 2002	2,597	67	228	133	3,025

Net book value of property, plant and equipment held under hire purchase agreements are as follows :

	<b>Portrade Group RM'000</b>
Computer equipment	26
Motor vehicles	109
	<u>135</u>



**14. ACCOUNTANTS' REPORT (cont'd)**

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**3. DEFERRED EXPENDITURE**

	<b>Portrade Group</b> <b>RM'000</b>
At Cost:	
Software development costs	2,949
Web-portal development costs	84
	<u>3,033</u>
Less : Cumulative amortisation	(801)
	<u><u>2,232</u></u>

Included in deferred expenditure are the following charges made during the financial year:

	<b>Portrade Group</b> <b>RM'000</b>
Staff costs	1,487
Director's salaries	120
Rental of premises	21
	<u>21</u>

**4. ASSOCIATED COMPANY**

	<b>Portrade Group</b> <b>RM'000</b>
Interest in associated company	
Unquoted share at cost	31
Share of post-acquisition losses	(10)
	<u>21</u>
Represented by:	
Share of net tangible assets	21
	<u>21</u>

The associated company is :

<b>Name of Company</b>	<b>Country of Incorporation</b>	<b>Effective Interest (%)</b>	<b>Financial Year End</b>	<b>Principal Activity</b>
Portrade Dotcom Co. Ltd.	Thailand	49	30 June	Marketing and provision of information technology related products and services

**14. ACCOUNTANTS' REPORT (cont'd)**

Arthur Andersen &amp; Co

**5. GOODWILL ARISING ON CONSOLIDATION**

	<b>Portrade Group</b> <b>RM'000</b>
At 1 July	-
Arising from acquisition of subsidiary	5,624
	<hr/> 5,624
Less: Accumulated amortisation	(1,125)
At 30 June	<hr/> 4,499 <hr/>

**6. TRADE RECEIVABLES**

	<b>Portrade Group</b> <b>RM'000</b>
Due from companies in which certain directors have substantial financial interests	1,208
Trade receivables	450
Less : Provision for doubtful debts	(15)
	<hr/> 1,643 <hr/>

The amount due from companies in which certain directors have substantial financial interest is unsecured, interest-free and has no fixed terms of repayment.

**7. OTHER RECEIVABLES**

	<b>Portrade Group</b> <b>RM'000</b>
Due from associated company	19
Due from companies in which certain directors have substantial financial interests	1,097
Prepayment for corporate listing expenses	300
Deposits	31
	<hr/> 1,447 <hr/>

The amount due from associated company and companies in which certain directors have substantial financial interests are unsecured, interest-free and have no fixed terms of repayment.

**14. ACCOUNTANTS' REPORT (cont'd)**

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**8. CASH AND BANK BALANCES**

	<b>Portrade Group</b> <b>RM'000</b>
Cash on hand and at banks	173
Deposits with licensed banks	687
	<u>860</u>

Deposits with licensed banks amounting to RM330,707 are pledged to banks for credit facilities granted.

**9. TRADE PAYABLES**

	<b>Portrade Group</b> <b>RM'000</b>
Due to companies in which certain directors have substantial financial interests	149
Trade payables	1,011
	<u>1,160</u>

The amount due to companies in which certain directors have substantial financial interests is unsecured, interest-free and has no fixed terms of repayment.

**10. OTHER PAYABLES**

	<b>Portrade Group</b> <b>RM'000</b>
Due to shareholder	36
Due to companies in which certain directors have substantial financial interests	1,205
Hire purchase payables (Note 13)	34
Other payables and accruals	564
	<u>1,839</u>

The amount due to shareholder and companies in which certain directors have substantial financial interests are unsecured, interest-free and have no fixed terms of repayment.

**14. ACCOUNTANTS' REPORT (cont'd)**

Arthur Andersen &amp; Co

**11. SHARE CAPITAL**

<b>Portrade Group</b>	<b>No. of shares '000</b>	<b>RM'000</b>
Authorised:		
Ordinary shares of RM1.00 each as at 30 June, 2001	10,000	10,000
Created on 15 September, 2001	10,000	10,000
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 10 ordinary shares of RM0.10 each	180,000	-
Number of ordinary shares of RM0.10 each as at 30 June, 2002	200,000	20,000
Issued and fully paid :		
Number of ordinary shares of RM1.00 each in issue as at 30 June, 2001	6,000	6,000
Issued and paid-up during the year	2,000	2,000
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 10 ordinary shares of RM0.10 each	72,000	-
Number of ordinary shares of RM0.10 each as at 30 June, 2002	80,000	8,000

**12. LONG TERM PAYABLE**

The amount payable is in respect of acquisition of entire equity interest in TSSB, a company incorporated in Malaysia, for a consideration of RM6,500,000 of which RM4.26 million was paid by cash and the payment of the remaining RM2.24 million will be deferred for three years.

**13. HIRE PURCHASE PAYABLES**

	<b>Portrade Group RM'000</b>
Future minimum payments:	
Payable within one year	41
Payables between one and five years	66
	107
Less: Finance charges	(12)
	95
Representing hire purchase liabilities:	
Due within 12 months (Note 10)	34
Due after 12 months	61
	95

**14. ACCOUNTANTS' REPORT (cont'd)**

Arthur Andersen &amp; Co

**14. DEFERRED TAXATION**

	<b>Portrade Group</b>
	<b>RM'000</b>
At 1 July	-
Acquisition from subsidiary	3
Transfer from income statement	3
At 30 June	<u>6</u>

**15. CONTINGENT LIABILITY**

The Portrade Group has a contingent liability amounting to RM350,000 to a third party being the balance not accrued for in the financial statements relating to a disputed liability for consultancy fees. The Directors are presently negotiating an amicable settlement with the party involved and are of the opinion that the chances of such claims succeeding are remote.

**16. PRO FORMA NET TANGIBLE ASSETS COVER**

Based on the statement of assets and liabilities as at 30 June, 2002 and after adjusting for the Public Issue and estimated listing expenses, the pro forma consolidated net tangible assets cover will be as follows:

	<b>RM</b>
Net tangible assets of Portrade Group as at 30 June, 2002	8,316,000
Less: Deferred expenditure	(2,232,000)
Goodwill arising on consolidation	(4,499,000)
Add: Proceeds from Public Issue	3,990,000
Less: Estimated listing expenses	(950,000)
Adjusted net tangible assets	<u>4,625,000</u>
Number of ordinary shares of RM0.10 each after Public Issue	<u>93,300,000</u>
Pro forma net tangible assets per ordinary share (RM)	<u>0.05</u>

**14. ACCOUNTANTS' REPORT (cont'd)**

Arthur Andersen &amp; Co

**17. CASH FLOW STATEMENT OF PORTRADE GROUP FOR THE YEAR ENDED 30 JUNE, 2002**

The following cash flow statement has been prepared based on the audited financial statements of Portrade and TSSB as at 30 June, 2002.

	Note	Portrade Group RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation		194
Adjustment for :		
Bad debts written off		1
Depreciation		574
Property, plant and equipment written off		1
Interest income		(7)
Interest expense		14
Share of results of associated company		10
Amortisation of deferred expenditure		184
Amortisation of goodwill		1,125
Operating profit before working capital changes		<u>2,096</u>
Increase in receivables		(1,619)
Increase in payables		4,561
Cash generated from operations		<u>5,038</u>
Interest paid		(14)
Taxes paid		(57)
Net cash generating from operating activities		<u>4,967</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of subsidiary net of cash acquired	18	(6,467)
Purchase of shares in associated company		(31)
Proceeds from disposal of property, plant and equipment		140
Deferred expenditure incurred		(1,916)
Interest received		7
Purchase of property, plant and equipment		(239)
Net cash used in investing activities		<u>(8,506)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Drawdown of hire purchase		108
Repayment of hire purchase payables		(70)
Proceeds from issuance of shares		2,000
Net cash generated from financing activities		<u>2,038</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,501)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>2,361</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>860</u>

14. ACCOUNTANTS' REPORT (cont'd)

Arthur Andersen & Co

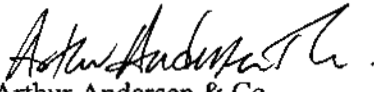
18. SUMMARY OF THE EFFECTS OF ACQUISITION OF TSSB NET OF CASH ACQUIRED


	Portrade Group RM'000
Assets	1,172
Liabilities	(296)
Net assets	<u>876</u>
Goodwill on consolidation	5,624
Total purchase consideration	<u>6,500</u>
Less: Cash and cash equivalents acquired	(33)
Net cash outflow on acquisition	<u>6,467</u>

19. FINANCIAL STATEMENTS

No audited financial statements of Portrade and TSSB have been prepared in respect of any period subsequent to 30 June, 2002.

Yours faithfully

  
Arthur Andersen & Co.  
No. AF 0103  
Chartered Accountants

  
Chin Mai Khiong Peter  
No. 1881/03/04 (J)  
Partner of the Firm

**15. PROFORMA BALANCE SHEET AND REPORTING ACCOUNTANTS' LETTER THEREON**

(Prepared for inclusion in this Prospectus)

**Arthur Andersen & Co**  
Chartered Accountants

Level 2 B61 Taman Sri Sarawak Mall  
Jalan Tunku Abdul Rahman  
93100 Kuching Sarawak  
P O Box 2383  
93748 Kuching Sarawak  
Malaysia

Tel 6082 429822  
Fax 6082 429823

**REPORTING ACCOUNTANTS' LETTER ON THE  
PRO FORMA CONSOLIDATED BALANCE SHEET**

(Prepared for inclusion in the Prospectus to be dated 31 December, 2002)

18 December, 2002

The Board of Directors  
Portrade Dotcom Berhad  
F07, 1<sup>st</sup> Floor  
2300 Century Square  
Jalan Usahawan  
63000 Cyberjaya  
Selangor Darul Ehsan

Dear Sirs,

**PORTRADE DOTCOM BERHAD ("Portrade")  
PRO FORMA CONSOLIDATED BALANCE SHEET AS AT 30 JUNE, 2002**

We have reviewed the presentation of the pro forma consolidated balance sheet of Portrade as at 30 June, 2002 together with the notes thereon, for which the Directors are solely responsible, as set out in the Prospectus to be dated 31 December, 2002 in connection with the public issue of 13,300,000 new ordinary shares of RM0.10 per share at an issue price of RM0.30 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of Portrade on the MESDAQ Market of the Kuala Lumpur Stock Exchange ("Public Issue").

In our opinion, the pro forma consolidated balance sheet of Portrade as at 30 June, 2002, which is provided for illustrative purposes only, has been properly compiled to reflect the transactions as referred to in the notes to the pro forma consolidated balance sheet.

This letter has been prepared solely for inclusion in the Prospectus as referred to above and should not be used for any other purpose.

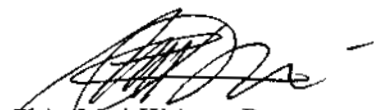
Yours faithfully



Arthur Andersen & Co.

No. AF 0103

Chartered Accountants



Chin Mui Khiong Peter

No. 1881/03/04 (J)

Partner of the Firm



Arthur Andersen &amp; Co

## Appendix

**PORTRADE DOTCOM BERHAD**  
**PRO FORMA CONSOLIDATED BALANCE SHEET**

The pro forma consolidated balance sheet has been prepared solely to illustrate the pro forma effect of the Public Issue on Portrade as at 30 June, 2002, on the assumption that the Public Issue as set out in the notes below were effected on that date.

	<b>Audited as at 30 June, 2002 RM'000</b>	<b>Pro forma RM'000</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	3,025	3,025
Deferred expenditure	2,232	2,232
Associated company	21	21
Goodwill arising on consolidation	4,499	4,499
	<u>9,777</u>	<u>9,777</u>
<b>CURRENT ASSETS</b>		
Trade receivables	1,643	1,643
Other receivables	1,447	1,147
Cash and bank balances	860	4,200
	<u>3,950</u>	<u>6,990</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	1,160	1,160
Other payables	1,839	1,839
Taxation	105	105
	<u>3,104</u>	<u>3,104</u>
<b>NET CURRENT ASSETS</b>	<u>846</u>	<u>3,886</u>
	<u>10,623</u>	<u>13,663</u>
<b>FINANCED BY:</b>		
Share capital	8,000	9,330
Share premium	-	1,710
Retained profits	316	316
Shareholders' equity	<u>8,316</u>	<u>11,356</u>
Long term payable	2,240	2,240
Hire purchase payables	61	61
Deferred taxation	6	6
Non-current liabilities	<u>2,307</u>	<u>2,307</u>
	<u>10,623</u>	<u>13,663</u>
<b>Net Tangible Assets ("NTA")</b>	1,585	4,625
<b>NTA per ordinary share (RM)</b>	<u>0.02</u>	<u>0.05</u>

Arthur Andersen &amp; Co

## Appendix (Cont'd)

**PORTRADE DOTCOM BERHAD**  
**NOTES TO THE PRO FORMA CONSOLIDATED BALANCE SHEET**

**1. BASIS OF PREPARATION**

The pro forma consolidated balance sheet of Portrade as presented has been prepared for illustrative purposes only, based on the audited consolidated balance sheet of Portrade as at 30 June, 2002 on the assumption that the Public Issue were effected on that date.

The accounting policies and bases are consistent with those normally adopted in the preparation of audited consolidated financial statements of Portrade.

**2. PRO FORMA - LISTING OF PORTRADE ON THE MESDAQ MARKET OF THE KUALA LUMPUR STOCK EXCHANGE**

The pro forma consolidated balance sheet incorporates the Public Issue of 13,300,000 new ordinary shares of RM0.10 each in Portrade at an issue price of RM0.30 per share. The estimated listing expenses of RM950,000 is netted-off against the share premium account arising from the Public Issue.

**3. SHARE CAPITAL**

The movements in share capital resulting from the implementation of the Public Issue are summarised as follows:-

	RM	No. of Paid-up Ordinary Shares
Audited as at 30 June, 2002	8,000,000	80,000,000
Pro forma	1,330,000	13,300,000
	<u>9,330,000</u>	<u>93,300,000</u>

**4. SHARE PREMIUM ACCOUNT**

The movements in the share premium account resulting from the implementation of the Public Issue are summarised as follows:-

	RM'000
Audited as at 30 June, 2002	-
Pro forma	2,660
Estimated expenses related to the Public Issue	(950)
	<u>1,710</u>