

9. FINANCIAL INFORMATION

9.1 Profit and Dividend Record

The table below sets out the proforma consolidated financial results of Portrade Group for the four (4) financial years ended 31 December 1997 to 2000, the six months' period ended 30 June 2001 and the audited results for the financial year ended 30 June 2002.

	←----- Proforma Group -----→					Audited Financial year ended 30 June 2002
	←----- Financial year ended 31 December -----→				6 months ended 30 June 2001	
	1997	1998	1999	2000		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,425	890	1,591	903	2,505	7,854
EBIDTA	(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 in associated company	-	-	-	-	-	(10)
(Loss before taxation)/ PBT	(136)	106	480	(547)	1,025	194
Taxation	-	-	(48)	48	(130)	(50)
(Loss after taxation)/ PAT	(136)	106	432	(499)	895	144
Number of Shares assumed in issue ('000)	80,000	80,000	80,000	80,000	80,000	80,000
- Gross EPS (sen)	(0.17)	0.13	0.60	(0.68)	* 2.56	0.24
- Net EPS (sen)	(0.17)	0.13	0.54	(0.62)	* 2.24	0.18
Enlarged number of Shares after Public Issue ('000)	93,300	93,300	93,300	93,300	93,300	93,300
- Gross EPS (sen)	(0.15)	0.11	0.51	(0.59)	* 2.20	0.21
- Net EPS (sen)	(0.15)	0.11	0.46	(0.53)	* 1.92	0.15
Gross dividend rate (%)	Nil	Nil	Nil	Nil	Nil	Nil

Notes :-

* annualised

- (i) Portrade was only 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.
- (ii) The proforma 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 proforma consolidated financial results.
- (iii) There were no extraordinary items during the above reporting periods under review.
- (iv) The audited accounts of the Group were not subject to any audit qualifications during the period under review.

9. FINANCIAL INFORMATION (cont'd)

9.2 Analysis And Commentary On Financial Information

9.2.1 Revenue and profitability

Turnover and operating profit are derived from consultancy fees, provision of computer software and maintenance services for computer systems. The past performance of the proforma Portrade Group for the financial years ended 31 December 1997 to 1999 is reflected through the past performance of TSSB as Portrade was only incorporated in June 2000.

In 1997, revenue were 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.

In 1998, the Group'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 the Group started development of software for use in the port environment, most of the related costs were capitalised into software development cost and the Group was able to turnaround and achieve a profit of approximately RM106,000.

For year 1999, revenue increased by 79% and PBT for the year was approximately RM480,000. The higher revenue was mainly due to securing IT projects from port operators for implementing new projects and upgrading of existing IT system as the year 2000 drew near. The effective tax rate was lower than the statutory tax rate applicable because the tax payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The tax charge for the year was in respect of deferred taxation. PAT for the year was approximately RM432,000.

The revenue for the financial year 2000 decreased by 43% as compared to year 1999 and 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 approximately RM547,000 mainly because of high staff cost and lack of new projects. The taxation charge was in respect of reversal of deferred taxation charged in prior year.

For the six months period ended 30 June 2001 the revenue of the Group were mainly derived from the ports in Sabah, handheld billing 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 costs 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 period.

Revenue for the financial year 2002 increased significantly as the Group secured new project from the Sabah Port Authority and achieved an EBIDTA of approximately RM2.1 million. Nevertheless, due to writing off of goodwill which amounted to RM1.1 million for the year, the PBT for they year was lower at approximately RM194,000 compared to approximately RM1.0 million achieved in the six (6) months ended 30 June 2001.

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 it was granted MSC (Multimedia Super Corridor) status with Pioneer Status Tax Incentive for five (5) years beginning 25 April 2001.

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9. FINANCIAL INFORMATION (cont'd)**9.2.2 Segmental Analysis****9.2.2.1 Analysis of turnover**

	←----- Proforma Group -----→					Audited Financial year ended 30 June 2002
	←----- Financial year ended 31 December -----→				6 months ended 30 June 2001	
	1997	1998	1999	2000		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Portrade	-	-	-	-	1,400	6,405
TSSB	2,425	890	1,591	903	1,105	7,061
	<u>2,425</u>	<u>890</u>	<u>1,591</u>	<u>903</u>	<u>2,505</u>	<u>13,466</u>
Less : Consolidation elimination	-	-	-	-	-	(5,612)
Group Turnover	<u>2,425</u>	<u>890</u>	<u>1,591</u>	<u>903</u>	<u>2,505</u>	<u>7,854</u>

9.2.2.2 Analysis of PAT

	←----- Proforma Group -----→					Audited Financial year ended 30 June 2002
	←----- Financial year ended 31 December -----→				6 months ended 30 June 2001	
	1997	1998	1999	2000		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Portrade	-	-	-	(396)	568	(88)
TSSB	(136)	106	432	(103)	327	68
PDCL	-	-	-	-	-	(10)
	<u>(136)</u>	<u>106</u>	<u>432</u>	<u>(499)</u>	<u>895</u>	<u>(30)</u>
Less : Consolidation elimination	-	-	-	-	-	174
Group (loss after taxation)/ PAT	<u>(136)</u>	<u>106</u>	<u>432</u>	<u>(499)</u>	<u>895</u>	<u>144</u>

9.2.3 Impact of Exchange Rate And Interest Rates Differences

The financial results of the Group were not materially affected by movements in exchanges rates and interest rates as the Group's operations were solely in Malaysia and its borrowings comprised fixed interest hire purchases agreements.

9.2.4 Exceptional And Extraordinary Items

There were no exceptional or extraordinary item reported in the audited accounts of Portrade and TSSB during the financial years ended 31 December 1997 to 2000, the six months' period ended 30 June 2001 and the financial year ended 30 June 2002.

9.2.5 Changes To Accounting Policies and Practices

There were no changes to accounting policies and practices of Portrade and TSSB during the financial years ended 31 December 1997 to 2000, the six months' period ended 30 June 2001 and the financial year ended 30 June 2002.

9.2.6 Pending Litigation

The Group were not subject to any litigation during the financial years ended 31 December 1997 to 2000, the six months' period ended 30 June 2001 and the financial year ended 30 June 2002.

9. FINANCIAL INFORMATION (cont'd)

9.2.7 Directors' Declaration on Financial Performance

Save as disclosed in this Prospectus, as at 18 December 2002, being the latest practicable date prior to the printing of this Prospectus, the Board of Directors of Portrade are not aware of any:-

- (i) Known trends, demands, commitments, events or uncertainties that have or will result in or that is reasonably likely to have, a material favourable or unfavourable impact on financial performance, position, liquidity and operations of the Group;
- (ii) Any material commitments for capital expenditure;
- (iii) Unusual or infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position, operations and the amount of reported income from operations of the Group;
- (iv) Known trends or uncertainties that have had or that the Group reasonably expects will have material favourable or unfavourable impact on revenues or operating income; and
- (v) Known events, circumstance, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future results or financial condition.

9.3 Working Capital, Borrowings, Material Commitments and Contingent Liabilities

9.3.1 Working Capital

The Directors of Portrade are of the opinion that after taking into account its cashflow forecast, banking facilities available and gross proceeds from the Public Issue, the Company will have adequate working capital for its present and foreseeable requirements.

9.3.2 Borrowings

As at 18 December 2002 (being the last practicable date prior to the printing of this Prospectus), the total borrowings of the Group amounted to approximately RM918,000 comprising hire-purchase and bank overdraft as set out below :-

Borrowings as at 18 December 2002	Total Facilities RM'000	Facilities Utilised RM'000	Amount Outstanding		
			Short term RM'000	Long term RM'000	Total RM'000
* Hire purchase	105	105	36	48	84
* Bank overdraft	1,000	1,000	834	-	834
Total	1,105	1,105	870	48	918

9.3.3 Contingent Liabilities and Capital Commitments

As at 18 December 2002 (being the last practicable date prior to the printing of this Prospectus),

- (i) the Group has no material commitments; and
- (ii) save as disclosed below, the Group has no other contingent liabilities :-

	RM'000
Consultancy fees payable in dispute	350,000

Further details of the abovementioned contingent liability is set out in Note 15 of the Accountants' Report in Section 14 of this Prospectus.

10. MORATORIUM ON PROMOTERS' SHARES

It is a condition of the Listing Requirements that Shares held by the Promoters amounting to forty-five percent (45%) of the nominal issued and paid-up share capital of Portrade at the date of admission of the Company to the Official List of MESDAQ Market be placed under moratorium.

The affected Promoters will not be allowed to sell, transfer, assign or otherwise dispose of any part of their respective shareholdings in Portrade under moratorium, as tabulated below, within one (1) year from the date of admission of the Company to the Official List of MESDAQ Market. Thereafter, they are permitted to sell, transfer, assign or otherwise dispose up to a maximum of one third (1/3) per annum on a straight line basis of their respectively shareholdings under moratorium.

The quantum and proportion of Shares which are to be held under moratorium as depicted below is fully accepted by the following Promoters whose shareholding after the Public Issue would be 69,315,000 Shares, representing 74.28% of the issued and paid-up share capital of the Company.

The Promoters have consented to placing their Shares under moratorium as follows :-

Promoters	Shareholding After the Public Issue		Under moratorium	
	Number of Shares	% of enlarged share capital	Number of Shares	% of enlarged share capital
Tan Tiong Liang @ Tan Chung Liang	13,569,110	14.54	8,218,987	8.81
Nobel Pang Paul Gen	13,569,110	14.54	8,218,987	8.81
Chua Boon Hua	11,278,940	12.09	6,831,801	7.32
Lau Hong Thiam	3,759,640	4.03	2,277,263	2.44
APSB	13,569,100	14.54	8,218,981	8.81
PPSB	13,569,100	14.54	8,218,981	8.81
	69,315,000	74.28	41,985,000	45.00

This Registrar and MCD have been informed in writing in relation to the moratorium of the aforesaid shareholders to ensure that it does not register any transfer not in compliance with the moratorium restrictions.

The shareholders of APSB, namely Ong Lam Hoe and Ong Kuan Kuan and the shareholders of PPSB, namely Cecilia Law Tiing Tiing and Law Kiu Ong have also given undertakings that they will not sell, transfer or otherwise dispose of any part of their interest in all and any shares which they hold in APSB and PPSB respectively on the date of Portrade's admission to the Official List of the MESDAQ Market, until the expiry of three (3) years from such date of admission.

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11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS**11.1 Related Party Transactions with Directors And Major Shareholders**

Since the date of incorporation of Portrade on 20 June 2000, the Group has transacted with the following related parties :-

Name of related parties	Connected persons	Nature of interest
<input type="checkbox"/> MRSB	<input type="checkbox"/> Tan Tiong Liang @ Tan Chung Liang; and <input type="checkbox"/> Nobel Pang Paul Gen	Director and Major Shareholders
<input type="checkbox"/> ABS	<input type="checkbox"/> Tan Tiong Liang @ Tan Chung Liang; and <input type="checkbox"/> Nobel Pang Paul Gen	Director and indirect Major Shareholders (via MRSB ⁱ)
<input type="checkbox"/> MSB	<input type="checkbox"/> Tan Tiong Liang @ Tan Chung Liang; and <input type="checkbox"/> Nobel Pang Paul Gen	Director and indirect Major Shareholders (via MRSB ⁱⁱ)
<input type="checkbox"/> Malitnet Research & Engineering Sdn Bhd	<input type="checkbox"/> Tan Tiong Liang @ Tan Chung Liang; and <input type="checkbox"/> Nobel Pang Paul Gen	Director and indirect Major Shareholders (via MRSB ⁱⁱ)
<input type="checkbox"/> Malitnet Computer Services Sdn Bhd	<input type="checkbox"/> Tan Tiong Liang @ Tan Chung Liang; and <input type="checkbox"/> Nobel Pang Paul Gen	Director and indirect Major Shareholders (via MRSB ⁱⁱ)

Notes:-

- i ABS is an associate company of MRSB
- ii MSB, Malitnet Research & Engineering Sdn Bhd and Malitnet Computer Services Sdn Bhd are subsidiary companies of MRSB

Details of the related party transactions are set out in Section 11.1.1 and Section 11.1.2 of this Prospectus.

11.1.1 Promotion of any assets Acquired/To Be Acquired within two (2) years preceding the date of this Prospectus

Portrade was involved in the following acquisitions with its related parties from the date of incorporation on 20 June 2000 until the date of the Prospectus :-

- (a) On 30 October 2001, Portrade entered into a sale and purchase agreement with MRSB to acquire TSSB from MRSB for a cash consideration of RM6.5 million. Portrade had paid RM4.26 million to MRSB as at the date of this Prospectus and the remaining RM2.24 million will be paid three (3) years after the date of the sale and purchase agreement. Details of this transactions are set out in Section 4.3.1 of this Prospectus.
- (b) On 28 February 2001, Portrade acquired the Port Systems for CTS and VSS from MSB for a cash consideration of RM1.5 million. Details of this transactions are set out in Section 4.3.2 of this Prospectus;
- (c) On 31 December 2000, Portrade acquired iSELL and I-Dynamic systems and related consultancy services from MRSB for a cash consideration of RM1.2 million. Details of this transactions are set out in Section 4.3.3 of this Prospectus;

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11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

11.1.2 Contracts/ agreements entered into with related parties

Save as disclosed below, there are no other contracts or arrangement entered into within the past two (2) years from the date of this Prospectus in which any Directors of the Company is interested and which is significant in relation to the business of the Company taken as a whole :-

- (a) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MRSB whereby TSSB is contracted to provide software maintenance services to Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad for the period from 1 February 2000 to 31 December 2004 ("**Sub-Contract Agreement**"). The yearly contract value is RM65,037.40 and is to be settled via cash payment on a quarterly basis.

MRSB had on 15 November 1999 entered into a Master Agreement, Hardware Agreement, Equipment Maintenance Agreement and Software Maintenance Agreement with Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad for the supply of hardware, operating, applications and communications software, annual hardware and software maintenance fee for a total contract sum of RM997,085.50 ("**Main Agreements**"). Subsequently, on 4 October 2001, Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad revised the annual hardware and software maintenance to RM44,005.46 with effect from January 2002. Salient terms of the **Main Agreements** are set out below :-

Durations

The **Main Agreements** are valid from the date of the signing of the agreement until completion/ termination.

Termination

The Software Maintenance Agreement may be terminated by either party if there is a breach by the other party of any terms of the agreement and such breach is not remedied within thirty (30) days by the party at fault after written notice has been given by the aggrieved party or if at any time an order is made or a resolution is passed for winding up either party of it either party ceases to carry on its business.

In the event that any one or more of the **Main Agreements** shall be terminated, Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad may at its discretion terminate any or all of the remaining agreements.

Assignment

MRSB shall not assign or sub-contract this Agreement or any of its rights and obligations to any other persons or persons, without the prior written consent of Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad.

By a Deed of Assignment dated 25 October 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the **Main Agreement** to TSSB for a consideration of RM1.00 which was paid on 25 October 2002 and the **Sub-Contract Agreement** was terminated on the same date. Koperasi Pekerja-Pekerja Kerajaan Sabah Berhad has on 16 October 2002 given its consent to the assignment of the **Main Agreement**. Pursuant to the Deed of Assignment, TSSB covenants with MRSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of the MRSB mentioned or contained therein the **Main Agreement** and will at all times keep MRSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the **Main Agreement**.

- (b) A Sub-Contract Agreement dated 30 November 2001 was entered into between Portrade and MRSB whereby Portrade is contracted to assist in enhancing existing IT systems and development of new operations modules for the Kuching Port Authority's payroll, financial and operational systems ("**Sub-Contract Agreement**"). The total contract sum under this agreement is RM222,950 and is to be settled via cash payment based on stage of works done.

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

Pursuant to a Letter of Award dated 4 September 2000, the Kuching Port Authority accepted the proposal from MRSB for the setting up of computer infrastructure, migration and, modification and maintenance of its existing application software amounting to RM1,364,164 for Phase 1 and the setting up of the Radio data Transmission equipment, enhancement to, and maintenance for the existing port applications software amounting to RM1,403,074 for Phase 2 ("**Main Agreement**"). The Main Agreement is valid from the date of the signing of the Letter of Award until completion. The Letter of Award does not provide for termination of the Main Agreement.

By a Deed of Assignment dated 15 November 2002 between Portrade and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to Portrade for a consideration of RM1.00 which was paid on 15 November 2002 and the Sub-Contract Agreement was terminated on the same date. The Kuching Port Authority has on 8 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, Portrade covenants with MRSB that Portrade will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MRSB mentioned or contained therein the Main Agreement and will at all times keep MRSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (c) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MRSB whereby TSSB is contracted to provide software maintenance services and staff support services to the Kuching Port Authority for a yearly contract sum of RM173,264.40 for the period from 1 November 2001 to 31 October 2004 and is to be settled via cash payment on a monthly basis ("**Sub-Contract Agreement**").

Pursuant to a Letter from MRSB dated 11 October 2001, the Kuching Port Authority accepted the offer from MRSB to provide software and hardware maintenance services for Kuching Port Authority amounting to RM836,144.32 ("**Main Agreement**"), to be settled via cash payment on a monthly basis. The Main Agreement is valid from the date of the signing of the agreement until termination. The Main Agreement is valid from the date of the signing of the Letter of Award until completion. The Letter of Award does not provide for termination of the Main Agreement.

By a Deed of Assignment dated 25 October 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to TSSB for a consideration of RM1.00 which was paid on 25 October 2002 and the Sub-Contract Agreement was terminated on the same date. The Kuching Port Authority has on 8 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, TSSB covenants with MRSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MRSB mentioned or contained therein the Main Agreement and will at all times keep MRSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (d) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MRSB whereby TSSB is contracted to provide database software maintenance services for the Kuching Port Authority for a yearly contract sum of RM12,792 for the period from 1 April 2000 to 31 March 2004 and is to be settled via cash payment on a yearly basis ("**Sub-Contract Agreement**").

In 1998, Kuching Port Authority accepted the offer from MRSB to provide database software maintenance services for the Kuching Port Authority with an annual maintenance fee of RM62,290 ("**Main Agreement**"). The Main Agreement is valid from the date of signing of the agreement until termination. No termination clause is specified.

By a Deed of Assignment dated 15 November 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to TSSB for a consideration of RM1.00 which was paid on 15 November 2002 and the Sub-Contract Agreement was terminated on the same date. Kuching Port Authority has on 8 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, TSSB covenants with MRSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MRSB mentioned or contained therein the

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

Main Agreement and will at all times keep MRSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (e) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MSB whereby TSSB is contracted to supply, deliver, install, commission, test and maintain computer equipments and related application software and other services for Koperasi Pekerja Kerajaan Sarawak Berhad for a yearly contract sum of RM160,313.40 for the period from 1 November 1999 to 31 December 2002 and is to be settled via cash payment on a monthly basis ("**Sub-Contract Agreement**").

MSB had on 16 December 1997 entered into an Agreement with Koperasi Pekerja Kerajaan Sarawak Berhad for supplying, delivering, installing, testing, commissioning and maintaining the computer equipment and related application software for a period of five (5) years commencing 1 January 1998 until 31 December 2002 at a minimal annual fee of RM277,200 ("**Main Agreement**"). The salient terms of the Main Agreement are as follows :-

Duration

The Agreement shall be for a term of five (5) years commencing from 1 January 1998 with an option for Koperasi Pekerja Kerajaan Sarawak Berhad renew it for another five (5) years.

Termination

Koperasi Pekerja Kerajaan Sarawak Berhad may terminate the Main Agreement by giving three (3) months' prior written notice to MSB.

By a Deed of Assignment dated 25 October 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to TSSB for a consideration of RM1.00 which was paid on 25 October 2002 and the Sub-Contract Agreement was terminated on the same date. Koperasi Koperkasa Berhad has on 18 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, TSSB covenants with MSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MSB mentioned or contained therein the Main Agreement and will at all times keep MSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (f) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MSB whereby TSSB is contracted to provide license and support services for BLIS software for Majlis Perbandaran Petaling Jaya ("**MPPJ**") for the period from 1 October 1998 to 31 December 2002 for a annual licence and support fee and fee for BLIS Software & System software for a contract value of 70% of the contract sum. The fee is to be settled via cash payment on a yearly basis ("**Sub-Contract Agreement**").

MSB had on 12 January 1998 entered into a Supply and Installation of an Information System Agreement with MPPJ for supplying, delivering, installing, testing, commissioning a information system (BLIS) for the operations of MPPJ for a contract sum of RM3,542,296 ("**Main Agreement**"). Salient terms of the Main Agreements are set out below :-

Payment terms

The contract sum is to be settled via cash payment within thirty (30) days from receipt of progress invoices, based on stage of works done.

Durations

The Main Agreement is valid from the date of the signing of the agreement until completion/ termination.

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

Termination

The Main Agreement may be terminated by MPPJ in writing if there is a breach by the other party of any terms of the agreement by MSB and such breach is not remedied within fourteen (14) days by the party at fault after written notice has been given by MPPJ OR where MSB is prohibited from executing the Main Agreement due to its involvement in illegal activities.

By a Deed of Assignment dated 25 October 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to TSSB for a consideration of RM1.00 which was paid on 25 October 2002 and the Sub-Contract Agreement was terminated on the same date. MPPJ has on 22 October 2002 given its consent to the assignment of the Main Agreement. TSSB covenants with MSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MSB mentioned or contained therein the Main Agreement and will at all times keep MSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (g) A Sub-Contract Agreement dated 30 November 2001 was entered into between TSSB and MSB whereby TSSB is contracted to provide license and support services for handheld software, Gentrack and General Ledger and Fixed Assets systems for SESCO. for the period from 1 January 2001 to 31 December 2004 for a contract value of RM24,000 for the handheld software, 95% of the contract sum for Gentrack and 95% of the contract sum for the General Ledger or Fixed Assets Systems. The fee is to be settled via cash payment on a monthly basis ("**Sub-Contract Agreement**").

Pursuant to two (2) Letters of Award dated 26 September 1996, SESCO awarded the tender for the supply, installation, implementation and commissioning of general ledger, revenue budget and fixed assets systems, customer information system to MSB for a total contract price of RM5,560,300 ("**Main Agreement**"). The contract sum is to be settled within thirty (30) days from receipt of progress invoice which is based on stage of works done. The Main Agreement is valid from the date of the Letter of Award until completion. The Letter of Award does not provide for termination of the Main Agreement. The Main Agreement has been completed.

By a Deed of Assignment dated 15 November 2002 between TSSB and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to TSSB for a consideration of RM1.00 which was paid on 15 November 2002 and the Sub-Contract Agreement was terminated on the same date. SESCO has on 23 October 2002 given its consent to the assignment of the Main Agreement. TSSB covenants with MSB that TSSB will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of the MSB mentioned or contained therein the Main Agreement and will at all times keep MSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (h) Pursuant to the Main Agreement between ABS and the Sabah Ports Authority dated 1 August 2001, a Letter of Award dated 3 August 2001 from ABS awarding TSSB the supply, design, implement and maintenance of the total IT Solution to the Sabah Ports Authority for a total contract price of RM5,800,000. Pursuant to this, for the maintenance, the software and hardware maintenance fees shall be 24% of the software costs and 14% of the hardware costs respectively. TSSB had on 30 November 2001 entered into Contractor Agreements with Portrade, awarding Portrade the supply, design, implement and maintenance of the total IT Solution to the Sabah Ports Authority for a total contract price of RM5,700,000 and software and hardware maintenance fees for the project at RM1,150,000 and 13% of the hardware costs respectively. ("**Sub-Contract Agreement**").

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11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

ABS had on 17 April 2000 and 1 August 2001 entered into 2 Agreements, namely the Phase 1 Form of Agreement and Phase 2 Form of Agreement respectively with the Sabah Ports Authority for certain goods/works to be provided/constructed, viz. Supply, design, development, implementation and maintenance of Total IT Solution for Sabah Ports Authority. ("**Main Agreement**"). The contract sum is to be settled via cash payment within thirty (30) days from receipt of progress invoices, based on stage of works done. The Main Agreement may be terminated by Sabah Ports Authority the in the following manner :-

- (1) Either party may terminate the agreement if the other party assigns its rights or obligations under the agreement without the prior written consent of the other party, or the other party enters into a composition with its creditors, is declared bankrupt, goes into liquidation, or a receiver, or a receiver and manager, or a statutory receiver is appointed in respect of it;
- (2) If one party defaults in the performance of any of its obligations under the agreement and, if such default is capable of being remedied, and within thirty (30) days of notice by the non-defaulting party specifying the default, is not remedied; OR the default is not capable of being remedied, and, within thirty (30) days of notice by the non-defaulting party specifying the default, the defaulting party has not used its best endeavours to reinstate the positions of the parties as far as is possible and given an undertaking to use its best endeavours to prevent a recurrence of the default;
- (3) ABS fails to complete the installation of the system by its scheduled completion date; or
- (4) the system fails to satisfy the performance standards, procedures, time periods and test specifications as specified in the agreement.

Duration

Phase I Form of Agreement is to be completed within one (1) year from the date of commencement while Phase II Form of Agreement is to be completed within two (2) months from date of commencement.

Titles

Title to those Products which are intended to become the property of the Purchaser will pass to the Purchaser upon receipt of final payment of the Price.

Assignment

Neither party may assign or transfer its rights or obligations under this agreement without the prior written consent of the other party.

Intellectual Property Rights Indemnity

The Contractor will indemnify the Purchase against and will at its costs defend or settle any claim, suit, action or proceeding (collectively called "Action") brought against the Purchaser to the extent that the Action is based on a claim that the Purchaser's use of deliverable supplied by the Supplier constitutes a breach of any patent, copyright, trade secret or other proprietary right

The Sub-Contract Agreement was subsequently terminated on 21 October 2002 and replaced by a Deed of Assignment dated 21 October 2002 between Portrade and ABS whereby ABS assigns and transfers all its rights, titles and interest in the Main Agreement to Portrade for a consideration of RM1 which was paid on the same date. Sabah Ports Authority has on 17 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, Portrade covenants with ABS that Portrade will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of ABS mentioned or contained therein the Main Agreement and will at all times keep ABS indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

- (i) A Sub-Contract agreement dated 28 January 2002 was entered into between MRSB and Portrade whereby MRSB is contracted to provide software maintenance of a Computerised Cargo and Marine System for the Penang Port (Phase I & Phase II) for the period from 1 January 2002 to 31 December 2004 for a contract value of RM79,082.24. The fee is to be settled via cash payment on a monthly basis ("**Sub-Contract Agreement**").

The Penang Port had on 22 February 1999 by way of a Letter of Acceptance accepted the tender by MRSB for the supply, testing, implementation, commissioning and maintenance of a computerised cargo and marine system for Phase I amounting to RM295,576.00 and Phase II amounting to RM173,584.00 with a total amounting to RM469,160.00 for completion within six (6) months each respectively ("**Main Agreement**"). The Main Agreement shall be valid from the date of the Letter of Acceptance until completion. No termination clause is specified in the Letter of Acceptance.

By a Deed of Assignment dated 25 October 2002 between Portrade and MRSB, MRSB assigned and transferred all its rights, titles and interest in the Main Agreement to Portrade for a consideration of RM1.00 which was paid on 25 October 2002 and the Sub-Contract Agreement was terminated on the same date. Penang Port has on 18 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, Portrade covenants with MRSB that Portrade will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MRSB mentioned or contained therein the Main Agreement and will at all times keep MRSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

- (j) Pursuant to a Letter of Award dated 23 December 2001, Malitnet Computer Services Sdn Bhd ("**MCSSB**") appointed and engaged Portrade to carry out and complete MCSSB's obligation to be performed under the Main Agreement ("**Sub-Contract Agreement**").

Pursuant to an Agreement dated 29 December 2001, the Rajang Port Authority engaged MCSSB to supply, deliver, install, configure, test and commission the LAN, PC and printers to the Rajang Port amounting to RM553,892.00 ("**Main Agreement**"). The Main Agreement is valid from the date of the signing of the Main Agreement and be completed within eight (8) weeks. The Main Agreement does not provide for termination. A six (6) months warranty period takes effect immediately after the complete systems is commissioned. The Main Agreement was completed on 3 March 2002.

- (k) A Maintenance Agreement Contract dated 23 February 1998 was entered into between the Rajang Port Authority and MCSSB for a yearly contract sum of RM24,410. ("**Main Agreement**"). The Main Agreement is effective from 1 March 1998. It does not provide for termination.

By a Deed of Assignment dated 15 November 2002 between Portrade and MCSSB, MCSSB assigned and transferred all its rights, titles and interest in the Main Agreement to Portrade for a consideration of RM1.00 which was paid on 15 November 2002. The Rajang Port Authority has on 8 October 2002 given its consent to the assignment of the Main Agreement. Pursuant to the Deed of Assignment, Portrade covenants with MCSSB that Portrade will perform, fulfil and observe all and every the stipulations, provisos and conditions, restrictions, agreement and covenants respectively on the part of MCSSB mentioned or contained therein the Main Agreement and will at all times keep MCSSB indemnified against all actions, claims, proceedings and costs in respect of or arising out of the Main Agreement.

The Audit Committee of the Group will ensure that future related party transactions will only be entered into after taking into account the pricing, level of service, quality of products and other qualitative and quantitative factors. In addition, the Group will also seek approval from its shareholders before entering into such transactions.

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

For the past two financial period/ years, the value of transactions between Portrade Group and companies in which the Directors/ Major Shareholders of the Company are interested are set out below :-

Company	Related party	Nature of transaction	Value of transactions	
			Financial period ended 30 June 2001	Financial year ended 30 June 2002
			RM'000	RM'000
Portrade	MRSB	Marketing and promotional fees and administrative fee paid for reimbursement of utilities and administrative expenses	36	132
	ABS	Project income	1,400	23
	Malitnet Research & Engineering Sdn Bhd	Purchase of computer hardware	37	282
	Malitnet Research & Engineering Sdn Bhd	Maintenance revenue	-	119
	Malitnet Computer Services Sdn Bhd	Purchase of computer hardware	33	503
	Malitnet Computer Services Sdn Bhd	Project revenue	-	553
TSSB	MRSB	(i) Rental expenses paid	8	15
		(ii) Management and administrative fee and expenses paid	24	67
		(iii) Software maintenance fee received / (paid)	258	243
		(iv) Purchase of hardware	16	-
	MSB	(i) Software maintenance income and miscellaneous income received	413	510
		(ii) Purchases computer hardware	1	-
	ABS	Project and maintenance income	-	5,409
	MRESB	(i) Miscellaneous income	3	8
		(ii) Purchase of computer hardware	-	3
	Malitnet Computer Services Sdn Bhd	Income from supply of handheld equipment	407	123

On 1 April 2001, TSSB disposed its entire interest in its subsidiary, ValuePlus Systems Sdn Bhd, comprising 67,498 Shares or approximately 67% of the total issued and paid-up share capital of ValuePlus Systems Sdn Bhd, to Tan Tiong Liang @ Tan Chung Liang for a total purchase consideration of RM838,738. ValuePlus Systems Sdn Bhd is primarily involved in the development and distribution of standard accounting software under the name "ValuePlus", which is not complementary to TSSB's port IT business. The disposal was to enable TSSB to channel all its financial and human resources on its core port related IT business.

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11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

The Company's solicitors, Messrs Jeff Leong, Poon & Wong, has on 6 May 2002 furnished a legal opinion that the disposal does not contravene Section 132E, an extract of which is as follows:-

"The disposal of ValuePlus Systems Sdn Bhd ("VSSB") to Tan Tiong Liang @ Tan Chung Liang was unanimously assented to by MRSB, Sim Soo Teck, Richard Wellis Sinyem and Malitnet Employees Shares Sdn Bhd as shareholders of MCSB in their letter of consent dated 28 December 2000, prior to the transfer of the VSSB shares. On the strength of the unanimous assent of its shareholders, a formal MCSB shareholders meeting can be dispensed with. This "principle of unanimity" has been applied in Re Duomatic (1959) 1 ALL ER 161 and various other cases of persuasive authority to Malaysian courts with the effect that a formal resolution required by statute can be dispensed with by unanimous agreement of the shareholders (see Re Meyers Douglas Ltd (1965) VR 638)

In the circumstances, we are of the view that there is no breach of section 132E(1) of the Act 1965"

The Directors of Portrade are of the opinion that the related party transactions set out in the preceding paragraphs have been entered into in the normal course of business and have established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

11.2 Related Companies in IT Industry

Save as disclosed hereunder, as at the date of this Prospectus, none of the Directors or Major Shareholders of the Company has any interest, direct or indirect, in any other businesses involved in the IT Industry :-

Name of Directors/ Major Shareholders of Portrade	Name of Company	Principal Activity	Directorship	Shareholding	
				Direct	Indirect
Tan Tiong Liang @ Tan Chung Liang	<input type="checkbox"/> MRSB	Has ceased its IT-related operations and is presently an investment holding company	-	-	100% ^(a)
	<input type="checkbox"/> ABS	Principally involved in the marketing and provision of information technology, products and services for the Sabah market	-	-	49% ^(b)
	<input type="checkbox"/> MSB	Presently dormant	-	-	100% ^(b)
	<input type="checkbox"/> Malitnet Research & Engineering Sdn Bhd	R&D in engineering aspect of IT hardware equipment. It installs and provides maintenance services on third party PCs, printers, LAN and other hardware accessories and peripherals.	Director	-	61% ^(a)
	<input type="checkbox"/> Malitnet Computer Services Sdn Bhd	Primarily involved in buying and selling of third party computer hardware and software.	-	-	77.5% ^(a)
	<input type="checkbox"/> Malitnet Computer Services (Miri) Sdn Bhd	Principally involved in the installation and provision on maintenance services on third party PCs, printers, LAN and other hardware accessories and peripherals in Miri, Sarawak.	-	-	100% ^(c)
	<input type="checkbox"/> Value Plus Systems Sdn Bhd	Involved in the development and distribution of standard accounting software under the name "ValuePlus"	Director	77.5%	-
<input type="checkbox"/> Malitnet Info-Sys Sdn Bhd	Principally involved in the trading of point-of-sales systems	Director	-	-	

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

Name of Directors/ Major Shareholders of Portrade	Name of Company	Principal Activity	Directorship	Shareholding	
				Direct	Indirect
	<input type="checkbox"/> McCyber Corner Sdn Bhd	Was previously an operator of a cyber café but the cyber café has been closed down and McCyber Corner Sdn Bhd has ceased its operations	Director	-	-
Novel Pang Paul Gen	<input type="checkbox"/> MRSB	Has ceased its IT-related operations and is presently an investment holding company	-	-	100% ^(a)
	<input type="checkbox"/> ABS	Principally involved in the marketing and provision of information technology, products and services for the Sabah market	Director	-	49% ^(b)
	<input type="checkbox"/> MSB	Presently dormant	-	-	100% ^(a)
	<input type="checkbox"/> Malitnet Research & Engineering Sdn Bhd	R&D in engineering aspect of IT hardware equipment. It installs and provides maintenance services on third party PCs, printers, LAN and other hardware accessories and peripherals.	Director	-	61% ^(a)
	<input type="checkbox"/> Malitnet Computer Services Sdn Bhd	Primarily involved in buying and selling of third party computer hardware and software.	-	-	77.5%
	<input type="checkbox"/> Malitnet Computer Services (Miri) Sdn Bhd	Principally involved in the installation and provision on maintenance services on third party PCs, printers, LAN and other hardware accessories and peripherals in Miri, Sarawak.	-	-	100% ^(c)
	<input type="checkbox"/> Malitnet Info-Sys Sdn Bhd	Principally involved in the trading of point-of-sales systems	Director	-	-
	<input type="checkbox"/> McCyber Corner Sdn Bhd	Was previously an operator of a cyber café but the cyber café has been closed down and McCyber Corner Sdn Bhd has ceased its operations	Director	-	-
Lau Hong Thiam	<input type="checkbox"/> ValuePlus Systems Sdn Bhd	Involved in the development and distribution of standard accounting software under the name "ValuePlus"	-	12%	-
	<input type="checkbox"/> McCyber Corner Sdn Bhd	Previously was operator of a cyber café but the cyber café has been closed down and the company has ceased its operations	-	3.3%	-

Notes:-

- (a) deemed interested by virtue of their Major Shareholding in Site Capital Sdn Bhd which is the holding company of MRSB, Malitnet Research & Engineering Sdn Bhd and Malitnet Computer Services Sdn Bhd
- (b) deemed interested by virtue of their Major Shareholding in Site Capital Sdn Bhd which is the holding company of MRSB, which in turn is the holding company/ a Major Shareholder of these companies
- (c) deemed interested by virtue of their Major Shareholding in Site Capital Sdn Bhd which is the holding company of Malitnet Research & Engineering Sdn Bhd which in turn is the holding company of Malitnet Computer Services (Miri) Sdn Bhd

The above mentioned companies are/were principally involved in the provision of IT products and services, which may complement the business activities of the Group and are not in direct competition with Portrade Group.

11. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (cont'd)

Since its formation in June 2000, Portrade has taken various steps, amongst others, the acquisition of Port Systems for its port application software, acquisition of software development tools, setting up of office in Cyberjaya as well as the employment of knowledge workers to reduce its dependence on MRSB Group. At present, the Group operates autonomously in terms of its operations, R&D, marketing and financial activities. With the execution of the Deed of Assignments set out in Section 11.1.2 of this Prospectus, Portrade Group has assumed all the existing IT projects secured by MRSB Group. Portrade has also tendered all new IT projects under its own name, such as Kuching Port Authority and Bintulu Port Sdn Bhd projects and has also secured new IT project from the Philippines Ports Authority with Unisys Australia Limited (Philippines Branch). Portrade Group currently is not dependent on MRSB Group.

The Board of Directors of MRSB has resolved to wind down its operations and MRSB has ceased its IT-related operations since 1 September 2002 and all its maintenance income from various exiting IT projects have been assigned to Portrade since then. Tan Tiong Liang @ Tan Chung Liang and Nobel Pang Paul Gen have also resigned as Directors of MRSB with effect from 5 September 2002. MSB is presently dormant while ABS has also wind down its operation after it assigned over its IT project with Sabah Ports Authority to Portrade. All future IT projects would be secured directly by Portrade Group.

As regards to Malitnet Research & Engineering Sdn Bhd, Malitnet Computer Services Sdn Bhd, Malitnet Computer Services (Miri) Sdn Bhd, ValuePlus Systems Sdn Bhd, McCyber Corner Sdn Bhd and Malitnet Info-Sys Sdn Bhd, these companies are not in direct competition with Portrade and they will continue to carry out their existing businesses in their own niche market. The Directors of these companies have given undertakings that their businesses are not, and will not be in competition with Portrade Group.

11.3 Declaration by The Advisers

- (i) AmBank Berhad and AmFinance Berhad, both fellow subsidiaries of AmMerchant Bank by virtue of a common holding company, AMMB Holdings Berhad, have extended/ is extending the following credit facilities to Portrade :-

Financier	Facility	Limit (RM'000)	Balance outstanding as at 18 December 2002 (RM'000)
AmFinance Berhad	Hire purchase	105	84
AmBank Berhad	Overdraft	1,000	834

AmMerchant Bank, in relation to its roles as Adviser and Sponsor to Portrade, has considered the factors involved, and believes that objectivity and independence in carrying out its role as Adviser and Sponsor will be maintained at all times for the following reasons :-

- (a) The credit facilities were extended by AmBank Berhad and AmFinance Berhad, both fellow subsidiaries of AmMerchant Bank Berhad which are separate legal entities and are independent in their decision making from AmMerchant Bank. The conducts of AmBank Berhad and AmFinance Berhad are guided strictly by the Banking and Financial Institutions Act, and by their internal controls and checks;
- (b) The credit facilities were granted based on normal commercial terms; and
- (c) The credit facilities will be settled using cashflow from Portrade's operations and none of the proceeds raised from the Public Issue will be utilised to repay the credit facilities.

As such, AmMerchant Bank believes that there is no conflict of interest in respect of its roles in the Public Issue.

- (ii) Messrs Jeff Leong, Poon & Wong has given its confirmation that there is no conflict of interest in its capacity as the Solicitors for the Public Issue.
- (iii) Messrs Arthur Andersen & Co. has given its confirmation that there is no conflict of interest in its capacity as the Auditors and Reporting Accountants for the Public Issue.

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12. OTHER INFORMATION ON PORTRADE GROUP**12.1 Approvals, Major Licenses and Permits**

Approvals, major licenses and permits under the possession of the Company are as follows :

No.	Type of Licence	Issuing Authority	Date of Issuance	Date of Expiry	Remarks
1.	MSC Status	MDC	31.10.2000	-	<p><input type="checkbox"/> As a MSC Status company, Portrade enjoys, amongst others, the incentives set out in Section 8.3(c) of this Prospectus.</p> <p><input type="checkbox"/> The conditions attached to the grant of the MSC status include but are not limited to :-</p> <p>(i) locate the MSC-status company's headquarters and principal place of business and/or the operation of the MSC-qualifying activities in Cyberjaya</p> <p>(ii) ensure at all times at least 15% of the total number of employees (excluding support staff) are "knowledge workers"</p> <p>(iii) continuously comply with the MSC's environmental guidelines as determined by MDC from time to time</p> <p>Portrade has complied with the conditions imposed by the MDC.</p>
2.	Registered as contractor	Unit Pendaftaran Kontraktor Negeri Sarawak	29.06.2002	07.05.2005	This registration enables Portrade to tender for State Government projects in Sarawak
3.	Registered as contractor	Kementerian Kewangan Malaysia	27.09.2002	25.09.2005	Registered as contractor for the provision for software products and services
4.	Registered as contractor	Penbendaharaan Malaysia Sarawak	03.09.2001	03.09.2003	Registered as contractor for the provision for computer hardware, software products and services
5.	Registration for Class Licence for ASP	CMC	03.07.2002	Annual renewal	The licence allows Portrade to operate as an ASP in Malaysia

12.2 Summary of Landed Properties

Portrade Group does not hold any landed properties as at the date of this Prospectus.

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