

6 FINANCIAL INFORMATION

6.1 FINANCIAL HIGHLIGHTS

The following table has been extracted from the Accountants' Report in Section 14 of this Prospectus and should be read in conjunction with the notes thereto. A summary of the audited results of ASIAEP for the five (5) financial years and for the four (4) month period ended 30 June 2003 are as follows:-

	←— Financial year ended 28 February —→					4 month period ended 30 June
	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2003 RM'000
Turnover	1,974	2,245	4,247	5,248	7,002	1,872
Cost of services	(1,130)	(1,203)	(1,665)	(1,932)	(931)	(273)
Gross profit	844	1,042	2,582	3,316	6,071	1,599
Other income	-	-	-	10	3	2
	844	1,042	2,582	3,327	6,074	1,601
Depreciation	(59)	(80)	(234)	(295)	(811)	(330)
Directors' remuneration	(296)	(281)	(320)	(327)	(414)	(138)
Other operating expenses	(568)	(562)	(1,054)	(1,193)	(2,330)	(859)
Profit/(Loss) from Operation	(79)	119	974	1,511	2,519	274
Finance expense	(2)	(8)	(15)	(28)	(86)	(35)
Profit/(Loss) Before Taxation	(81)	111	959	1,483	2,433	239
Less : Taxation	-	-	-	-	-	-
Profit/(Loss) After Taxation	(81)	111	959	1,483	2,433	239
Number of ordinary shares in issue ('000)	700	700	1,000	1,000	140,000	140,000
Weighted average number of ordinary shares in issue ('000)	467	700	950	1,000	77,667	140,000
Net earnings/(loss) per share based on weighted average number of shares in issue (RM)	(0.17)	0.16	1.0	1.48	0.03	0.005*
Gross Dividend Rate	-	-	-	-	-	-

* Annualised

Notes:

- (i) The par value of the ordinary shares for the financial years ended 28 February 1999 to 2002 is RM1.00 each. On 5 September 2002, the Company sub-divided the ordinary shares from its par value of RM1.00 each to RM0.10 each.
- (ii) The lower annualised EPS for the 4 month period ended 30 June 2003 compared to the previous year is due to historically, sales in the first quarter are generally lower compared to the subsequent quarters.
- (iii) There were no extraordinary items in respect of all the financial years under review.

The financial statements of the Company for the years under review were not subject to any audit qualification.

6 FINANCIAL INFORMATION (Cont'd)

6.2 ANALYSIS AND COMMENTARY ON FINANCIAL INFORMATION

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S FINANCIAL HIGHLIGHTS INCLUDED IN SECTION 6.1 OF THIS PROSPECTUS.

6.2.1 SEGMENTAL ANALYSIS

No segmental information is presented as the Company is principally engaged in a single business activity of provision of eCommerce solutions and eMarketplace platform for both local and foreign enterprises.

6.2.2 OVERVIEW OF REVENUE AND OPERATING PROFITS GROWTH AND FACTORS CONTRIBUTING THERETO

Financial year ended 28 February 1999

In its first year of operations, the Company recorded revenue of approximately RM1.97 million, mainly attributed to the proactive sales and marketing approach adopted by the Company. Through its efforts, ASIAEP managed to establish a clientele base in Malaysia amongst the SMIs and SMEs, mainly because it successfully maintained a good mix of work force with the ability to cater and meet the needs of its customers.

Financial year ended 28 February 2000

Due to ASIAEP's effective marketing strategy coupled with its commitment to continuous improvement and enhancement of its products and services, the Company achieved revenues of RM2.2 million for the year ended 2000 or a growth rate of approximately 14%. Subsequently having controlled the direct cost incurred by the Company to approximately the same levels of the previous financial year, resulted in ASIAEP's operating profit increasing to RM0.12 million as compared to a operating loss of RM0.08 for the financial year ended 28 February 1999.

Financial year ended 28 February 2001

The substantial growth in revenue for the year ended 2001 was mainly due to the introduction of ICT Grants by the government, to local companies. This resulted in an increase in the Company's customer base. Existing customers also renewed their contracts as well as subscribing to additional value added services.

Revenue increased to RM4.3 million and operating profits increased to RM0.97 million for the financial year 2001.

Financial year ended 28 February 2002

During the financial year ended 28 February 2002, the Company adopted a accounting policy to recognise the revenue in respect of customers receiving approved ICT Grants from the Government. As a result of the change in accounting policy, the Company recorded a declining growth in revenue and customer base for the financial year ended 28 February 2002. In line with the declining growth in revenue, the operating profits only increased by 55% for the financial year ended 2002.

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Financial year ended 28 February 2003

During the financial year ended 28 February 2003, the Company experienced an increased growth in revenue of 33% compared to the previous year. This was mainly attributed to the success of the Company in repackaging its existing products to be more interactive and with added features to cater to its customers' needs. This resulted in an increase in its customer base. In addition, the Company also increased public awareness of its products by participating in media advertising as well as IT-related associations and entrepreneurs' society. Furthermore, the Company achieved economies of scale as they do not incur additional cost in re-designing the solutions sold to their customers and this has resulted in an increase in operating profits for the year.

4 month period ended 30 June 2003

For the four (4) month period ended 30 June 2003, the Company maintained its business strategy and achieved a turnover and operating profit of approximately RM1.8 million and RM0.24 million respectively.

6.2.3 IMPACT OF FOREIGN EXCHANGE DIFFERENCES AND INTEREST RATES

There is no significant impact of foreign exchange differences and interest rates as the Company operates within Malaysia.

6.2.4 TAXATION

There was no provision for the current year and deferred taxation for business profits as the Company has been granted pioneer status under the Promotion of Investments Act, 1986, by virtue of its MSC status.

6.2.5 EXCEPTIONAL AND EXTRAORDINARY ITEMS OR INTERRUPTIONS IN BUSINESS SINCE ITS INCORPORATION

There are no exceptional or extraordinary items or any interruptions in business since the Company's incorporation.

6.2.6 CHANGE IN ACCOUNTING POLICIES AND PRACTICES

There has been no significant change in accounting policies and practices applied by the Company except for the change in recognition of revenue from customers with approved ICT Grants, during the financial year ended 28 February 2002.

6.2.7 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE

As at 17 December 2003, being the latest practicable date prior to the printing of this Prospectus, and save for the risk factors disclosed in Section 3 of this Prospectus, the financial conditions and operations of the Company are not affected by any of the following :-

- (a) known trends, demands, commitments, events or uncertainties that have had or that ASIAEP reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of ASIAEP;
- (b) any material capital expenditure commitments, the purpose of such commitments and the anticipated source of funds;

6 FINANCIAL INFORMATION (Cont'd)

- (c) unusual, infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of ASIAEP;
- (d) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position; and
- (e) pending and threatened litigation and arbitration proceedings having an impact on the financial position of ASIAEP.

6.3 MATERIAL COMMITMENT

As at 17 December 2003, being the last practicable date prior to the printing of this Prospectus, ASIAEP has no material commitments.

6.4 WORKING CAPITAL, BORROWINGS AND MATERIAL CONTINGENT LIABILITIES**Working Capital**

The Board is of the opinion that after taking into account the gross proceeds from the Public Issue, the Company will have adequate working capital for a period of 12 months from the date of this Prospectus.

Borrowings and Material Contingent Liabilities

As at 17 December 2003, being the last practicable date prior to the printing of this Prospectus:-

- (i) Save as disclosed below, the Company has no outstanding material contingent liabilities, loan capital outstanding or created but not issued or mortgaged;

The total outstanding borrowings of the Company amounted to as follows:-

	Current RM'000	Non-current RM'000	Total RM'000
Bank overdraft	-	-	-
Term loan	33	130	163
Hire purchase	125	138	263
	<u>158</u>	<u>268</u>	<u>426</u>

The Company has no advances from its director.

The material contingent liabilities of the Company are as follows:-

- (a) The Company has filed a suit against an IT company and its Director (herein collectively known as "Defendants") on 10 October 2000 claiming copyright infringement in relation to the development of internet website and passing off the Defendants' business as that associated with the Company. ASIAEP had successfully obtained an interim injunction on 23 November 2000 restraining the Defendants from making further copies of the Company's website and passing off the Defendants' business as that associated with the Company.

6 FINANCIAL INFORMATION (Cont'd)

The Defendants had filed a defense and counter-claim on 12 January 2001 *inter alia*, seeking a declaration that the Company is not entitled to claim any copyright in respect of web pages commissioned by third party, and both the Company and Defendants have also sought unliquidated damages in their respective claims. The case is presently at the stage of proceeding to Pre-Trial Case Management. The solicitors representing the Company is of the view that the suit may take 2 to 5 years to reach trial. As such, no provision has been made in the financial statements.

Please refer to Section 16.7(i) of this Prospectus for further details of the abovementioned suit.

- (b) A claim has been made against the Directors of ASIAEP for the following:
- (i) that Tan Boon Nunt and Lee Suet Hong be ordered to cause the Company to hand over all accounting documents, records and customers' sign up forms belonging to Asia Electronic Publication (Johor) Sdn Bhd (hereinafter referred to as "AEJ");
 - (ii) that Tan Boon Nunt and Lee Suet Hong be ordered to cause the Company to permit an approved company auditor appointed by the Petitioner to inspect and take copies of all accounting records of AEJ and the Company;
 - (iii) that the Company is ordered to hand over all accounting documents, records and customers' sign up forms belonging to AEJ;
 - (iv) that the Company is to permit an approved company auditor appointed by the Petitioner to inspect and take copies of all accounting records of AEJ and the Company;
 - (v) that Tan Boon Nunt and Lee Suet Hong and two other Respondents and the Company do pay the Petitioner and/or AEJ all loss and damages arising from their breaches of duties as directors of the company;
 - (vi) that Tan Boon Nunt and Lee Suet Hong and two other Respondents and the Company are restrained from acting in any way that interferes with the business of the AEJ;
 - (vii) such other relief deem fit and just by the Court; and
 - (viii) costs of the Petition be taxed and paid by the Tan Boon Nunt and Lee Suet Hong and two other Respondents and the Company.

The solicitors representing the Company are of the opinion that in the event the Petitioner succeeds in his claim and the Court directs the Company to comply with (i), (ii) and (iii) above, the solicitors are of the view that the appointment of the approved company auditor by the Petitioner *per se* shall not have an adverse financial effect on the Company.

There may be some financial effect on the Company should the Court grant the prayers under (v) and (viii). On the other hand, the solicitors are of the opinion that the Petitioner will have an uphill task in persuading the Court to allow the same.

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Please refer to Section 16.7(ii) of this Prospectus for further details of the abovementioned claim.

- (c) A claim has been made against the Company and the Directors for the following:
- (i) that the Company do specifically be ordered to issue to the Plaintiff shares in the Company amounting to 15% of its entire paid up capital as at January 1999 based on the par value of RM1.00 per share;
 - (ii) that the 2nd and 3rd Defendants do cause the Company to issue 15% of the entire shareholding of the Company as at January 1999 at par value of RM1.00 per share;
 - (iii) alternatively, that the Defendants do pay the Plaintiff damages to be assessed;
 - (iv) that the Defendants do refrain from interfering in the business of Asia Electronic Publication (Johor) Sdn. Bhd. and from soliciting and or procuring any business in the state of Johor;
 - (v) costs; and
 - (vi) such other reliefs deem fit and just by the Court.

Whilst it cannot be said with certainty that the Plaintiff claim will fail, the solicitors are of the view that, it appears that the Company has a reasonable strong chance of dismissing the Plaintiff's claim subject always to the availability and credibility of the witnesses during the trial. It is to be noted however that, if the Courts allow the following prayers, i.e: -

- (i) that the Defendants do pay the Plaintiff damages to be assessed;
- (ii) that the Defendants do refrain from soliciting and or procuring any business in the state of Johor; and
- (iii) costs;

then, subject to any warranty and/or undertaking which may be provided by the 2nd and 3rd Defendants to pay such loss, damages and/or costs to be awarded and provided that such warranty and undertaking are fulfilled, the solicitors are of the view that the financial impact on the Company will be negligible.

Please refer to Section 16.7(iii) of this Prospectus for further details of the abovementioned claim.

- (ii) Save as disclosed in Section 16.7 of this Prospectus, the Company is not engaged in any material litigation either as plaintiff or defendant and the Directors of the Company have no knowledge of any proceedings pending or threatened against the Company and its subsidiary or any facts likely to give rise to any proceedings which might materially effect the position and business of the Company.

6 FINANCIAL INFORMATION (Cont'd)

6.5 AMORTISATION OF INTELLECTUAL PROPERTY

On 16 August 2002, the company entered into the Deed of Assignment with Dr Tan Boon Nunt for the acquisition of the System. The System was valued at RM16.5 million which was satisfied by issuance of 6,395,349 new ordinary shares of RM1.00 each at the issue price of RM2.58 per share. Based on the existing accounting policy of the ASIAEP as reflected in the audited financial statements of the Company, the System is estimated to have an economic life of 15 years, commencing from financial year ended 28 Feb 2003 to 2017. The amortisation rate ranges from 2% to 12%. The System will be amortised over 15 years, where the forecasted income generated every year is divided by the total revenue generated for 15 years and multiplied by its value of RM16.5 million.

The Board has consulted the Company's auditors, KPMG who notified the Board that there is currently no accounting standards adopted in Malaysia that governs the treatment of IP which is an intangible. The applicable accounting standard on IP is the International Accounting Standard IAS 38 on Intangible Assets, which has not yet been adopted by the Malaysian Accounting Standards Board as at 15 September 2003.

As the IP had been recorded as an asset in the balance sheet of ASIAEP as at the financial year ended 28 February 2003, the IP would have to be evaluated for impairment on an annual basis in accordance with MASB 23, Impairment of Assets. Should there be any indications of impairment, the impairment loss that may arise would be recognised and reflected in the income statement of the Company within the same financial year in which such impairment loss occurs.

It should be noted that, the IP was acquired by ASIAEP at an agreed price of RM16.5 million before KPMG were appointed as the Company auditors.

Based on the above understanding and the comments of the auditors KPMG, the Board and the Adviser have a basis to conclude that the accounting treatment of the IP complies with applicable accounting standards and generally accepted accounting principles in Malaysia.

6.6 FUTURE FINANCIAL INFORMATION

Due to the uncertain nature and inherent risks in the business of the Company, no future financials are included in this Prospectus.

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