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## 4 INFORMATION ON THE COMPANY

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### 4.1 HISTORY

#### 4.1.1 BACKGROUND

ASIAEP was incorporated in Malaysia on 7 December 1992 as Direct Marvel Sdn Bhd as a private limited company under the Companies Act, 1965. It changed its name to Asia Electronic Publication Sdn Bhd on 3 October 1996, and later to ASIAEP.COM Sdn Bhd on 11 August 2000. It changed its name to ASIAEP Sdn Bhd on 3 July 2002. The Company subsequently converted into a public limited company on 16 September 2002 and assumed its present name. The current authorised and issued and paid-up share capital of the Company is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each and RM14,000,000 comprising 140,000,000 ordinary shares of RM0.10 each respectively.

The Company is principally involved in the provision of eCommerce solutions and eMarketplace platform for both local and foreign enterprises.

ASIAEP has no subsidiaries or associated companies.

#### 4.1.2 RESTRUCTURING AND LISTING SCHEME

On 16 August 2002, the Company entered into a Deed of Assignment with Dr. Tan Boon Nunt for the acquisition of the System for a purchase consideration of RM16.5 million which was satisfied by the issuance of 6,395,349 new ordinary shares of RM1.00 each in ASIAEP at an issue price of RM2.58 each. The consideration shares were issued on 2 September 2002.

On 2 September 2002, the Company carried out a bonus issue of 6,104,651 shares of RM1.00 each on the basis of approximately four (4) new ordinary shares for each ordinary share held in ASIAEP which was capitalised from the share premium account of the Company. The entitlement date for the bonus issue was on 30 August 2002. On 5 September 2002, the Company split its ordinary shares of par value of RM1.00 each to ordinary shares of par value of RM0.10, resulting in an issued and paid up share capital of RM14,000,000 comprising of 140,000,000 shares.

As an integral part of the listing of and quotation for the entire issued and paid-up capital of the Company on the MESDAQ Market, the Company undertook a flotation scheme that was approved by the SC and KLSE on 1 July 2003 and 2 July 2003 respectively.

##### (i) Issue of 60,000,000 new ordinary shares of ASIAEP

In conjunction with the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market, ASIAEP will issue 60,000,000 new ordinary shares of ASIAEP at an issue price of RM0.30 per share to individuals, companies, societies, co-operatives and institutions, employees, directors and business associates to ASIAEP. The issue of new shares is the subject of this Prospectus.

##### (ii) Listing and Quotation on MESDAQ Market

The admission to the Official List of the MESDAQ Market and the listing of and quotation for the entire issued and paid-up share capital of ASIAEP comprising 200,000,000 ordinary shares of ASIAEP on the MESDAQ Market.

#### 4 INFORMATION ON THE COMPANY (Cont'd)

##### 4.2 SHARE CAPITAL

The authorised share capital of ASIAEP is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each. As at 13 September 2002, the issued and fully paid-up share capital of the Company is RM14,000,000 comprising 140,000,000 ordinary shares of RM0.10 each in ASIAEP. Upon completion of the Public Issue, the issued and paid-up share capital of the Company will increase to RM20,000,000 comprising 200,000,000 ordinary shares of RM0.10 each in ASIAEP credited as fully paid-up.

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

Date of allotment	No. of ordinary shares allotted	Par Value	Consideration	Resultant
				Issued and paid-up share capital (Cumulative)
		RM		RM
07.12.92	2	1.00	Subscribers' shares	2
10.10.98	499,998	1.00	Cash	500,000
14.12.98	200,000	1.00	Cash	700,000
26.04.00	292,400	1.00	Cash	992,400
28.04.00	7,600	1.00	Cash	1,000,000
10.05.02	500,000	1.00	Cash	1,500,000
02.09.02	6,395,349	1.00	Acquisition of IP	7,895,349
02.09.02	6,104,651	1.00	Bonus Issue	14,000,000
05.09.02	-	0.10	Subdivision of existing ordinary shares from RM1.00 par value to RM0.10 par value	14,000,000

##### 4.3 CALL OPTIONS

The Company had entered into the Option Agreements on 12 September 2002 with the eleven (11) individuals to subscribe for 6,900,000 of the Public Issue Shares. The grantees shall have the right to subscribe for such Public Issue Shares within a period of two (2) weeks from the date of which the approval of the relevant authorities for the listing of ASIAEP on the Mesdaq Market is received, at a subscription price of RM0.30 per ordinary share. As at 17 December 2003, being the last practicable date prior to the printing of this Prospectus, the following ten (10) the options holders have exercised their respective rights to subscribe for the 6,500,000 Public Issue Shares. One of the option holders, namely Ng Kim Wah had terminated his said option with the Company. The ten (10) option holders are as follows:-

Name

Tiun See Khum @ Teoh Swee Khim  
 Bu Ah Kau @ Woo Chee Kam  
 Chong Me Lan @ Teoh Me Lan  
 Lim Kong Hwee  
 Lau Teng Chye  
 Yong Ah Chon  
 Chan Kam Tong  
 Yap Yoke Yaw  
 Ho Sah Lee  
 Chin Yoong Keong

## 4 INFORMATION ON THE COMPANY (Cont'd)

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### 4.4 BUSINESS OVERVIEW

#### 4.4.1 BACKGROUND

ASIAEP is a provider of B2B eMarketplace for SMEs in the manufacturing sector enabling these SME's a way to reach out to a global market through innovative Internet solutions.

An eMarketplace is an Internet-based broker of goods or services in a community of many buyers and many sellers. An eMarketplace attempts to establish a level playing field for buyers and sellers by enabling equal access by all parties to the marketplace.

It has open criteria for entry; any buyer or seller that meets the criteria can participate. Moreover, the eMarketplace itself does not take physical possession of the goods or services being traded; it only facilitates their exchange by matching buyers and sellers. The eMarketplace thus resembles the town markets that still exist in many countries, at which buyers and sellers gather to exchange goods and services, whose criteria of participation are relatively liberal, and in which no participant has the ability to dominate the structure of the market.

ASIAEP commenced its operations on 1 March 1998 and obtained MSC status on 4 March 1998, giving them access to tax free incentives for 5 years and the opportunity to leverage on the MSC infrastructure. ASIAEP had on 28 July 2003 obtained approval from the MDC for a further extension of five (5) years to its tax-free status for the Company. As such, ASIAEP will continue to enjoy tax-free benefits on its income derived from MSC-related activities up to March 2008.

ASIAEP's approach to the local SMEs is a 'click and mortar' philosophy, whereby the Company provides additional avenues through its portal to the SMEs to expand their respective market bases, through Internet presence and visibility on key search engines.

#### 4.4.2 SERVICES AND PRODUCTS/TECHNOLOGY

ASIAEP derives its revenue from annual subscription fees, consultation and advertising services and sale of products.

The Company provides a comprehensive range of Internet and advertising related services which are set out below. :

##### Homepage & Multimedia

- Multimedia Production & Development
- Internet Web Page Development
- CD ROM Development

##### eMarketplace

- eMarketplace Developer & Maker
- Website Hosting
- Domain Name Registration

##### eCommerce & Internet Consultancy

- Design & Development of eCommerce System
- Internet Online Management System
- Customised eSolution

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**4 INFORMATION ON THE COMPANY (Cont'd)**


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Internet Advertising, Branding & Media Advertising

- Banner Advertisement
- External Media Advertising & Consultation Services

The Company positions itself as a technology enabler for local manufacturers to establish their presence in eMarketplaces and to tap the lucrative B2B network. ASIAEP expects the following applications to differentiate themselves from other eMarketplaces and to provide them with the competitive edge. The details of the Company's existing and proposed services and product/technology are as follows:-

<u>Name of Product/Technology</u>	<u>Description</u>
EPxhibit	: Creation of virtual exhibition for company websites which enables trade matching efficiency.
EPnetcast	: Enables updating of its customer website to key search engines. This is to allow a higher rate of exposure when buyers are sourcing for goods over the Internet.
EPreal	: Allowing customers to post updates news and information on their websites in real time giving them instant control of their websites.
EPchat	: An online meeting place which provides its users a secure private chat room using browser-based technology.
EPclose	: This application allows buyers to have unique access privileges with suppliers for specific product information, pricing and online quotations.
EPintra	: This application emulates a virtual private network application where clients can use the Internet as a private network for Intranet applications allowing for costs savings.
EPpay	: An electronic online payment system to facilitate eCommerce transactions over the Internet.

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**4 INFORMATION ON THE COMPANY (Cont'd)**


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The proposed new products/technology to be implemented within the next five (5) years are as follows:-

<u>Name of Product/Technology</u>	<u>Description</u>
EPcate	: A system to business enterprises to publish, edit and change their catalogue product range without the use of the service provider or designer.
A-Management System	: A system to manage the human resource, personnel and all management functions of the company.
EPmart	: A system to provide basic needs of SME in transforming their business processes to eBusiness processes.
EPtrade	: A system with various modules covering customers' database, sales process, purchase order and delivery status of business transactions.
ITAH	: A dedicated eBusiness Search System catered to specialised industries within a business community.
EPcateM	: A system to business enterprises to publish, edit and change their catalogue product range without the use of the service provider or designer with features to support mobile telecommunication devices.
EPmartM	: A system to provide basic needs of SME in transforming their business processes to eBusiness processes with features to support mobile telecommunication devices.

#### **4.4.3 TRADEMARKS AND COPYRIGHT**

##### **4.4.3.1 ASIAEP Online Platform System**

The System was acquired from Dr Tan Boon Nunt, the architect and designer of the System on 16 August 2002 pursuant to the Deed of Assignment. ASIAEP is allowed to resell the System in any form or price and ASIAEP can make any changes or enhancement to the source programs. The application to register the intellectual property rights of the System has been filed with the Ministry of Domestic Trade and Consumer Affairs on 28 September 2001. As at 17 December 2003, being the latest practicable date prior to the printing of this Prospectus the application for the registration of the intellectual property rights of the System is still pending. The System has been used successfully to develop the B2B eCommerce portal [www.asiaep.com](http://www.asiaep.com), consisting of 8 vertical portals, each catering to different business industries within the manufacturing sector. The B2B eCommerce portal is part of the System, which was sold to ASIAEP. The successful implementation of the System through [www.asiaep.com](http://www.asiaep.com) reflects the technical viability of the System and business processes.

#### **4 INFORMATION ON THE COMPANY (Cont'd)**

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Having acquired the System, ASIAEP has subsequently strengthened its R&D team to enhance the features and continue the development of the System and to further develop new products. The R&D team will be provided with training on the architecture and algorithms used in the System. As part of the Deed of Assignment, Dr Tan Boon Nunt will endeavour to participate in the further development of the System.

##### **4.4.3.2 Rationale for acquiring the System**

ASIAEP had acquired the System from Dr Tan Boon Nunt after taking into consideration the following factors:

1. With the increasing popularity of Internet and the availability of broadband access, eCommerce will grow rapidly. When online infrastructure is in place, the System will be a common business tool that will become a standard add-on item to computers. The demand for eCommerce System will grow accordingly;
2. It is in-line with the Company's plan to focus on eCommerce infrastructure and products. The System is basically a tested product of asiaEP.com. It is synergistic and necessary for the Company to have the intellectual property rights to manufacture, enhance and market the System, as the eCommerce customers would need such online platform software;
3. The intellectual property rights permit the Company to market the asiaEP.com products globally. Hence, this provides a bigger market potential than what the Company currently enjoys;
4. The technology of the System has a long life span and can be enhanced or customised to be used for many other purposes. This includes market observation system, market analysis, interactive business solutions and many other applications; and
5. ASIAEP believes that there is high growth potential in the eMarketplace industry. By owning the intellectual property rights, the Company will be able to enhance and expand on the System, thus capitalising on the potential of the eMarketplace industry.

##### **4.4.4 MARKET COVERAGE, POSITION AND SHARE**

The Company has already established a substantial market share and position in the domestic eMarketplace industry within the country. According to the IDC Report, July 2003 ASIAEP is the leader in emarketplaces based on paid membership for its marketing services. As at 17 December 2003 being the last practicable date prior to the printing of this Prospectus paid members totalled 2,083. The IDC Report, July 2003, further states that ASIAEP having commenced operations on 1 March 1988 is one of the first players in the e-marketplace industry. However there is no direct comparison among the eMarketplaces in the country as all other eMarketplaces derive revenue from different means and sources. Realising the growth of the eMarketplace industry, as stated in Section 5.3, the management of the Company believes that the opportunities exist for the Company to increase its market share.

#### **4 INFORMATION ON THE COMPANY (Cont'd)**

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##### **4.4.5 PRINCIPAL MARKETS**

ASIAEP positions itself as an IT solution provider of web presence to local SMEs. The first market segment that ASIAEP focuses on is the SME market of the manufacturing sector. SMEs assume a vital role in the overall economic development as they can contribute significantly in terms of employment generation, value added and output of the manufacturing sector. In order to further enhance their contributions to the economic growth of the country, the Government has established various assistance such as tax relief, tax exemption and grants to further promote the development of SMEs through the provision of advisory services, fiscal and financial assistance, infrastructure facilities, market access and other support programmes.

##### **4.4.6 TYPES, SOURCES AND AVAILABILITY OF RAW MATERIALS/INPUT**

To-date, the Company has not encountered any difficulties in hiring new staff to meet its expansion needs. The Directors of ASIAEP believe that offering a competitive salary package and a conducive working environment will mitigate the risk of insufficient qualified IT personnel. In addition, due to its MSC status, the Company is eligible to employ foreign skilled workers should the need arises.

##### **4.4.7 QUALITY CONTROL PROCEDURES**

To ensure that the hardware and software solutions provided by the Company to its clients meet their respective requirements, the Company conducts design reviews by comparing the design specifications against the clients' requirements, verifying the design specifications with the clients' project teams or their Management Information System department. These ongoing reviews and checks are achieved through regular in-house meetings amongst the technical team members and meetings with clients in relation to system requirements. The Company's testing and quality control elements includes the following:-

- Specification study to record the system requirements;
- Design specification to address the client's requirement and specification;
- Test plans; and
- Documentation of any request for change of requirements and design.

##### **4.4.8 R&D**

The Directors of ASIAEP believe that continuous R&D plans are crucial to the Company to compete effectively. Hence, the Company places great emphasis on the development of cost-competitive software solutions in response to the rapid technological changes and changing needs of customers.

Product enhancement requirements and feedback are gathered from the customers, sales and marketing team and product development team. With such market research data, the Company would subsequently formulate a software development plan.

The Company has set up a R&D office in Cyberjaya. It is located at Suite D, Merak Block, Cyberview Garden, Cyberjaya, Selangor Darul Ehsan. There are presently 13 qualified technical personnel involved in R&D which include system analysts, web designers, programmers and IT graduates who have various experiences in software programming, engineering, product design and development led by the IT Director, Mr Koh Jee Kuan.

#### 4 INFORMATION ON THE COMPANY (Cont'd)

The key R&D strategies of the Company are as follows:-

**(i) Increase R&D manpower, training and resources**

The Company intends to employ additional R&D staff. This would enable the Company to enhance its ability to develop products and shorten the product development cycle and speed to market. The Company also intends to send the R&D staff for relevant courses to update their technical knowledge.

The Company expects to achieve the following number of R&D staff by the end of each of the following financial years:-

	FYE 2004	FYE 2005	FYE 2006	FYE 2007
No. of R&D staff	15	18	19	20
Increase	-	3	1	1

**(ii) Keep abreast with new development tools and technologies**

The Company intends to enhance its R&D capabilities, by investing in development tools such as licences for software development.

**(iii) Collaborating with other software developers**

The Company intends to forge joint ventures with industry partners for R&D of new technologies to ensure effective investments in foreign countries in the coming years.

**(iv) Amount spent on R&D activities for the last 3 years**

During the last three (3) financial years ended 28 February 2003, ASIAEP has incurred the following costs for its R&D activities:-

	FYE 2001 RM'000	FYE 2002 RM'000	FYE 2003 RM'000
R&D cost	469	692	1,208
Turnover	4,247	5,248	7,002
%	11	13	17

#### 4.4.9 INTERRUPTIONS IN THE BUSINESS DURING THE PAST TWELVE (12) MONTHS

There has been no interruption to the company's business or operations in the past twelve (12) months.

#### 4.4.10 KEY EMPLOYEES

As at 17 December 2003, being the last practicable date prior to the printing of this Prospectus the Company has thirty-nine staff employed in the following capacity:-



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**4 INFORMATION ON THE COMPANY (Cont'd)**


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<b>Department</b>	<b>Number of employees</b>	<b>Average years of service</b>
Executive Directors	4	4
Non-Executive Directors	-	-
Independent Non-Executive Directors	2	-
Finance and Administration	6	2
Technical Support	13	2
Sales and Marketing	14	2
<b>Total</b>	<b>39</b>	

Having attained the MSC status and with sufficient funds raised from the Public Issue, the Company will be able to strengthen the management team and increase knowledge workers and expenditure for R&D activities.

ASIAEP currently provides staff training via in-house training sessions and on-the-job training. The management of ASIAEP believes that staff development is crucial and therefore, employees of the R&D department are exposed to various R&D functions in order to ensure that they are adequately acquainted with the Company's R&D and software implementation processes. Promotions are usually within the Company and ASIAEP will train junior managers to become middle and top management by giving them the opportunity to accept more responsibilities.

The key management and technical positions of the Company are as follows:-

<b><u>Staff Name</u></b>	<b><u>Position</u></b>
Robert Lim Lian Hoe	Head of Finance & Corporate Affairs
Hoe Kian Choon	Sales, Marketing & Customer Service Manager
Loo Tuck Lee	Head of Programming

The employees of ASIAEP do not belong to any labour union and enjoy a cordial relationship with the management. Since the date of incorporation of the Company there has been no labour or industrial dispute between the employees and management.

#### **4.4.11 KEY MILESTONES**

ASIAEP received its MSC status on 4 March 1998.

The key milestones of ASIAEP are as follows:-

<b>Date</b>	<b>Event</b>
4 March 1998	Granted MSC Status
19 April 1999	Industrial Collaboration Partner with Multimedia University
23 September 1999	Official Website Developer for Multimedia Asia organised by National IT Council

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**4 INFORMATION ON THE COMPANY (Cont'd)**

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12 June 2000	Registered as an approved company of the Kementerian Kewangan Malaysia (Ministry of Finance)
15 June 2000	Premier Partner for network Solutions Incorporated Ltd
3 July 2000	Granted Franchiser Licence from Kementerian Pembangunan Usahawan (Ministry of Public Enterprise)
6 December 2001	Strategic alliance with Societe Generale de Surveillance
10 December 2001	Official Internet Media for Miss Chinese Universe Pageant
2 April 2002	Official Reseller for MyNic-.com.my domain name
4 April 2002	Official Website Developer for Banking Technologies Asia 2002
4 April 2002	Official Website Developer for CARDEX Asia 2002
23 August 2002	Main Sponsor for asiaEP.com Malaysia International Woodball Championship 2002
6 May 2003	Held joint seminar on "E commerce in Banking and B2B Environment" with Bumiputra Commerce Bank Berhad

**4.4.12 OPERATING CAPACITIES AND OUTPUT**

As the Company is a software development company, its operating capacity is determined by the number and experiences of the skilled IT employees that it has. As such, the Company constantly monitors the requirements of its skilled IT employees to ensure that contracts secured could be delivered to customers as scheduled. To-date, the Company has neither encountered any constraints in operating capacity nor has it encountered any difficulty in increasing its headcount to meet an increase in contracts.

**4.4.13 MODES OF MARKETING AND DISTRIBUTION**

**Direct Approach**

The Company sources customers via referrals from the existing customers and actively markets to new clients, via presentations and product demonstration to potential customers. From time to time, the Company also sends product brochures to potential customers to create product awareness.

**Indirect Approach**

This approach involves the following channels:-

- (i) The Company intends to reach out to the SMEs through business contacts, business associations, trade shows, seminars and advertisements;
- (ii) The Company intends to liaise with business associations to conduct presentations on the benefits of a web presence. Subsequent to seminars, sales calls would be made to those business associations who are interested in the products of the Company. The Company would then conduct presentations on its products and services to these potential customers;

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**4 INFORMATION ON THE COMPANY (Cont'd)**


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- (iii) The Company will participate in the relevant IT exhibitions and advertise in trade publications; and
- (iv) Company publicity, such as sponsorship of the ASIAEP ICT Entrepreneur Program, which was launched by the Minister of Entrepreneur Development on 26 May 2003.

**4.4.14 PRINCIPAL ASSETS AND PRINCIPAL PLACE OF BUSINESS**

The Company's operations and principal assets are currently situated at No. 18 & 20, Jalan TK 2/1C, Taman Kinrara, Seksyen 2, 47100 Puchong, Selangor Darul Ehsan.

**4.4.15 MAJOR INVESTMENTS**

On 16 August 2002, the Company entered into the Deed of Assignment with Dr Tan Boon Nunt for the acquisition of the System for a purchase consideration of RM16.5 million which was satisfied by the issuance of 6,395,349 new ordinary shares of ASIAEP at an issue price of RM2.58 each. The consideration shares were issued on 2 September 2002.

**4.4.16 MAJOR EXPANSION AND ACQUISITION ACTIVITIES**

Save as disclosed in Section 4.4.15, there have been no major expansion and acquisition activities by the Company in the past twelve (12) months.

**4.4.17 EXCEPTIONAL FACTORS AFFECTING THE BUSINESS**

Save for the risk factors highlighted in Section 3 of this Prospectus, the Company does not foresee any exceptional factors, which may affect its business.

**4.4.18 MAJOR CUSTOMERS**

The Company's major customers consist of companies in various industries of the manufacturing sector. However the Company is actively targeting customers in other growth sectors of the Malaysian economy, i.e. trading and distribution and transportation sectors. Due to the nature of the business of ASIAEP, whereby most of the customers utilise similar products and services from the Company resulting in similar subscription rates, there were no customers who individually contributed more than 10% of the turnover of the Company. Some of the major customers based on the length of relationship with the Company are as follows:

	Name of Company	Length of relationship (years)	Industry / Product
1.	Am SGB Sdn Bhd	5	Electronic
2.	Guppy Plastic Industries Sdn Bhd	5	Plastic
3.	Perfect Food Manufacturing (M) Sdn Bhd	5	Food
4.	Federal Flour Mills Bhd	5	Consumable
5.	Latitude Tree Holdings Bhd	5	Furniture
6.	Torsco Bhd	5	Engineering
7.	Top Glove Bhd	5	Rubber
8.	Golden Hope Bhd	5	Plantation
9.	Prolexus Bhd	4	Garment
10.	Delloyd Ventures Bhd	5	Automotive

ASIAEP is not dependent on any major customer for its business.

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**4 INFORMATION ON THE COMPANY (Cont'd)**

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**4.4.19 MAJOR SUPPLIERS**

The Company does not buy substantial amounts of raw materials or supplies. The Company's software solutions are proprietary and developed in-house. Some of the major suppliers based on the length of relationship with the Company are as follows:

	Name of Company	Length of relationship (years)	Items purchased
1.	Achitec (Puchong) Sdn Bhd	5	Computer Equipment
2.	Replitex CD Industries Sdn Bhd	5	CDrom

ASIAEP is not dependent on any major supplier for its business.

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## 5 INDUSTRY OVERVIEW

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### 5.1 THE MALAYSIAN ECONOMY

The Malaysian economy expanded at a more rapid pace of 5.1% in the third quarter of 2003 from 4.5% in the second quarter. The growth has been broad based, both in terms of expenditure and production components. Strong economic fundamentals and the comprehensive public sector response to uncertainties in the global economy in the early part of the year has enabled the economy to benefit from the more favourable external environment in the third quarter. The strong private sector response to the pro-active Government measures and a low interest rate environment has contributed to the strengthening of the growth momentum.

Growth in domestic demand was driven mainly by the private sector. Private sector activity strengthened with both the consumption and investment picking-up momentum as a result of the cumulative effects of low interest rates, the Government measures, which resulted in higher disposable incomes and increased access to financing, and the beneficial impact of higher commodity prices on rural incomes. Other important factors supporting private sector activity was the growth in productivity and rising real wages amidst stable labour market conditions. The positive response to policies and the improved external outlook led to increased consumer and business confidence during the quarter. Private consumption grew strongly by 5.4% during the quarter. The more favourable economic environment and higher capacity utilization in the manufacturing sector stimulated the growth in private investment. As a result, growth in gross fixed capital formation accelerated to 3.2%.

*(Source: Economic and Financial Developments in Malaysia in the Third Quarter of 2003 – Bank Negara Malaysia, 19 November 2003)*

### 5.2 THE MALAYSIAN IT INDUSTRY

The IT industry in Malaysia has shown signs of recovery from the economic downturn that has been affecting its performance since the contagion effect spread to the country in 1998. Market billings have stabilised and are expected to grow again in tandem with economic revival in a number of service-centric sectors. The revenue growth for the Malaysian IT industry from 1997 to 2002 is set out in below:-

#### Malaysian IT Industry's Domestic Billings

Year	RM' millions
1997	5,380
1998	4,840
1999	5,230
2000	5,910
2001	6,501
2002	7,151

*(Source: PIKOM)*

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**5 INDUSTRY OVERVIEW (Cont'd)**


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The use of the Internet in Malaysia has grown rapidly since the start of its commercialisation in the early 1990s. The rapid growth in the popularity of the Internet is due largely to increasing penetration of computer, modem and other access devices, reduced Internet connection costs, the emergence of new Internet appliances (such as personal digital assistants, cellular phones and Wireless Application Protocol phones), development of the Web, the introduction of easy-to-use navigational tools and utilities, and the growth in the number of information, entertainment and commercial applications available on the Internet. Growth in client/server computing, multimedia personal computers and online computing services and the proliferation of networking technologies have resulted in a large and growing group of people who are accustomed to using networked computers for a variety of purposes, including e-mail, electronic file transfers, online computing and electronic financial transactions. These trends have increasingly led businesses to explore opportunities of providing Internet-based applications and services within their organisations and to customers and business partners. Based on the statistics published by PIKOM, the growth of the Internet subscribers in Malaysia industry from 1995 to 2002 is as follows:-

	1995	1996	1997	1998	1999	2000	2001	2002
PC's Active installed (Units) ('000)	610	760	1,030	1,360	1,800	2,200	3,000	3,600
Number of Internet Subscribers ('000)	18	90	200	400	700	1,000	2,000	2,600
Number of Internet Users ('000)	30	180	500	1,500	2,800	4,000	6,500	7,500

*(Source: PIKOM)*

#### **Knowledge-based Economy ("K-based economy")**

Cognisance of the role of a knowledge-based economy in promoting growth and productivity, the Government has implemented the Knowledge-based or K-based Economy Master Plan. The Master Plan, launched in September 2001, outlines seven strategic thrusts comprising recommendations to accelerate the shift towards the knowledge-based economy. The strategic thrusts focus on areas that are salient to the transformation to the new economy, encompassing human resource development, institutional framework, info-structure and infrastructure, science and technology capacity, role of the private sector, a knowledge-based civil service as well as bridging the knowledge and digital divides. In providing the infrastructural support for the development of a K-based economy and ICT industries, the development of the MSC has covered further grounds.

*(Source: Economic Report 2002/2003)*

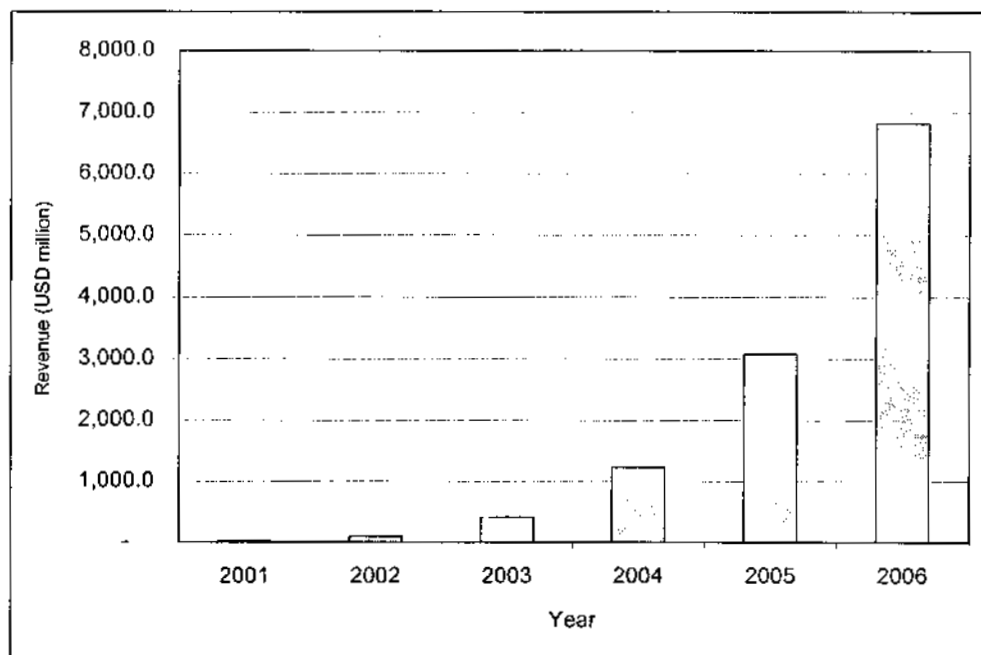
By August 2003, 914 companies comprising 20% foreign companies, were awarded MSC status. Planned investment in the designated areas covering activities of IT services and software development has reached RM13 billion, an increase of 34% against the previous year. The MSC has since created 21,270 jobs, out of which 86% involves knowledge workers. Currently, 59 world-class companies operate in MSC against 53 the year before. Reflecting improved demand in the technology sector, total sales generated from the MSC amounted to RM5.85 billion, of which 17.5% were from exports.

*(Source: Economic Report 2003/2004)*

## 5 INDUSTRY OVERVIEW (Cont'd)

### 5.3 FUTURE GROWTH

Revenue Forecast of eMarketplace in Malaysia (2001-2006)



Source: IDC Internet Commerce Market Model v8.3, 2003

In 2002, B2B revenue reached USD 982.1 million. IDC believes that this market will continue to grow beyond 2002 due to the economic rebound in the second half of 2003 to at least the first half of 2004. Companies are expected to invest in technology to achieve higher operational efficiencies, creating a new momentum of demand from ecommerce services.

Furthermore, eMarketplace revenues in Malaysia are expected to grow from USD98.2 million in 2002 to USD6.8 billion in 2006. EMarketplace revenue refers to the combined value of:

- products/services purchased by businesses on the internet and intended for consumption by the businesses; and
- products/services purchased by businesses on the internet and incorporated into their respective products/services offered.

The expected strong growth rate of eMarketplace in Malaysia is due to several factors:-

- \* Most local companies especially SMEs would want to explore the global market. Nonetheless, the lack of overseas contacts and presence provides opportunities for established eMarketplace to offer their services that enable these companies to promote their products and services quickly and cost-effectively.
- \* In 2001 alone, exports from Malaysia accounted for US\$88 billion in trade, growing by a compound annual annual growth Rate of 14% for the past 12 years up to 2001 (source:MATRADE, 2002). If this rate continues, it will reach US\$167 billion by 2006 and comparatively US\$6.8 billion of that trade will be channelled to eMarketplaces as revenues by 2006.
- \* Other SMEs in the region will do the same to try to remain competitive. Hence it will become a more intense global playing field in which the competitiveness of Malaysian SMEs can be enhanced by promoting their products and services via established eMarketplaces.

## 5 INDUSTRY OVERVIEW (Cont'd)

- \* The Government's strong initiatives in promoting eCommerce activities will encourage companies to participate.
- \* eMarketplaces providers like ASIAEP are playing an integral role to help educate SMEs on how to use IT profitably in their business.
- \* The eMarketplace business model has potential for various combinations that can individually enhance global merchandising in an era of more open and liberalized markets.
- \* eMarketplaces transactions can achieve higher efficiencies in sourcing, pricing, and distributing symmetrical information.

*(Extracted from IDC Report, July 2003)*

### 5.4 INDUSTRY PLAYERS AND COMPETITION

#### eMarketplaces in Malaysia

eMarketplace	Industry	Launch date
AsiaEP.com	Manufacturing	1H1998
MyBiz.net	Manufacturing	1H2000
EAdminpro.com	Financial institution	1H2001
ECeylinco.com	SME	1H2000
GlobalB2B2C	Protective solutions	2H2000
Itsupermall	IT, furniture, chemical, spare parts	2H2000
MnEportal.com	Mechanical and electrical	2H2000
DagangAsia.com	Manufacturing	2001
Tradenex	Manufacturing	2001
Sibexlink	Manufacturing	2002
MatchnTrade.com	SME – Industrial Products, particularly in electronics and electrical	2001
Worldsol.com	Chemical	2H2000

The asiaEP.com eMarketplace is the longest established and a leader based on paid membership for its marketing services in Malaysia which as at 17 December 2003 being the last practicable date prior to the printing of this Prospectus totalled 2,083 paid members. In the Malaysian eMarketplace industry, ASIAEP has a sound revenue stream stemming from its eMarketplace membership and services fee in 2001.

*(Extracted from IDC Report, 2003)*

### 5.5 REGULATIONS GOVERNING THE INDUSTRY AND PECULIARITIES OF THE INDUSTRY

Recognising the importance of IT as the foundation of national development in the future, the Government has introduced various policies and incentives to encourage the growth of the IT industry. The most important milestone of the IT development programme is the MSC. The



## **5 INDUSTRY OVERVIEW (Cont'd)**

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MSC will provide the catalyst for the synergistic expansion of related IT industries/products and create the enabling environment for orderly development of IT in the country. The MSC has led to the emergence of new service-based industry clusters, including software development, telecommunications, animation, production and broadcasting, provision of on-line services, education and training, R&D, and networks and broadband applications. In order to promote the MSC, several flagship applications have been identified such as electronic government, smart schools, multipurpose card and telemedicine. The flagship applications for multimedia environment development are R&D clusters, worldwide manufacturing webs and borderless marketing.

### **5.6 DEMAND AND SUPPLY CONDITIONS**

The demand and supply of ASIAEP's products are mainly dependent on the growth of the manufacturing industry in the country.

The stronger expansion in manufacturing of 8.5% was stimulated by more buoyant consumption and higher production for export. Capacity utilization remained high across both domestic and export oriented industries. Generally, improved business confidence and a more optimistic outlook for global growth have resulted in further inflows of new foreign direct investment into the manufacturing sector in the third quarter.

*(Source :Economic and Financial Developments in Malaysia in the Third Quarter of 2003 – Bank Negara Malaysia, 19 November 2003).*

### **5.7 SUBSTITUTE PRODUCTS AND SERVICES**

The threat of substitutes comes from the following areas:-

- Traditional marketing/advertising media;
- eProcurement, eDistribution Sites, and Private Exchanges; and
- Generic online directory listing.

However, the threat of substitute products is generally low. The emarketplace can deliver more than just business listing, through advance ecommerce functionality for the SMEs. The industry is still new and in fact is seen as a threat of substitute for the traditional business.

Supplier and buyers have the freedom to register with any marketplace that is regarded to be most closely related to their interest. From historical observations, the ability to retain members that recognise the benefits of having presence in an emarketplace is critical to the survival of an emarketplace. ASIAEP over the years has managed to ensure that their active members renew their subscription to ASIAEP's emarketplace. It is notable that in 2002 ASIAEP managed to retain over 80% i.e. more than 1,000 of their existing members while still growing the marketplace registration of suppliers.

*(Extracted from IDC Report 2003)*

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**5 INDUSTRY OVERVIEW (Cont'd)**

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**5.8 PROSPECTS AND OUTLOOK**

Prospects of the global economy for the remaining part of 2003 and into 2004 are turning significantly positive. The US economy rebounded strongly in the third quarter, with rising job creation and investments and a consequent decline in the unemployment rate. This development is expected to have a positive impact in sustaining US private consumption. Stronger evidence of increases in investment is indicative of a more sustainable recovery in global growth. Encouraging trends have also emerged in Japan and Europe.

The more positive external environment will reinforce stronger domestic demand. Greater consumer and business confidence is expected to reinforce the momentum of growth in private consumption and investment while the public sector gradually consolidates.

*(Source: Economic and Financial Developments in Malaysia in the Third Quarter of 2003 – Bank Negara Malaysia, 19 November 2003).*

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