4. INDUSTRY OVERVIEW

4.1 Introduction

The EFFICIENT Group is primarily involved in the provision of integrated outsourcing solutions in DDP as well as EBP services, to banks, stock-broking companies, insurance companies and telecommunications operators ("Selected Industries").

Accordingly, market for the Group's services is dependent on the performance of the industries in which its customers operate, which are in turn dependent on the condition of the Malaysian economy.

4.2 Overview of the Malaysian economy

Malaysia's growth momentum continues into 2004 after recording a strong growth in 2003. Unlike 2003, when the global economy was affected by the war in Iraq and Severe Acute Respiratory Syndrome (SARS), the external environment in 2004 has improved markedly with upswing in the global electronics demand as well as favourable commodity prices. This enabled the Malaysian economy to expand steadily from 7.6% in the first quarter of 2004 to 8% in the second quarter, the highest since the third quarter of 2000.

Within the services sector, information and communication technology ("ICT") and tourism-related industries continue to generate significant growth, both in terms of output and foreign exchange earnings. In the ICT industry, the MDC gained further ground in its endeavour to make the MSC a global ICT hub. R&D expenditure of MSC companies is anticipated to increase significantly by 21.2% to RM657 million in 2004 (2003: RM542 million). The research activities focussed on areas such as communications, software solutions, micro-systems and integrated circuit designs.

Development of the local ICT industry, shared services and BPO has been identified as new sources of high growth. Specific measures have been implemented to facilitate the development of the ICT sector, including attracting ICT talents through the brain-gain programme and enhancing ICT infrastructure, especially in wider broadband connectivity. Investments in BPO also increased with foreign affiliated companies in banking, insurance and courier services as well as automotive industries, having established centres in the MSC. Consequently, Malaysia has emerged as an attractive destination for shared services and outsourcing activities, third only behind India and China. Outsourcing is expected to generate investment of over RM 1 billion and create more than 8,000 jobs by end of 2004.

Entrenched domestic economic activities, coupled with a fairly favourable external environment, are expected to drive growth into 2005. Strong output growth is expected to emanate from all sectors, led by manufacturing and services with an increasingly higher contribution from private sector expenditure. Consequently, Malaysia is set to achieve another year of healthy growth of 6% in 2005.

(Source: Economic Report 2004/2005)

The information ensuing in Sections 4.3 to 4.7 are extracted from the Ernst & Young Report.

4.3 Overview of Selected Industries

Banking

A wave of consolidation has transformed the Malaysian banking landscape. From 51 domestic commercial banks, finance companies and merchant banks in year 2000, Malaysia now has 10 large banking groups comprising 10 commercial banks, 9 merchant banks and 11 finance companies. Consolidation was one of the core strategies pursued by BNM to build a stronger and more resilient banking industry to compete meaningfully with foreign banks in the advent of liberalisation.

Total assets in the banking system grew by 13.2% while total assets in the non-banking financial intermediaries increased by 8.4% in 2003. Most of the increase in assets within the banking system can be attributed to the growth in assets of the commercial banks while the growth in assets in the non-banking financial intermediaries was driven principally by the expansion in the assets of the provident, insurance and pension funds.

In line with the anticipation of stronger economic growth, the banking sector's loan growth is expected to be approximately 6% for 2004. Besides that, the banking sector is expected to exhibit a decline in its net non-performing loans due to the healthier economic state. The net non-performing loans ratio is expected to improve to about 6.2% to 6.4% by end 2004.

Stockbroking

The stockbroking industry has and is still undergoing consolidation similar to that of the banking industry. From close to 65 stockbroking companies in 2000, Malaysia now has 39.

Following the end of the US-Iraq war and the containment of the deadly SARS virus, Bursa Securities experienced a steady rise in its composite index. The benchmark index climbed from a low of 630 points at end May 2003 to 834 points as at July 2004, translating into a 32% recovery. Although Malaysia lagged behind other markets in Asia Pacific, the anticipated strong economic growth in 2004 is expected to boost Malaysia's equity market

Insurance

The Financial Sector Master Plan was launched in 2001 by BNM. Part of the Financial Sector Master Plan covers the insurance sector, which aimed to consolidate and turn the insurance industry into a financially sound, resilient and well managed industry that can better meet the increasing needs and demands of the nation. As at June 2003, 15 mergers and acquisitions involving 28 insurance companies were completed.

With the strengthening of the domestic economy, the growth momentum of the insurance industry continued in 2003. The industry plays an important role in facilitating economic risk transfers and mobilising long-term funds for economic development. In 2003, the industry recorded growth of 11.7% in combined life and general premium income to reach RM18,825.6 million (2002: -1.3% to RM16,854.5 million). Premium income of the industry accounted for 5.1% of nominal GNP in 2003, compared with 5% in 2002. The insurance fund assets grew by 15.3% to RM76,805 million in 2003, mainly contributed by the growth of the life fund assets.

The insurance sector is expected to grow by 15% in 2004, in line with the more positive economic outlook. Malaysia's insurance penetration rate, standing at 36.7%, is still relatively low compared to that of the more developed countries, such as Japan and Singapore, which have an insurance penetration rate of approximately 80%.

Telecommunications

Malaysia has one of the most advanced cellular telecommunications networks in the developing world. Whilst still expanding, the cellular telecommunications industry has also been consolidating. The local telecommunications industry has consolidated from five players – Telekom Malaysia Berhad ("Telekom Malaysia)", Celcom (Malaysia) Berhad ("Celcom"), Maxis Communications Berhad ("Maxis"), DiGi Telecommunications Sdn Bhd ("DiGi") and Time dotCom Bhd ("Time") - to three major players now. Telekom Malaysia bought over Celcom to augment its flat earnings from fixed line operations, while Maxis bought over TimeCel, the cellular division of Time. DiGi was left as a niche player. The Government encouraged this industry restructuring to promote infrastructure sharing and avoid costly duplication.

Since the consolidations, penetration rate has grown from 35% in 2002 to 43% in 2003, and is projected to achieve 49% in 2004. The cellular subscriber growth is estimated to be 18% for 2004. Other niche players have also emerged in the local telecommunications scene to cater for different market segments. For example, REDtone Telecommunications Berhad, a company involved in discounted call services. In the wireless broadband segment, market players include Time, Atlas One (Malaysia) Sdn Bhd and NasionCom Sdn Bhd.

4.4 Outsourcing Services

Both DDP and EBPP fall within the ambit of the larger outsourcing services industry.

Outsourcing refers to the transfer of operational responsibility of business processes or infrastructure management to a third party service provider. The outsourced process or function is generally considered to be non-core in nature by the customers.

The outsourcing market can be broadly categorised into six segments namely applications, BPO, helpdesk, data centre, network and desktop. Applications followed closely by BPO are recognised as the most common outsourcing services.

DDP and EBPP services fall within the ambit of BPO. The BPO market is predicted to grow significantly worldwide as an increasing number of organisations are benefiting from outsourcing their business processes to third party experts.

Worldwide spending on BPO services totaled approximately USD405 billion in 2003, a growth of about 8% over 2002. The BPO market is projected to increase to USD682.5 billion by 2008 at a compounded annual growth rate of 11%.

Specifically on the Malaysia BPO market, the Ernst &Young Report notes that in 2004, larger companies more proactively, consider the possibilities of adopting BPO. The Ernst &Young Report also notes that corporations are anticipated to begin to make strategic decisions on outsourcing document delivery and other business functions within the organization, such as financial accounting and human resource function, to control costs and maximize resources.

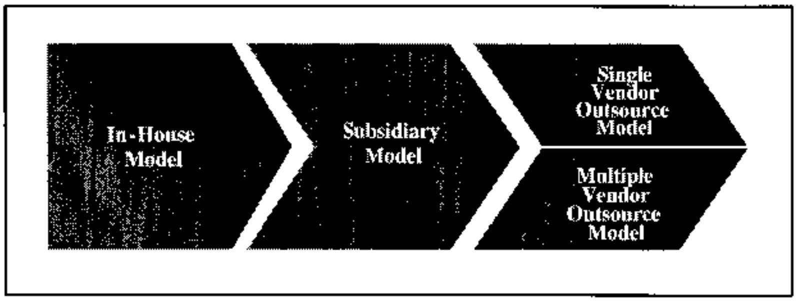
4.5 Overview of the DDP Industry

DDP services refer to a string of activities ranging from data extraction to the creation, printing and distribution of critical mail items such as monthly bank statements, invoices, and contract notes. These activities normally reside within the purview of back office operations of any organisation.

(a) DDP Operating Models Adopted in Malaysia

There are three DDP operating models adopted by organisations in Malaysia; the In-House model, Subsidiary Model and Outsource Model. Within the Outsource Model, two sub-models exist; i.e., either the Single Vendor or the Multiple Vendor Outsource Models.

Figure 3: DDP Operating Models in Malaysia



The *In-House Model* is where organisations maintain the DDP operations as a division within its organisation. Similar to any other divisions within an organisation, the DDP division would incur capital expenditure to purchase equipment and machinery as well as operational expenditure such as overhead costs and other administrative costs. Additionally, the organisation would have to recruit and maintain a team of employees to manage the DDP services. Current trends suggest that this model is rapidly diminishing especially within selected industries.

The *Subsidiary Model* is similar to the In-House Model above, except that the organisations concerned either acquire or establish a subsidiary to undertake the DDP operations. This model is favoured by organisations aiming to maintain a certain level of control of its DDP operations, whilst wanting some efficiency improvement. This is because the holding company would be able to focus on its core activities while the subsidiary focuses on serving the DDP needs of the holding company. The Ernst & Young Report noted that this model is not favoured by many organisations in Malaysia.

The *Single Vendor Model* is characterised by organisations that outsource their DDP operations to a single third party service provider. This model is favoured by organisations with relatively small data processing needs, printing and mailing volume. As the organisation relies on one service provider, its bargaining power is limited. In such cases, the full cost saving potential of outsourcing may not be realised. More critically, relying on a single service provider also exposes the organisation to risks of non-performance.

The *Multiple Vendor Model* is where organisations outsource their DDP operations to multiple third party service providers. This model is increasingly used by telecommunications and banking organisations. Contrast with the Single Vendor Model, this model accords the organisation concerned with higher bargaining power whilst mitigating non-performance risks.

DDP services value add to organisations as it has the capability to:
- Produce personalised statements.
- Insert targeted marketing messages to help cross sell other products and services in the bills and statements.
- Produce print-on-demand documents that meet organisations' ad-hoc needs.
- Produce direct marketing leaflets or pamphlets to be slotted into the envelopes with the bills and statements.

(b) DDP services in the Selected Industries

Banking Industry

The banking industry uses DDP services to generate various documents, among which include:

- Bank statements
- Credit card bills
- Loan notices
- Security documents such as cheque books and pass books.

According to the Ernst & Young Report, 6 of the 10 anchor banks in Malaysia adopt the Outsource Model for their DDP requirements, while two others rely on related companies for DDP services. Only the remaining 2 of the 10 anchor banks still rely on in-house DDP capabilities.

Stockbroking

The stockbroking industry uses DDP to generate mainly annual statements, reminder notices, and contract notes - a legally enforceable note that confirms a trade done on a particular date for a client and contains information with respect to settlement of trades executed on the exchange.

According to the Ernst & Young Report, approximately 40% of the larger stockbroking companies in Malaysia adopt the Outsource Model for their DDP requirements.

Insurance

The insurance industry uses DDP services to generate mainly annual statements, reminder notices and insurance policies.

In Malaysia, 18 life insurance companies are registered with the Life Insurance Association of Malaysia and 46 are registered with the General Insurance Association of Malaysia. Currently most of the DDP operations for life insurance companies are outsourced to third party service providers whilst the general insurance companies still prefer to maintain their operation in-house.

According to the Ernst & Young Report, all 10 of the leading life insurance companies have outsourced their DDP operations.

Telecommunications

The telecommunications industry uses DDP services to generate various documents including monthly statements, special promotion leaflets, and newsletters.

The Ernst & Young Report states that Telekom Malaysia's DDP operations are mainly undertaken in-house by its business unit called TM Cyberprint ("Cyberprint"). A related party currently undertakes DiGi's DDP operations. The DDP operations of the other 4 telecommunications operators have been outsourced to third party service providers.

Based on the analysis of the 4 Selected Industries above, there is a general trend moving towards outsourcing the DDP operations to either third parties service providers or to a subsidiary company specialising in the provision of DDP services.

The table below further summarises the percentages of organisations outsourcing their DDP operations within each of these industries as well as the average across these four industries.

Industry	Percentage of studied Organisations Outsourcing DDP
Banking	80%
Stockbroking	40%
Life Insurance	100%
Telecommunications	80%
Industry Average	75%

DDP Practices Across Industries

Key findings in relation to DDP services across the Selected Industries are as follows:

- Most of the organisations in the banking, life insurance and telecommunications industries have outsourced their DDP services to third party service providers. In the stockbroking industry, 40% of the larger companies have outsourced;
- On average, 75% of organisations in these industries have outsourced their DDP operations. There is the potential of the remaining 25%;
- Opportunity also exists in untapped sectors within these industries; such as general insurance, finance companies, merchant banks, where DDP operations are mainly undertaken internally; and
- Further, the analysis also shows that those companies that have started outsourcing their DDP services have not outsourced all their internally generated documents for customers and other third parties.

(c) DDP Market Size and Growth Potential

The total market size for DDP in Malaysia for 2003 ranged between RM287 million and RM402 million and is projected to grow to between RM462 million to RM999 million by 2008 as shown below.

Scenario	Estimated Market Size 2003 (RM Million)	Growth Rate	Projected market size (RM Million)				
			2004	2005	2006	2007	2008
Low Case	287	10%	316	347	382	420	462
Base Case	335	15%	385	443	509	585	673
High Case	402	20%	482	578	694	833	999

Projected Growth of DDP Market

The growth in the DDP market is contributed by various factors, including increasing population and affluence, new products and technology and affordable products.

(d) Drivers of Growth

Population and Affluence

The growth in population as well as the increasing affluence among Malaysians contribute directly to the DDP market. As population grows the demand for DDP services increases, as more DDP generated documents are required such as utility bill, bank statements, promotional materials and etc. Similarly, as the population becomes more affluent, demand for products such as mobile phones, life insurance policies, stock investments and etc increases, leading to increased demand for DDP services.

New Products and Technologies

One of the unique aspects of DDP is that demand for DDP services increases when new products and technologies are introduced in the Malaysian market. For example, new products such as mobile phones and internet increased the demand for DDP services due to the need for monthly statements to customers.

Affordable products

Another factor contributing to the growth in DDP are the prices of products in the market. Products such as computers and mobile phones, when initially introduced, were costly and only affordable to a handful of Malaysians. However over the years, competition coupled with the reducing cost of technology led to prices of these products decreasing and hence becoming affordable to many Malaysians.

(e) DDP Industry Players

DDP service providers in Malaysia can be broadly categorised into three:

- Internal service provider - These service providers are part of an organisation and are generally internally focused.
- Internal/External service provider - These service providers also provide services to other organisations whilst maintaining priority to serve the needs of their parent organisation.
- External service provider - These service providers are independent third party companies, specialising in the provision of DDP services to various external organisations.

The table below categorises the selected service providers into internal service providers, internal/external service providers and external service providers. These service providers were selected as they are considered by many as market leaders in providing DDP services in the banking, stockbroking, insurance and telecommunications industries.

Service providers	**Internal service provider**	**Internal / External service provider**	**External service provider**
EFFICIENT			✓
Datapos (M) Sdn Bhd ("Datapos")		✓	
Cyberprint	✓		
Epic-I Sdn Bhd ("Epic-I")		✓	
Inter-City Sdn Bhd ("Inter-City")		✓	
Pro-Office Bulk Mailing Sdn Bhd ("Pro-Office")			✓
SR Express Sdn Bhd ("SR Express")			✓
Hong Hong Printing Sdn Bhd ("Hong Hong")			✓
KNZ Mail Services Sdn Bhd ("KNZ Mail")			✓

(f) Market share and market standing

Market Share

EFFICIENT's market share in the DDP industry vis-à-vis its competitors in terms of revenue contribution is set out below:

DDP Service Providers	**Market Share (%)***
EFFICIENT	7%
Datapos	14%
Epic-I	5%
Inter-City	6%
Pro-Office	6%
SR Express	5%
Hong Hong	5%
KNZ Mail	3%

Note:
* *Excludes Cyberprint's Revenue, as a significant portion of Cyberprint resources are predominantly devoted to meeting the DDP needs of the Telekom Malaysia group.*

Datapos is the market leader when measured based on revenue, followed by EFFICIENT. Datapos is able to generate higher revenue by leveraging on its holding company Pos Malaysia Berhad, and its postal network. However, EFFICIENT dominates in the banking, stockbroking and life insurance industries. The table in paragraph (d) in the next page provides the results of the analysis, showing the leading service providers with the highest number of organisations served within the 4 major user industries.

Market Standing

Key observations in relation to the DDP and EBP service providers in Malaysia include the following:

(a) All DDP service providers offer generic DDP services ranging from data extraction and conversion, data processing, document generation and distribution. With the exception of a few companies, such as EFFICIENT and Hong Hong which have their own in-house IT experts, most other companies rely on external IT support to provide value added services to their customers;

(b) Smaller service providers are mainly in the telecommunications industry;

(c) According to the Ernst & Young Report, only 2 service providers, EFFICIENT and Hong Hong, have ventured into providing electronic services such as EBP and EBPP respectively; and

(d) EFFICIENT is ranked as having the highest number of customers (i.e. companies) for DDP in 3 of the 4 segments, as shown below:

Market Segment	DDP Service Provider with the highest number of customers
Banking	EFFICIENT
Stockbroking	EFFICIENT
Insurance	EFFICIENT
Telecommunications	Pro-Office

(g) Barriers to Entry and Exit

The barriers to entry in the DDP market can be categorised broadly into 3 areas.

Confidentiality and Integrity of Information

In providing DDP services, service providers gain access to confidential third party information and hence must set up measures to maintain the confidentiality and integrity of this information. In complying with these requirements, service providers would need significant upfront capital investments in securing the physical and non-physical access to the information. In addition, organisations in these industries where confidentiality is demanded would have more confidence and trust in established service providers with good customer base and track record as opposed to new entrants.

Competitive Advantage

Established DDP service providers would have various advantages over a new service provider. These include:

- High upfront capital set-up costs. New entrant would need to invest in machinery and equipment, software and disaster recovery sites.
- A new entrant would need to develop IT capabilities to serve diverse customers with different IT systems.
- Established service providers would have lower operating cost compared to new service providers as a result of various factors including learning/experience curve and economies of scale.

Contractual Obligations and Switching Cost

For all major DDP services, contractual agreement between the service providers and their customers are executed. The contract durations vary with the maximum period being 5 to 10 years. Organisations are unlikely to switch to alternative service providers during and even upon expiry of the contracts due to 2 primary reasons:

- Switching costs from 1 service provider to another is high. Unless the quality of service from the existing service provider is so poor or the new service providers can offer major improvements in costs and/or performance, most organisations do not see the value in incurring these switching costs; and

- The migration process for example for a financial institution can take up to 1 year to complete. As a result, the complexity coupled with the resources required to migrate deters many organisations from switching service providers after signing up.

The main barrier for a customer to exit from a contractual arrangement is the contractual agreement. Further, for termination, most contracts require the service providers to provide prior notice of up to 12 months. In default, the service providers will be penalised and will be required to compensate the customer.

(h) Substitute Products

EBPP, a potential substitute for DDP, is currently at its infancy stage in Malaysia. Only a handful industries, such as banking and telecommunication, have ventured into providing EBPP as a complementary service whilst still issuing hard copy statements. Other industries like life insurance and stockbroking only recently have taken initiatives to develop EBPP services. Considering these factors, the uptake of EBPP as a substitute of DDP services is not likely to be significant in the short term.

(i) Laws and Regulations

There are no specific laws and regulations governing the DDP market in general. However, there are certain regulations governing outsourcing within the Selected Industries as noted below:

Banking

With respect to the banking industry, BNM has issued a circular allowing banks in Malaysia to outsource their operational functions that are not integral to the core business. However, banks are required to notify BNM before entering into an agreement to outsource these operations to third party service providers.

The circular requires these service providers to fully comply with the safeguards listed within the circular as well as to provide a written undertaking to BNM.

Insurance

BNM has also issued a similar circular allowing insurance organisations in Malaysia to outsource their operational functions that are not integral to their core business. However, they are required to notify BNM before entering into an agreement to outsource these operations to third party service providers.

Stockbroking and Telecommunications

There are no specific requirements or limitations relating to DDP in the stockbroking and telecommunications industries.

4.6 Overview of the EBPP industry

EBPP is a process that enables bills to be created, delivered, and paid over the internet. It simplifies billing by automating the process of bill distribution, payment authorisation and remittance by replacing traditional method of paper billing with an internet based billing solution.

EBPP can be further subdivided into 2 segments; EBP and Electronic Bill Payment ("EBPy"). EBP relates to the presentment activities whereas EBPy relates to the payment activities.

Whilst EFFICIENT has ventured into providing EBP services complimentary to its existing DDP services, it does not plan to venture into providing EBPy services, as it does not want to be perceived as competing with its banking customers for business.

(a) EBPP Practices in Selected Industries in Malaysia

Banking and telecommunications are 2 industries that are actively involved in spearheading the utilisation of EBPP in Malaysia. In contrast, the insurance and stockbroking industries are lagging in migrating to internet based services.

Banking

Most banks have ventured into providing EBPy services, catering to payment for both internal and third party transactions. The banks also do provide EBP for presentment of internal based documents. However, significant potential lies in the EBP segment relating to presentment of third party based documents. For example, currently banking customers would still need to obtain third party paper based statements and bills before they can utilise internet banking for making payments.

Telecommunications

Similar to the banking industry, the Malaysian telecommunications industry has also ventured into providing EBPP services with the aim of providing an added channel for its customers to view and pay bills online. However the focus of the telecommunications industry is on providing EBP and EBPy services mainly for its internal based transactions.

Insurance and stockbroking

Except for a few organisations, most insurance as well as stockbroking organisations do not provide EBPP services. Presentment and payments are currently conducted through traditional mean i.e. paper-based process. However in certain cases, some of these organisations do provide consumers with the option of paying bills using the EBPP facilities provided by the banks.

Moving forward, some of these insurance organisations have initiated alliances with technology organisations to develop their own on-line facility. These companies seek to utilise technology to create an environment where insurance and stockbroking related transactions could all be conducted online.

(b) EBPP Market Size and Growth Potential

EBPP is still at its infancy stage in Malaysia with some form of adoption by players in the banking and telecommunications industry whilst other industries are lagging behind.

Even with the introduction of EBPP, banks and telecommunications players still continue to provide their customers with traditional means of presentment (e.g. paper based bank statements) and payment (e.g. cheques), indicating that EBPP currently complements rather than substitutes services such as DDP. This practice of providing both EBPP and DDP services is anticipated to continue into the future.

The estimated number of EBPP users in Malaysia in 2003 stands at about 530,000 and is expected to double to slightly above 1 million by 2008.

(c) Drivers of Growth

The growth in the EBPP market is contributed by numerous factors, among which include:

- Players within the banking and telecommunications industry have invested significantly in EBPP. These organisations have been aggressive in marketing and promoting their online facility. To safeguard their investment, these organisations are anticipated to continue marketing and promoting their online facilities to encourage public acceptance and use of such facilities.

- The banks and other service providers, have also ventured into providing EBPP for numerous third party organisations. This would encourage higher public acceptance and use as it provides a one-stop convenience centre where diverse transactions can be undertaken.

- Significant potential also lies in untapped industries such as insurance and stockbroking. Players within these industries are moving towards providing on-line facilities, which also encompasses EBPP.

- As EBPP uses internet facilities, the ever increasing growth in internet in Malaysia is expected to contribute positively towards the use of more online services such EBPP. This is further supported by the various initiatives introduce by the Government to encourage the use of IT.

(d) EBPP Industry Players

Besides the banks, EFFICIENT and Hong Hong, which provide EBPP service to third party organisations, there are several other independent service providers in the market. These service providers have established a one-stop website for consumers. Depending on the service provider, they offer on-line transaction services including EPB and EBPy, covering multiple organisations.

The service providers include:

- Konsortium Multimedia Swasta Sdn Bhd;
- mySPEED.com Sdn Bhd;
- MY EG Dot Com Sdn Bhd; and
- Paybills Malaysia Sdn Bhd.

(e) Substitute Products

As stated in the overview of the DDP industry above, most consumers today still receive their bills and statements via a paper based process. Hence, DDP is still the preferred mode of delivery for these traditionally paper based documents. EBPP is currently still at its infancy stage in Malaysia, as only a handful of industries such as the banking and telecommunications have ventured into providing EBPP as a complementary service whilst still issuing hard copy statements. DDP is likely to remain dominant over EBPP in the short term.

(f) Laws and Regulations

There is no specific law governing EBPP activities in Malaysia. However the various cyberlaws introduced by the Government to regulate e-commerce activities in Malaysia also apply to some extent to EBPP. These include, the Digital Signature Act 1997, Copyright Act (Amendment) 1997, Computer Crimes Act 1997 and the Communications and Multimedia Act 1998.

Brief descriptions of selected cyberlaws are as follows:

- The Digital Signature Act 1997 ("DSA")

  Enforced on 1 October 1998, the DSA is an enabling law that allows for the development of e-commerce. It provides an avenue for secure on-line transactions through the use of digital signatures. DSA provides a framework for the licensing and regulation of Certification Authorities and gives legal recognition to digital signatures. The Controller of Certification Authority, who has the authority to license and regulate Certification Authorities, was appointed on the 1 October 1998.

  The DSA is relevant to EBPP as digital signatures would provide the level of security to customers, giving the comfort of knowing that their data, be it their personal details, or their billing details are kept confidential.

- The Computer Crimes Act 1997 ("CCA")

  Enforced on 1 June 2000, it deals with unauthorised access to computer material, unauthorised access with intent to commit other offences and unauthorised modification of computer contents. It also makes provisions to facilitate investigations for the enforcement of the CCA.

- Personal Data Protection Bill ("PDP Bill")

  In recent years, the growth in internet usage has resulted in vast amounts of personal information being transmitted, collected and used. Concurrently, the risks of abuse of this information wealth grew.

  Currently, there is no law governing the privacy right in Malaysia. However, the Malaysian Government is in the process of drafting legislation on Personal Data Protection to regulate the collection, possession, processing and use of personal data according to certain prescribed principles. The Ministry of Energy, Communications and Multimedia has released a draft PDP Bill for public comment.

  The PDP Bill aims to regulate the collection, possession, processing and use of personal data by any person/organisation, including the Government, so as to provide protection to an individual's personal data and safeguard the individual's privacy. The legislation will also establish a set of common rules and guidelines on the handling and treatment of personal data by any person/organisation.

- Others

  The Government is also considering enacting the Electronic Transactions Act to facilitate transactions carried out by electronic means.

4.7 Prospects and outlook for the DDP and EBPP industries in Malaysia

Both the DDP and EBPP markets are anticipated to continue growing in the near future. Growing population and affluence, introduction of new products and technologies as well as cheaper consumer products will spur the demand for DDP services. On the other hand, growing acceptance by consumers and organisations as well as increasing internet adoption among Malaysians will lead to higher demand for EBPP services.

As observed in the banking and telecommunications industries, EBPP, which currently is still at its infancy stage in Malaysia, is expected to complement rather than substitute DDP in the near future. This augurs well for service providers with a strong presence in providing both DDP services and EBPP services.

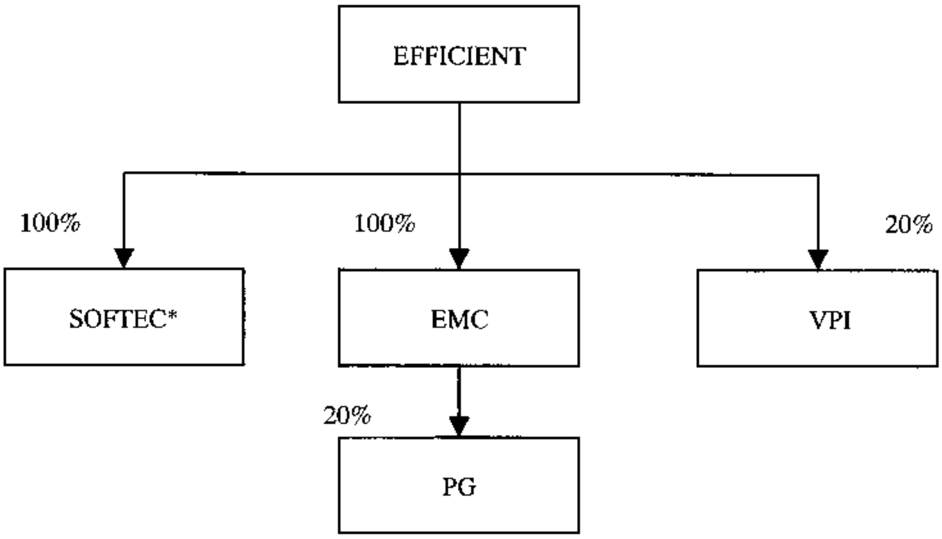
5. INFORMATION ON THE EFFICIENT GROUP

5.1 History

EFFICIENT was incorporated in Malaysia under the Act on 27 October 2003 as a private limited company under the name of Efficient E-Solutions Sdn Bhd. Subsequently, EFFICIENT was converted into a public limited company and assumed its present name on 10 February 2004.

The EFFICIENT Group is primarily involved in the provision of integrated outsourcing solutions in DDP to banks, stock-broking companies, insurance companies and telecommunications operators. The Group also provides EBP services. EFFICIENT has 2 wholly-owned subsidiaries, namely, EMC and SOFTEC, a MSC status company. In addition, EFFICIENT has a 20% interest in VPI, which is currently dormant. Its subsidiary company, EMC has a 20% interest in PG, a supplier of computer forms for digital and other specialised printing.

The corporate structure of the EFFICIENT Group is summarised as follows:



Note:

* *A MSC status company*

The principal activities of the Company's subsidiary and associated companies, all of which were incorporated in Malaysia, are as follows:

Companies	**Principal activities**
EMC	Provision of integrated outsourcing solutions in DDP, ranging from data extraction, to conversion, formatting of documents, to data printing; as well as the preparation of printed documents for distribution via post. EBP services are also offered, ranging from electronic bill presentment subscription services to data extraction, creation, and delivery via electronic media.
SOFTEC	Provision of information technology services, primarily the development of proprietary applications for work-flow management, data conversion, and electronic distribution of documents.
VPI	Dormant.
PG	Supplier of computer forms for digital and other specialised printing.

EMC commenced business operations in 1986 to provide fulfilment services, one of the earliest instances of outsourcing services, to companies engaged in direct marketing activities, which included the printing of direct market letters, bundling of coupons and offers, packing and mail processing services, operating out of a small office in Kuala Lumpur. In the early 90s, Vincent Cheah Chee Kong and Esther Soon Yoke Leng became the major shareholders of EMC.

Recognising the opportunity to expand the business and more importantly, having won the confidence of its customers, the new shareholders redirected EMC towards the DDP industry. This required a new vision, capital and most importantly the development of control processes and work procedures, which were significantly more sophisticated than what the company was used to. EMC then started to provide a full range of services required for DDP, from data extraction to printing and processing of statements, demand notices, insurance policies, bills and promotional materials. In 1996, a new facility was established in Taman Petaling Utama, Petaling Jaya. Victor Cheah Chee Wai subsequently joined EMC in 1997 to spearhead the sales and marketing activities of EMC.

In 1999, EMC secured its first major DDP customer in the insurance industry, and they have been with EMC until today. In the same year, recognising the critical importance of having in-house technology resources, Sreedhar Subramaniam was engaged as the Technology Consultant, and subsequently joined EMC as Technology Director in early 2002.

SOFTEC commenced operations in the year 2003 with the initial core group of IT personnel that were employed at EMC. SOFTEC consolidated over 300 applications for data extraction, data migration and data formatting that were developed by the IT department of EMC. The IT department formed the core information and technology expertise for the business of the Group. In recognition of this, as well as the commitment to current and future R&D efforts, SOFTEC was accorded MSC status on 13 November 2003 by MDC and was also granted pioneer status by MITI for a period of 5 years commencing from 20 April 2004. SOFTEC has since recruited more personnel and now focuses on the development of software applications used by EMC in its business operations. These software applications have been named e-DOC™, e-TALK™ and e-FLOW™.

The growth of the Group is believed to be driven by two primary factors:

- Availability of in-house IT and technology expertise – allowing for complex data extraction and migration without the need to rely on external vendors, and
- Exceeding customer expectations – in timeliness, quality and integrity; the latter being particularly important since the most of the data being handled by EMC is governed by BAFIA.

5.2 Flotation Scheme

In conjunction with, and as an integral part of, the listing of and quotation for the entire issued and paid-up share capital of EFFICIENT on the MESDAQ Market, the Company undertook a Flotation Scheme, which was approved by the SC, which includes approval sought under the FIC's guidelines, on 16 July 2004 and 29 October 2004, and Bursa Securities on 20 July 2004. Details of the Flotation Scheme are as follows:

(a) Share Split

Pursuant to the Share Split which was completed on 20 August 2004, 9,000,002 ordinary shares of RM1.00 each in EFFICIENT were split to 90,000,020 ordinary shares of RM0.10 each.

(b) Public Issue

In conjunction with the flotation of EFFICIENT on the MESDAQ Market, the Company will undertake a Public Issue of 30,000,000 Issue Shares representing approximately 25.0% of the enlarged issued and paid-up share capital of EFFICIENT, at an issue price of RM0.63 per Issue Share, whereby:

(i) 6,000,000 Issue Shares representing approximately 5.0% of the enlarged issued and paid-up share capital of EFFICIENT have been reserved for Directors and eligible employees of EFFICIENT and its subsidiaries and persons who have contributed to the success of EFFICIENT and its subsidiaries;

(ii) 21,000,000 Issue Shares representing approximately 17.5% of the enlarged issued and paid-up share capital of EFFICIENT will be placed to identified investors by the Placement Agent; and

(iii) 3,000,000 Issue Shares representing approximately 2.5% of the enlarged issued and paid-up share capital of EFFICIENT will be made available for application by the Malaysian public.

(c) **Listing**

Following the completion of the Public Issue, EFFICIENT shall be admitted to the Official List of Bursa Securities and the entire enlarged issued and paid-up share capital of RM12,000,002 comprising 120,000,020 EFFICIENT Shares shall be listed and quoted on the MESDAQ Market.

5.3 ESOS

EFFICIENT had on 20 July 2004 and 20 August 2004 obtained the approval of Bursa Securities and the existing shareholders of the Company respectively, to establish the ESOS to motivate, retain and reward eligible employees and Executive Directors who have contributed to the growth and success of the EFFICIENT Group.

The ESOS will allow the granting of Options to the eligible employees and Executive Directors of the EFFICIENT Group to subscribe for new Shares up to a maximum of 10% of the issued and paid-up share capital of the Company at any point in time during the tenure of the ESOS, subject to the terms and conditions of the By-Laws.

According to the Listing Requirements of Bursa Securities for the MESDAQ Market on employees' share option scheme, the effective date of the commencement of the ESOS shall be the date of full compliance with the Listing Requirements in relation to ESOS including the following:

(a) submission of a final copy of the By-Laws to Bursa Securities;

(b) receipt of approval-in-principle for the listing of and quotation for the new Shares to be issued pursuant to the exercise of the Options from Bursa Securities;

(c) receipt of shareholders' approval for the ESOS Scheme;

(d) receipt of any other relevant authority whose approvals is necessary in respect of the ESOS Scheme; and

(e) fulfilment of all the conditions attached to the above approvals for the ESOS Scheme.

The ESOS Scheme shall be in force for a period of 5 years from the date the ESOS is implemented, subject however, to any extension or renewal for a further period of 5 years commencing from the day after the date of expiry of the original 5 year period.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

The new Shares to be allotted and issued upon the exercise of the Options will upon such allotment and issuance, rank pari passu in all respects with the then issued and fully paid-up Shares except that the Shares so allotted will not be entitled to any dividends, rights, allotments or other distributions, the entitlement date (namely the date as at the close of business on which shareholders must be registered in order to be entitled to any dividends, rights, allotments or other distributions) of which is prior to the date of allotment of the new Shares and will be subject to all the provisions of the Articles of Associations relating to the transfer, transmission and otherwise of the Shares.

The Directors of EFFICIENT intend to grant the Options only after the Listing. The Directors of EFFICIENT intend to utilise the proceeds from the exercise of the Options for working capital purposes.

Further details of the ESOS, which are contained in the By-Laws, are set out in Section 16 of this Prospectus.

5.4 Share capital

The present authorised share capital of EFFICIENT is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each in EFFICIENT of which 90,000,020 Shares are issued and fully paid-up.

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

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Cumulative total RM
27.10.2003	2	1.00	Subscribers' shares	2
19.01.2004	9,000,000	1.00	Issued as consideration for the acquisition of EMC	9,000,002
20.08.2004	90,000,020	0.10	Share Split	9,000,002

5.5 Business overview

5.5.1 Products and Services

The EFFICIENT Group provides a subset of integrated outsourcing solutions. Its primary line of business, DDP, covers services ranging from data extraction, conversion, and formatting of documents, to data printing and the preparation of printed documents for distribution via post. It also offers EBP services, ranging from electronic bill presentment subscription services to data extraction, creation, delivery via electronic media such as the web, email and SMS, and audit reporting complete with automated error resolutions. In addition, EFFICIENT has recently expanded its services to include data archival and retrieval services (as a value added option of the DDP and EBP processes).

These service offerings are supported by the software applications developed as a result of the R&D efforts of EMC, now consolidated into the activities of SOFTEC. The know-how, methodology and technologies developed have common modules that are being shared across applications and customers. These modules, which both support as well as complement the DDP and EBP businesses, are modularised into three generic systems.

Firstly, there's e-TALK™, a middleware system to read, extract and convert data from multiple formats for data processing. Secondly, there's e-FLOW™, a data and document processing workflow management application; and e-DOC™, an electronic bill presentment and distribution application.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

Further details of the Group's outsourcing services in DDP and EBP are set out below:

(a) DDP

DDP refers to the digitised, automated creation and processing of physical documents (statements, acknowledgements, invoices). The Group's DDP services range from the extraction, conversion, and processing of raw data to the printing of statements, demand notices, insurance policies, bills, and direct marketing letters. Hardcopy documents are printed on high speed digital printers, with a total collective print speed of close to 2,000 prints per minute. In addition, the Group's DDP services also encompass the automated preparation for distribution of these documents which involve the collation, insertion into envelopes, bundling of promotional materials and dispatch for mailing to the customers' end-customers.

DDP should be differentiated from traditional offset printing processes. DDP is a technology centric industry focused on the content of the data to be processed, whilst traditional offset printing is focused on the physical output of the printing process.

DDP focuses on data capturing and formatting, as well as printing; all via software based, workflow driven processes and sophisticated computer controlled printers. In contrast, traditional offset printing focuses on the printing process, and less on the data *per se,* involving colour separation, type setting, silkscreen printing, and others.

Further, DDP provides value added capabilities such as direct interface with legacy systems to provide ad-hoc data extraction, compilation and even customised presentment of information with built in logic to tailor the final output to present differentiated, customer targeted information.

Digitally printed physical documents which have undergone the DDP distribution preparation process are then primarily mailed out by Pos Malaysia. In the case of EBP, the Group provides the possibility of electronic distribution services via the web, e-mail, SMS, PDA or fax. These means of delivery are often referred to as "channels". The DDP industry is relatively new and currently concentrates on traditional delivery channels (mail). The trend, however, is expected to increasingly migrate towards providing electronic delivery across multiple channels for the automated delivery of documents. Further details of the electronic channels of distribution are covered in the following section on EBP.

In compliance with the requirements of MDC, the initial set of applications developed as part of the R&D for the Group's DDP business has been bundled and further developed into a general purpose application toolset, named e-TALK™. The Group may potentially market and sell e-TALK™ as a packaged middleware to third party data solution providers in the future. The functionality of e-TALK™ is described below:

- e-TALK™

  EFFICIENT Group has developed software with the capability to read data from many forms of media that is transmitted from customers. As the data is typically from disparate systems, it is often in many different formats, including mainframe tape drives and Windows compatible tape back-ups. Data is also transmitted to EFFICIENT Group via secure FTP using 128-bit SSL and SSH sessions. EFFICIENT Group has developed in-house systems to read and extract data from the many formats for its processing needs. These systems have been grouped together as a tool under the name e-TALK™. This tool allows EFFICIENT Group to place data in a form that is easily processed for transaction processing and document creation work. It performs functions such as merging/purging of transactions and other data from multiple files and sorting of data into an order that would facilitate subsequent processing.

In order to fulfil the crucial need to maintain completeness of data being processed, accuracy of work flow, timeliness of data and document processing and efficiency of overall processes, the Group has developed a proprietary workflow system, named e-FLOW™. The functionality of e-FLOW™ is described below:

- e-FLOW™

  e-FLOW™ is a work-flow application which manages each job undertaken by the Group, from award through to delivery (i.e. printing, insertion into envelopes and distribution to Pos Malaysia). This application enables every project and job to be monitored to ensure that every piece of data or transaction is processed. All document counts are reconciled, including file names and first and last record readings. All jobs are prioritised and relevant production resources are booked with built-in contingencies to meet agreed service level agreement targets. All projects and jobs are run on the most optimal equipment and by well trained personnel in order to reduce down-time and improve productivity.

  With this proprietary system, the Group is capable of planning, executing, monitoring and improving all data and document processing activities for its customers. This system will be key in its ability to export its capabilities to new markets.

In addition to the above, the Group has expanded its DDP capabilities to provide data archival and retrieval services to enable customers to store, present and archive documents in electronic formats. This service provides a complementary, value added option for customers to outsource an additional IT function.

(b) EBP

EBP services range from electronic bill presentment subscription services to data extraction, creation, delivery and audit reporting complete with automated error resolutions and reporting. Prior to the dot-com era, the expectation was that consumers would switch to the electronic formats for a variety of tasks such as banking, shopping, billing, etc. EBP was the term coined to describe this expected paperless revolution, referring to electronic billing, presentment and distribution of the documents. The Group recognises the potential growth opportunity in the demand for electronic-form documentation, both invoices and statements and therefore is taking a pro-active measure of developing a proprietary EBP System, called e-DOC™:

- e-DOC™

  Recognising the potential of documents presented using multiple media, especially electronic mediums such as e-mail, the web and SMS, EMC has committed to offering customers a complete e-billing solution as an alternative and/or complementary service to the conventional paper mailed bills.

  After e-TALK™ has done the preliminary extraction and formatting of the data, another set of application modularised as the e-DOC™ application is used to process the data to create the documents delivered to EFFICIENT's customers' end-customers. These documents are both in paper and electronic form and hence are able to be transmitted over multiple delivery channels or mediums.

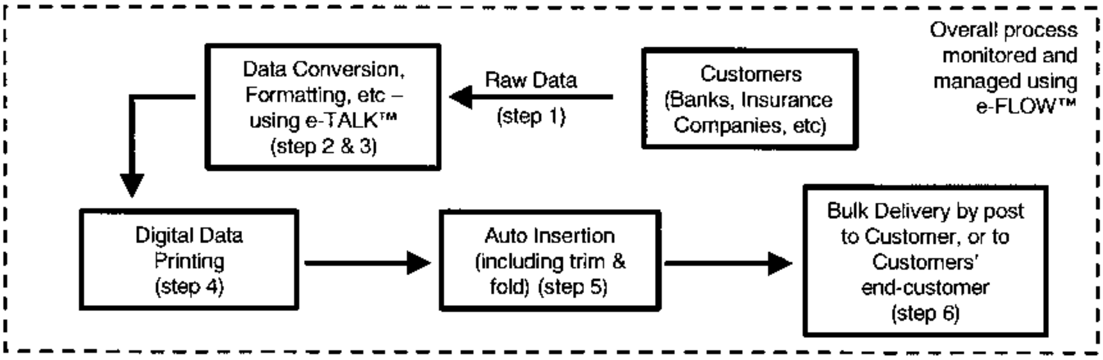
  e-DOC™ will give the end-customers the option to receive bills and statements either vide email (attachment or embedded) on a PDA, on a mobile phone or vide SMS. e-DOC™ will include the business logic for the end-customers to select the mode of delivery. End-customers will also have the possibility for delayed printing of the documents at their place of work, or at home. The Group is also looking to incorporate the latest point-and-print technology into e-DOC™, which has recently been marketed. This technology allows printers connected to the internet to retrieve and print a document from a mobile phone activated command.

  The continued development of the e-DOC™ application is expected to allow further enhancements such as data mining and cross marketing functionality in the future.

5.5.2 Business processes

(a) DDP

The DDP business process can be generalised as follows:



Step One:	Formatted or unformatted data of customers is supplied to DDP service providers.
Step Two:	Data is converted.
Step Three:	Data is processed.
Step Four:	Data is printed on the desired medium.
Step Five:	Printed outputs are transferred into insertion machines for trimming, folding, enveloping and sealing.
Step Six:	Finished products will be sent for mail processing, distribution and delivery to customers or their end-customers, primarily by Pos Malaysia.

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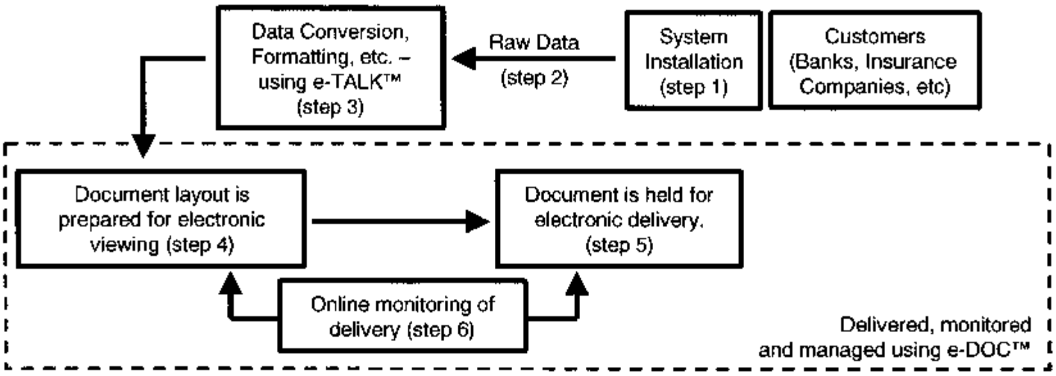
(b) EBP

The EBP business process can be generalised as follows:



Step One:	A document subscription system is installed by the EBP service provider.
Step Two:	Data is converted.
Step Three:	Data is processed.
Step Four:	Data is imputed into the customers' desired document layout.
Step Five:	Document is prepared for delivery over multiple electronic channels
Step Six:	All deliveries/retrievals of the electronic documents are monitored.

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5.5.3 Technology used

EFFICIENT Group's services rely on in-house developed software applications. The following table summarises the technologies used in the development and deployment of these applications:

	e-TALK™	e-FLOW™	e-DOC™
Development Platform	Windows 2000 Server, IIS, Component Services, MySQL Server v4.0.1.	Windows 2000 Server, IIS, Component Services, MySQL Server v4.0.1	Windows 2000 Server, IIS, Component Services, MySQL Server v4.0.1.
Development Standards	Visual C++, Java, Unix, MVS, IBM AS/400, Linux.	Visual Studio (ASP and VB), COM+ and ODBC.	Java, .NET, ASP, C++, Visual Basic
Messaging	ADO	ADO	Soap
Network Transport	HTTP, HTTPS, SSL, SSH, SMTP	HTTP, HTTPS, SSL	HTTP, HTTPS, SSL, SSH, SMTP
Deployment Platform	Windows 2000 and above.	Windows 2000 and above.	Windows 2000 and above

5.5.4 Production facilities and capacity

EFFICIENT currently conducts its operations from the following locations:

Production/Administrative/R&D centre	Location	Approximate built-up area (square feet)
Production site and administration office	45-49 Jalan PJS 1/28 (Petaling Utama 3) Taman Petaling Utama 46000 Petaling Jaya Selangor	9,000
Production site and IT Resource	Lot 8, Jalan Astaka U8/84 Seksyen U8, Bukit Jelutong 40100 Shah Alam Selangor	15,000
Production site	No. 1 Jalan Air Hitam Kawasan Institusi Bandar Baru Bangi 43000 Kajang Selangor	4,000
R&D Centre	F03 1st Floor 2320 Century Square Jalan Usahawan 63000 Cyberjaya	450

EMC has high speed laser printers, which are capable of collectively printing close to 2,000 prints per minute. The utilisation of these machines varies depending on customers' requirements on volumes and the completion date for the various projects.

5.5.5 Input and raw materials

The input for DDP and EBP documents comprise of raw data from EFFICIENT's customers, which needs to be converted and formatted into documents as per customer requirements. For this purpose, EFFICIENT through SOFTEC has developed a standard series of applications that are capable of extracting data from one or more proprietary databases for conversion into a format compatible with the target database. These applications form the core part of e-TALK™. Hence, EFFICIENT is not dependent on external IT resources for the development of the applications that are required to support the DDP and EBP functions of the business.

The Group is highly dependent on paper products, of which the major components are computer forms and envelopes, as a source of raw material. Currently, the raw materials used by the Group are sourced locally. The cost of computer forms and envelopes constitutes approximately 50% and 21% of the Group's total raw material costs (based on the 5 month period ended 31 May 2004).

Throughout the years, the Group has not experienced any difficulties in obtaining raw materials as the Group has established and maintained good relationship with its suppliers. The Group also did not experience any disruption in the supply of raw materials for the past 12 months prior to the Latest Practicable Date.

5.5.6 Market niche, market share and market standing

(a) Market niche

DDP is applied in diverse industries. Industries with high usage of DDP are the banking, insurance, stockbroking and telecommunications industries. According to the Ernst & Young Report, EFFICIENT Group's niche lie in 3 out of the 4 industries namely banking, stockbroking and insurance where EFFICIENT Group has the most number of customers compared to its competitors as detailed in Section 4.5(f) of this Prospectus.

(b) Market Share

According to the Ernst & Young Report, EFFICIENT's market share in the DDP industry vis-à-vis its competitors in terms of revenue contribution is set out below:

DDP Service Providers	Market Share (%)*
EFFICIENT	7%
Datapos	14%
Epic-I	5%
Inter-City	6%
Pro-Office	6%
SR Express	5%
Hong Hong	5%
KNZ Mail	3%

Note:

* *Excludes Cyberprint's Revenue, as a significant portion of Cyberprint resources are predominantly devoted to meeting the DDP needs of Telekom Malaysia's group.*

Datapos is the market leader when measured based on revenue, followed by EFFICIENT. Datapos is able to generate higher revenue by leveraging on its holding company Pos Malaysia Berhad, and its postal network. However, EFFICIENT dominates in the banking, stockbroking and life insurance industries. The table in the next page provides the results of the analysis, showing the leading service providers with the highest number of organisations served within the 4 major user industries.

(c) **Market Standing**

Key observations from the Ernst & Young Report in relation to the DDP and EBP service providers in Malaysia include the following:

(i) All DDP service providers offer generic DDP services ranging from data extraction and conversion, data processing, document generation and distribution. With the exception of a few companies, such as EFFICIENT and Hong Hong which have their own in-house IT experts, most other companies rely on external IT support to provide value added services to their customers;

(ii) Smaller service providers such as Pro-Office, SR Express and KNZ Mail are mainly in the telecommunications industry;

(iii) According to the Ernst & Young Report, only 2 service providers, EFFICIENT and Hong Hong, have ventured into providing electronic services such as EBP and EBPP respectively; and

(iv) EFFICIENT is ranked as having the highest number of customers (i.e. companies) for DDP in 3 of the 4 segments, as shown below:

Market Segment	DDP Service Provider with the highest number of customers
Banking	EFFICIENT
Stockbroking	EFFICIENT
Insurance	EFFICIENT
Telecommunications	Pro-Office

The Directors of EFFICIENT believe that in view of these observations, the ranking as set out above is important as it reflects the ability of the Group to acquire new customers and retain existing customers. The Directors of EFFICIENT also believe that this reflects that the value proposition offered by the Group is well received.

5.5.7 Competitive advantage

The Directors of EFFICIENT believe that there are a number of competitive advantages which not only differentiate EFFICIENT from its existing competitors, but in fact form barriers to competitors who want to duplicate the software applications, and hence the solutions that are provided by the EFFICIENT Group.

The Group's competitive advantages include those set out below:

(a) *EFFICIENT has the breadth and depth of industry and technical experience*

EFFICIENT is able to offer a breadth of services that is able to meet the diverse requirements of its wide customer base. This is possible as EFFICIENT is an independent third party company that specialises in providing DDP and EBP services to organisations from diverse industries. In contrast, some of the competitors of EFFICIENT Group are subsidiaries or divisions within larger organisations and were principally established to serve the needs of their parent organisation as the primary objective.

Accordingly, EFFICIENT has been exposed to a wide range of customers and has gained invaluable experience to meet the specific requirements of its customers in the diverse industries which it serves. As a result, the Group is able to leverage and capitalise on its vast experience gained from diverse industries to serve its existing and potential customers.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

(b) *EFFICIENT has a dedicated R&D team, enabling it to leverage on its experience*

A key factor in the development of the Group's software applications is its ability to develop its own software applications through a dedicated R&D team, that leverages on its breadth and depth of industry and technical experience, thereby enabling the Group to dedicate resources to focus on the continuous development and advancement of its services which are difficult for competitors to emulate.

A dedicated R&D team empowers EFFICIENT to explore DDP solutions beyond the boundaries of requirements or limitations of any specific hardware platform, and to truly address the needs of the Group's customers. This also provides the R&D team with the ability to leverage on its varied experience, resulting in the development of value added capabilities, which not only serve the needs of its diverse range of customers, but also exceed their expectations at times.

In contrast, any competitor without a dedicated R&D team would not have the same capability to develop and introduce new DDP functionality. For a competitor to try and develop a similar software application that provides the same synergistic value added capabilities as those offered by the Group, a long lead time as well as significant capital commitment would be required by the competitor. To emulate the capability of the Group's R&D team, a competitor would also have to go through software development cycles of designing, building, and more importantly testing of the diverse range of data formats, legacy systems and applications across the whole range of EFFICIENT Group's previous and existing customers. The ability to innovate and introduce new applications or functionality gives EFFICIENT a clear competitive advantage over its competitors.

(c) *Strong customer relationships and long term contracts with key customers*

The combination of EFFICIENT Group's experience and capabilities have enabled EFFICIENT to establish itself in the markets which the Group focuses on. As a result, it has been able to build good business relationships and secure long term contracts with its key customers, which makes it significantly more difficult for competitors to penetrate the DDP market or encroach into EFFICIENT's market share.

Further, according to the Ernst & Young Report, contractual agreements between the service providers and their customers are normally executed for all major DDP services. E-SOL's typical contract durations vary between 1 to 5 years. Organisations are unlikely to switch to alternative service providers during and even upon expiry of the contracts due to the contractual obligations and switching costs.

(d) *EFFICIENT's DDP application is an integrated DDP solution with value added services*

EFFICIENT's software applications are fundamentally different from the DDP type applications provided by hardware vendors. The hardware vendor's applications tend to focus on limited areas of the DDP process, as the design of the applications are hardware specific, and have limited functionality. In contrast, EFFICIENT's suite of applications can interface with legacy systems without the need for modification to the systems at the customer sites.

EFFICIENT's software applications also enable the Group to provide value added services such as data capture, data mining, document archival and retrieval as well as targeted marketing. In addition, EFFICIENT's e-FLOW™ system provides work flow planning and monitoring capabilities for each project. EFFICIENT also allows the customers to literally "see" the progress of their job through closed circuit television / a web based system.

The Directors of EFFICIENT believe that most, if not all of EFFICIENT Group's current competitors do not have the capability to provide the full breadth of synergistic value added capabilities. Therefore, EFFICIENT has a commanding market position, having the largest number of customers in the banking, stock-broking and insurance industries.

5.5.8 Major customers

The Group is currently primarily involved in the provision of DDP services to banks, stockbroking companies, insurance companies and telecommunications operators.

Details of the major customers of the Group for the 5 month period ended 31 May 2004 are as follows:

Major customers	Percentage of contribution to turnover (%)	Length of relationship (years)
Prudential Assurance Malaysia Berhad ("Prudential")	17.3	>10
Electronic Commerce Technology Sdn Bhd ("ECT")	12.3	4
Public Bank Berhad ("Public Bank")	11.5	3
Time	9.4	2
Measat Broadcast Network System Berhad ("Measat")	8.6	4
Chemsle Sdn Bhd	5.5	4
Celcom	5.2	4
AmFinance Berhad	4.3	4
Alliance Bank Malaysia Berhad ("Alliance Bank")	3.9	4
Great Eastern Assurance Berhad	3.0	4
Total	81.0	

For the 5 month period ended 31 May 2004, approximately 51% of the Group's turnover was contributed by 4 major customers. Notwithstanding that the contracts for these customers are mainly long term (1-5 years) in nature, the Directors of EFFICIENT acknowledge the need to mitigate this risk. In this regard, the Group is continuously investing in R&D to enhance its DDP capabilities, as well as expanding its services to offer EBP outsourcing in order to retain its existing customers, as well as to potentially enlarge its customer base.

5.5.9 Major suppliers

Details of the major suppliers of the Group for the 5 month period ended 31 May 2004 are as follows:

Major suppliers	Type of raw materials	Percentage of contribution (%)	Length of relationship (years)
PG	Forms/papers	26.9	3
Mesiniaga Berhad	Print charge	13.1	4
Thai British Security Printing Public Co Ltd	Magnetic cards	11.7	1
Tension Paper Converters (M) Sdn Bhd	Envelopes	10.7	4
Fuji Xerox Asia Pacific Pte Ltd	Print charge	10.3	2
Oce Systems (M) Sdn Bhd	Print charge	6.0	5
Hopak Sdn Bhd	Forms/papers	3.9	4
Tan Eng Hong Paper & Stationery Sdn Bhd	Forms/papers	3.3	4
B&P Envelopes Sdn Bhd	Envelopes	2.8	4
United Print Process Sdn Bhd	Forms/papers	2.3	2
Total		91.0	

There are no formal contracts entered into between the Group and its major suppliers. The Directors of EFFICIENT believe that the Group has a good working relationship with its suppliers and as at the Latest Practicable Date, the Group has not encountered any shortage in the supply of paper products.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

For the 5 month period ended 31 May 2004, the Group had approximately 20 suppliers of paper products. In addition, its main supplier is PG, which is a 20% owned associate company of EMC. For the 5 month period ended 31 May 2004, approximately 26.9% of the Group's paper products were purchased from PG.

5.5.10 Marketing approach

The Group has established an account management approach whereby account managers supported by the marketing team are assigned specific customer accounts to manage. The Group's sales and marketing team has established good relationships with the Group's customers. The team is also trained to understand and analyse its customers' needs in order to provide value-added services that will strengthen the competitive position of the Group.

In addition, the Group has established itself in the market to the effect that it is invited to participate in tenders as well as negotiation of new contracts. The management of the Group believes in a philosophy of offering price competitive proposals and excellent delivery through technology, with an emphasis on quality and timeliness. In addition to meeting the needs of existing customers, the marketing team targets the to extend its marketing reach to other new customers, in the following market segments: banks, stock-broking companies, insurance companies and telecommunications companies.

5.5.11 Historical milestones

The major milestones of the EFFICIENT Group are as follows:

Year	Milestone
1986	• Commencement of EMC's business operations
1990	• Vincent Cheah Chee Kong and Esther Soon Yoke Leng became the major shareholders of EMC
1996	• Commenced operations at Petaling Utama location
	• Purchase of first digital printer
	• Secured first major customer
1998	• IT department established, along with substantial technology infrastructure investment
1999	• First set of e-TALK™ applications developed
	• Commenced DDP services for Prudential and ING Insurance Berhad (formerly Aetna Universal Insurance Sdn Bhd)
2000	• Commenced DDP services for AmBank Group, Great Eastern Life Assurance Malaysia Berhad, John Hancock Life Insurance Malaysia Berhad
2001	• Commenced DDP services for Celcom, Alliance Bank, AmSecurities, ECT, Allianz Life Insurance Malaysia Berhad (formerly MBA Life Assurance Sdn Bhd), Hong Leong Assurance Bhd, MCIS Insurance berhad (now MCIS Zurich Malaysia Insurance Bhd)
2002	• First set of modules developed for eFLOW™
	• Commenced DDP services for Time and Public Bank
	• Commenced operations at Shah Alam location
2003	• First full release of e-FLOW™ runs live
	• SOFTEC obtained MSC status
	• Initial release of e-DOC™
	• Commenced DDP services for Measat
2004	• Secured Affin Bank Berhad account
	• Entered into an agreement to purchase a plot of freehold land located at Bukit Jelutong Industrial Park, Shah Alam for the construction of the Group's new operations facility
	• Pioneer status granted by MITI to SOFTEC

5.5.12 Product and service quality

(a) Disaster Recovery

The Group has implemented a disaster recovery plan as part of the requirements of its customers, which include measures such as off-site backup storage with review processes, and keeping a duplicate copy of critical applications and data at a confidential and secure location. In addition, a simulation test on the data and critical applications restoration is carried out on a scheduled basis to ensure that the back-up data is useable. The Group also continues to improve on its backup procedures in order to ensure that its disaster recovery systems and processes are up to date.

(b) Data security

The Group has set up firewalls, virus inspection, server intrusion prevention and detection appliances, therefore minimising the risk of potential security breaches in order to minimise technology related security risks.

(c) R&D standards

The Group has an existing rigorous software development process that starts with a standard template to document all customer (or user) requirements. The software development team, which comprises a System Architect and at least one programmer, will follow through from the requirements statement to create an application (or system) or set of enhancements. The results are then put through a rigorous user acceptance test where every test procedure is defined and the results documented.

The Group is currently implementing changes to procedures to comply with CMM standards to ensure high standards of quality in its software development processes.

The CMM, developed by the Carnegie Mellon Software Engineering Institute, and the ISO 9000 series of standards, developed by the International Standards Organisation, share a common concern with quality and process management.

5.5.13 R&D

The R&D activities at EFFICIENT are governed by a R&D policy that covers identification of R&D projects, feasibility studies for these projects, and monthly review of the projects against costs, deliverables and market conditions. The scope of the R&D projects are limited to work in the DDP and EBP business areas while the feasibility of the projects are determined on an analysis of total estimated R&D cost versus the expected net commercial proceeds from projects that have been identified.

Further details of EFFICIENT's R&D activities are provided below:

(a) Present status of R&D

Over the years, the Group has developed numerous IT applications to enable and enhance its DDP business through continuous developments in technology. Software applications were designed to process raw data for customers to create all forms of documents such as bank statements, insurance policy documents, insurance statements and notices, credit card statements, telephone bills and marketing communications. Applications were developed to have the capability to read files of different formats from different customers, as well as to process the customer data using business rules supplied by the respective customers and finally to present the data in documents according to layouts specified by the customer.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

In 2003, the Group made an application for MSC status, and as part of the requirements of MDC, SOFTEC was established. SOFTEC was accorded MSC status on 13 November 2003. In compliance with the requirements of MDC, the initial set of data and document management applications have been bundled and further developed into general purpose application toolsets. These applications are the result of development efforts over a 5-year period. The know-how, methodology and technologies developed have common modules that are being shared across applications and customers. Some modules are intended for eventual sale to third party solution providers.

These applications have been modularised into three generic systems called e-TALK™, e-FLOW™, and e-DOC™. With the creation of these generic systems, the Group is able to capitalise on its intellectual properties, an end-to-end system, that allows it to reduce its cost of delivery and turnaround time for each customer's project.

The R&D centre located at Cyberjaya allows for collaborative work for up to 5 system architects and developers. The R&D team also works remotely to facilitate pilot projects and support for systems installed at both client locations and EFFICIENT's other facilities. The facilities at the Cyberjaya site will be upgraded to house servers for the e-TALK™ and e-DOC™ systems, including a server farm to host electronic documents and data for customers, and electronic delivery platforms and gateways such as SMS, fax and web based services.

Further details of the ongoing R&D investments and efforts are described in the following sections.

(b) Investment in R&D

The Group is committed to continually invest in R&D as an integral part of providing and improving innovative value added services for its customers.

Total investment in R&D to-date (including salary, equipment and overhead costs) as extracted from the management accounts of EMC, which had been audited, are as follows:

R&D Expenditure	RM'000	Percentage of contribution to turnover (%)
Financial year ended 31 December 2001	280	4.1
Financial year ended 31 December 2002	728	8.8
Financial year ended 31 December 2003	544	3.0
5 month financial period ended ended 31 May 2004	118	1.1

It is forecast that for 2004, EFFICIENT will spend approximately RM850,000 for the acquisition of additional infrastructure and payroll for the R&D team. From year 2005 onwards, it will spend approximately RM670,000 per annum towards the continued development of its R&D program.

Details of the Group's future R&D program are described below:

R&D Program

The Group's R&D program continues to place emphasis on the further development of the products developed by SOFTEC. This will include enhancements on the DDP centric products e-TALK™ and e-FLOW™, as well as to expand its EBP capabilities through e-DOC™.

(i) DDP

- e-TALK™

Under the R&D program, e-TALK™, will be enhanced to operate as a stand-alone tool-set for sale to third parties. This tool-set will allow the automated migration of data from different proprietary databases. SOFTEC will continue to refine e-TALK™'s capabilities in specific industries, with a view of packaging them as bundled solutions, in order to provide greater out-of-the-box industry standard functionality for the Group's customers. The initial focus will be on the insurance as well as banking industries.

In line with these efforts, SOFTEC is in the process of aligning e-TALK™'s software development processes with the CMM industry standard, with the goal of eventually obtaining CMM certification. SOFTEC understands that in the first phase of development, the tool-sets developed will continue to be offered as a service, and then later as a licensed application.

- e-FLOW™

Further development work for e-FLOW™ will be closely linked with the development and enhancement of e-TALK™, primarily to provide workflow capabilities that are in line with the planned enhanced functionality of the DDP software.

In addition, there are plans to continue to enhance e-FLOW™'s integration with e-DOC™ and other third party systems for financial management, stock management and ERP.

(ii) EBP

- e-DOC™

The system scope as identified by SOFTEC includes the total bill presentment and payment cycle. Rather than utilise a third party solution, SOFTEC is enhancing e-DOC™ to cover the entire data cycle, from extraction of invoice data, generation of the e-bill format (pdf, email or SMS), delivery of the e-bill, confirmation of delivery, as well as archiving of the e-bill (for future recall through a scan-to-archive solution). Also to be provided will be a print-to-archive solution, for total electronic consolidation of historical as well as future billings.

In addition, SOFTEC plans to develop and manage a portal (mirror site) for customer registration and subscription, as well as the integration of a payment gateway (for customers who choose to pay electronically). SOFTEC also plans to develop interfaces that will allow seamless integration to the customers' CRM software.

These enhancements to e-DOC™ should allow the Group to become a key player in the EBP market, thus minimising any cannibalisation of the Group's market share in the DDP market should there be a shift in demand from printed documents towards electronic documents in the future.

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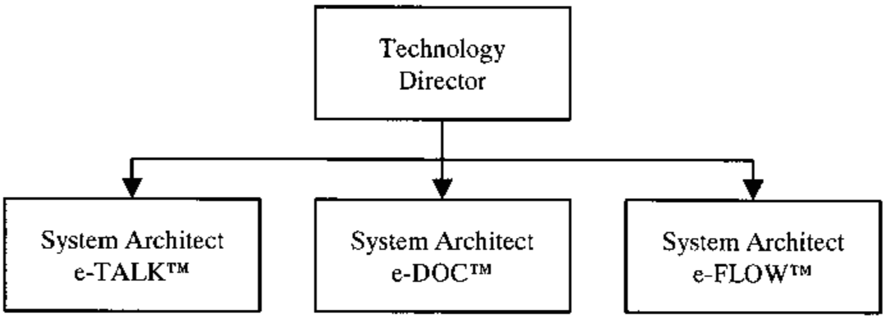
5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

Plans and timetable for proposed future R & D

Milestones	Planned completion of milestones									
	2004		2005		2006		2007		2008	
e-TALK™	Insurance applications review and pilots	Rollout Insurance services. Start QA & CMM certification. Banking application review & pilots	Rollout Banking application services. Test pilot bundle solutions, QA & CMM Level 2 certification.	Commercial rollout of 1st licensed version of e-TALK™, QA & certification for CMM Level 3.	Enhance e-TALK™ for additional document types and testing.	Commercial rollout of 2nd version of e-TALK™. Conduct planning for next generation of e-TALK™.	Actively develop next generation of e TALK™, or e- TALK-II	Continued development of e- TALK-II	Commercial rollout of e-TALK-II. Enhance e-TALK-II with added functionality and sub-tools.	Continue enhancements of e- TALK-II
e-DOC™	Develop Electronic Document Warehouse Module and Subscriber Management System. Develop email & SMS delivery solutions	Commercial roll-out of email & SMS services, start R&D on systems for other mobile devices	Testing and rollout of various mobile device systems.	Enhancement of delivery and error reporting delivery mediums. Start R&D on new mobile devices and standards such as 3G.	Phased rollout of enhancements and other delivery solutions. Commercial rollout of 1st licensed version of e-DOC™	Enhance e-DOC™ with API's for integration with payment modules and other integration work.	Commercial rollout of e-DOC™ with integrated payment modules.	Integrate other payment modules to e-DOC™ and enhance other features of e-DOC™.	Commercial rollout of next version e- DOC™. Conduct planning of next generation of e- DOC™.	Actively develop next generation of e-DOC™ or e-DOC-II.
e-FLOW™	Add further functionality – integration to delivery channels such as SMS and email as well as	integration to stock system.	Provide customer access modules for restricted and secure viewing.	Integrate resource planning functionality and financial systems.	Integrate "zero defect" functionality for automated document processing.	Continue earlier development work.	Plan and develop next generation of e-FLOW™ or e-FLOW-II, which will include	direct customer systems integration on open system standards.	Rollout e-FLOW-II with selected customers, followed by further testing and full rollout.	

(c) R&D personnel

Currently staffed with 4 qualified IT personnel, headed by Sreedhar Subramaniam, Technology Director of the Group, the R&D department is structured follows:



(d) Strategic Technological Alliances

Over the last 2 years EMC has developed a close working relationship with a foreign strategic partner in the area of integrated scan, archive and retrieval of documents. The foreign strategic partner, whose principal activity is the provision of advanced integrated document management services, is interested to work with EMC to further enhance its proprietary integrated scan, archive and retrieve application software, to develop a Chinese language version of the software, and assist with expansion of related services into China. Discussions are at an advanced stage, but no formal commitment has been entered into as at the Latest Practicable Date.

5.5.14 Intellectual property rights

EFFICIENT has submitted applications to the Trade Mark Registry to register the following trade marks on 9 January 2004:

- e-DOC™ / eDOC™ / E-DOC™ / EDOC™;
- e-TALK™ / eTALK™ / E-TALK™ / ETALK™; and
- e-FLOW™ / eFLOW™ / E-FLOW™ / EFLOW™.

As at the Latest Practicable Date, the registration is still pending approval from the Trade Mark Registry and it is expected to take several years before the trade marks can be registered. However, a preliminary search has indicated that no competing trade mark has been submitted for registration.

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5.5.15 Employees

As at the Latest Practicable Date, the EFFICIENT Group has a total workforce of 178 employees, including Executive Directors. The breakdown of the Group's employees is as follows:

Category	No. of employees	Estimated average no. of years of service (years)
Managerial and professional		
• Executive Directors	6	9
• Senior Management	6	10
• Line Management	12	6
• Production Leaders	8	6
Technology		
• IT Manager	1	<1
• System Architect	4	3
• Programmers / IT Personnel	7	2
Clerical & secretarial		
• Support staff	10	3
General worker		
• Production Staff	124	2
	178	

Competent personnel with sound industry knowledge and hands-on experience and expertise, support the Group's business. The Group conducts in-house and on-the-job training for its production staff whilst senior management are encouraged to attend seminars in order to keep abreast with the latest technological and workflow process improvements.

With the emerging needs of the Group and in line with its future plans, EFFICIENT aims to achieve its human resources objective by retaining suitable qualified personnel by:

- providing additional training, in order for technical staff to keep abreast with industry trends and solutions;
- offering competitive remuneration package and fringe benefits; and
- implementing the ESOS to instil a greater sense of ownership through direct equity participation in the company.

The employees of EFFICIENT Group do not belong to any trade union and enjoy a cordial relationship with the management. As at the Latest Practicable Date, there have not been any industrial disputes in the past.

5.5.16 Interruptions to operations

There has not been any interruption to the Group's business or operations for the past 12 months prior to the Latest Practicable Date.

5.6 Subsidiary and associated companies

As at the Latest Practicable Date, the details of the subsidiary and associated companies of EFFICIENT, all of which were incorporated in Malaysia, are as follows:

Name	Date of incorporation	Issued and paid-up share capital (RM)	Effective interest (%)	Principal activities
EMC (79875-D)	9.01.1982	9,000,000	100	Providing integrated outsourcing services in data and document processing, ranging from data extraction, conversion, and formatting of documents, to data printing and preparation for distribution via post, as well as distribution via electronic media.
SOFTEC (630851-W)	9.10.2003	3	100	Providing information technology services, primarily the development of proprietary applications for work-flow management, data conversion, and electronic distribution of documents.
VPI (567871-D)	4.01.2002	100,000	20	Dormant.
PG (527567-M)	28.09.2000	100,000	20	Supplier of computer forms for digital and other specialised printing processes.

Further information on the subsidiary and associated companies of EFFICIENT are set out hereafter.

5.6.1 Information on EMC

(a) History

EMC was incorporated under the Act as a private limited company in Malaysia on 9 January 1982, under the name of Century Twenty One Sdn Bhd. The company changed its name to Efficient Lettershop Sdn Bhd on 18 July 1986 and to Efficient Lettershop & Data Print Sdn Bhd on 7 November 1998. EMC assumed its current name on 24 July 2001.

EMC commenced business operations in the year 1986 to provide fulfilment services to companies engaged in direct marketing activities, which included the printing of direct market letters, bundling of coupons and offers, packing and mail processing services, operating out of a small office in Kuala Lumpur.

Today, EMC is primarily involved in the provision of integrated outsourcing solutions in DDP to banks, stock-broking companies, insurance companies and telecommunications operators. EMC has also expanded its service offerings to include EBP services. EMC is a contractor which has been registered with the Ministry of Finance in the category of supplies/services for a period of 3 years from 16 December 2003 to 15 December 2006.

(b) Share capital

The present authorised share capital of EMC is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which RM9,000,000 comprising 9,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

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

Date of Allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid-up share capital (RM)
09.01.1982	2	1.00	Subscribers' shares	2
01.08.1986	24,998	1.00	Cash	25,000
01.11.1993	125,000	1.00	Cash	150,000
02.08.1996	150,000	1.00	Cash	300,000
06.12.1999	200,000	1.00	Other than cash	500,000
22.09.2000	30,000	1.00	Cash	530,000
25.09.2000	470,000	1.00	Bonus issue	1,000,000
14.01.2004	4,165,000	1.00	Bonus issue	5,165,000
15.01.2004	3,835,000	1.00	Cash	9,000,000

(c) Substantial shareholders

EMC is wholly owned by EFFICIENT. Please refer to Section 7 for information on EFFICIENT's shareholders.

(d) Subsidiary and associated companies

EMC has no subsidiary company. The associated company of EMC as at the Latest Practicable Date, is as follows:

Name	Date / Place of incorporation	Issued and paid-up share capital (RM)	Effective interest (%)	Principal activities
PG	28.09.2000 / Malaysia	100,000	20	Supplier of computer forms for digital and other specialised printing processes.

5.6.2 Information on SOFTEC

(a) History

SOFTEC was incorporated under the Act as a private limited company in Malaysia on 9 October 2003, with the objective of consolidating the IT R&D efforts of EMC, as well as to offer these IT products and services to third parties. Its principal activities are to engage in the provision of information technology services, primarily the development of proprietary applications for work-flow management, data conversion, and electronic distribution of documents.

SOFTEC commenced operations in the year 2003 with the initial core group of IT personnel that were employed at EMC. SOFTEC consolidated over 300 applications for data extraction, data migration and data formatting that were developed by the IT department of EMC. The IT department formed the core information and technology expertise for the business of the Group. In recognition of this, as well as the commitment to current and future R&D efforts, SOFTEC was accorded MSC status on 13 November 2003 by MDC and was also granted pioneer status by MITI for a period of 5 years commencing from 20 April 2004. SOFTEC has since recruited more personnel and now focuses on the development of software applications used by EMC in its business operations.

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

(b) Share capital

The present authorised share capital of SOFTEC is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each, of which RM3 comprising 3 ordinary shares of RM1.00 each have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid-up share capital (RM)
09.10.2003	3	1.00	Subscribers' shares	3

(c) Substantial shareholders

SOFTEC is wholly owned by EFFICIENT. Please refer to Section 7 for information on EFFICIENT's shareholders.

(d) Subsidiary and associated companies

As at the Latest Practicable Date, SOFTEC has no subsidiary or associated companies.

5.6.3 VPI

(a) History

VPI was incorporated under the Act as a private limited company in Malaysia on 4 January 2002. The company is currently dormant.

(b) Share capital

The present authorised share capital of VPI is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which RM100,000 comprising 100,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid-up share capital (RM)
04.01.2002	3	1.00	Cash	3
11.09.2003	50,000	1.00	Cash	50,003
01.01.2004	49,997	1.00	Cash	100,000

(c) **Substantial shareholders**

According to the Register of Members as at the Latest Practicable Date, the substantial shareholders of VPI are as follows:

Name	<------Direct-----> No. of shares	%	<------Indirect-----> No. of shares	%	Nationality/ Place of incorporation
Elliza Abdul Malik	55,000	55.0	-	-	Malaysian
Dato' Kalimullah bin Masheerul Hassan	25,000	25.0	-	-	Malaysian
EFFICIENT	20,000	20.0	-	-	Malaysia
CSSSB	-	-	20,000[a]	20.0	Malaysia
Ho Choong Lim	-	-	20,000[b]	20.0	Malaysian
Esther Soon Yoke Leng	-	-	20,000[b]	20.0	Malaysian
CCKSB	-	-	20,000[c]	20.0	Malaysia
Vincent Cheah Chee Kong	-	-	20,000[d]	20.0	Malaysian
Victor Cheah Chee Wai	-	-	20,000[d]	20.0	Malaysian

Notes:

a *Deemed interested by virtue of its shareholding in EFFICIENT in accordance with Section 6A of the Act*

b *Deemed interested by virtue of their shareholdings in CSSSB in accordance with Section 6A of the Act*

c *Deemed interested by virtue of its shareholdings in EFFICIENT and CSSSB in accordance with Section 6A of the Act*

d *Deemed interested by virtue of their shareholdings in CCKSB in accordance with Section 6A of the Act*

(d) **Subsidiary and associated companies**

As at the Latest Practicable Date, VPI has no subsidiary or associated companies.

5.6.4 PG

(a) **History**

PG was incorporated under the Act as a private limited company in Malaysia on 28 September 2000. The company is principally involved in the supply of computer forms for digital and other specialised printing processes.

(b) **Share capital**

The present authorised share capital of PG is RM500,000 comprising 500,000 ordinary shares of RM1.00 each, of which RM100,000 comprising 100,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

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

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Cumulative issued and paid-up share capital (RM)
28.09.2000	2	1.00	Cash	2
24.07.2003	99,998	1.00	Cash	100,000

5. INFORMATION ON THE EFFICIENT GROUP *(Cont'd)*

(c) Substantial shareholders

According to the Register of Members as at the Latest Practicable Date, the substantial shareholders of PG are as follows:

Name	<------Direct----->		<------Indirect----->		Nationality/
	No. of shares	%	No. of shares	%	Place of incorporation
Lee Yih Yuan	70,000	70.0	-	-	Malaysian
EMC	20,000	20.0	-	-	Malaysia
Yeoh Lai Nam	10,000	10.0	-	-	Malaysian
EFFICIENT	-	-	20,000[a]	20.0	Malaysia
CSSSB	-	-	20,000[b]	20.0	Malaysia
Ho Choong Lim	-	-	20,000[c]	20.0	Malaysian
Esther Soon Yoke Leng	-	-	20,000[c]	20.0	Malaysian
CCKSB	-	-	20,000[d]	20.0	Malaysia
Vincent Cheah Chee Kong	-	-	20,000[e]	20.0	Malaysian
Victor Cheah Chee Wai	-	-	20,000[e]	20.0	Malaysian

Notes:

a *Deemed interested by virtue of its shareholding in EMC in accordance with Section 6A of the Act*
b *Deemed interested by virtue of its shareholding in EFFICIENT in accordance with Section 6A of the Act*
c *Deemed interested by virtue of their shareholdings in CSSSB in accordance with Section 6A of the Act*
d *Deemed interested by virtue of its shareholdings in EFFICIENT and CSSSB in accordance with Section 6A of the Act*
e *Deemed interested by virtue of their shareholdings in CCKSB in accordance with Section 6A of the Act*

(d) Subsidiary and associated companies

As at the Latest Practicable Date, PG has no subsidiary or associated companies.

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6. 5-YEAR BUSINESS DEVELOPMENT PLAN

The long-term focus of the Group will be to continue to develop its DDP business, as well as to complement this with an enhanced suite of data management applications and the further development of its EBP capabilities as a strategic synergy to its DDP business. In line with this, the Directors of EFFICIENT believe that the following areas will be instrumental to the growth of the Group :

6.1 Expansion of DDP customer base

The Group will be targeting potential customers in 4 market segments (banking, stockbroking, insurance and telecommunications) with a stronger focus on companies that are not currently outsourcing. The management of EFFICIENT believe that the Group has a compelling value proposition and as such is expected to continue to acquire new customers.

A summary of its value proposition is as follows:

As an outsourcing partner, the Group removes the need of its customer from having to deploy resources for the provision of non-critical services. The Group offers professional management of the customer's DDP functions, the customer does not incur any infrastructure or IT resource cost, but more importantly removes fixed costs and replaces it with a variable cost, thereby saving the customer infrastructure and IT costs.

As the Group charges for its services on a per unit basis, and effectively takes on the burden of the fixed overheads, it then needs to source a range of customers that will utilise available capacity. As the Group is an independent service provider, the Group is also able to maximise its effective capacity through a time distributed load balancing strategy. As an example, a bank that prints statements at the beginning of a month, will have idle capacity for almost 80% of the month. The Group is in a unique position to source business from several customers in one industry as well as customers from different industries.

In addition to bulk printing the Group is also able to generate customised documents. The Group is able to offer a print-on-demand service. The Group also provides an integrated scan & archive solution, allowing customers continued (future) retrieval of the printed document, potentially alleviating customers of the often cumbersome task of data archival.

The Directors of EFFICIENT believe that its value proposition can be summed up simply as offering competitive cost services for the delivery of both paper and electronic documents.

6.2 Further development of the Group's EBP business

With the development of e-DOC™, the Group is in a relatively unique position to offer customers traditional delivery through the mail, as well as electronic delivery. In the case of the DDP business, EFFICIENT has been able to offer a compelling value proposition. Similarly with EBP, the value proposition is driven by a few factors:

(a) Need to meet customer needs

- Customers of banks, telecommunications companies and insurance companies are increasingly requesting electronic documents.
- However it is clear that the majority of customers will prefer traditional document delivery (printed and delivered through the post).

(b) Lack of economies of scale

- For the reasons stated above, companies will not be able to reach economies of scale and therefore will be reluctant to invest in the IT infrastructure (hardware and software) or personnel to build and maintain the applications.

- Companies will have to turn to service providers like EFFICIENT who are in a position to provide these services thereby saving the customers start-up and fixed costs.

(c) Branding and promotions

- The Group has budgeted for a branding and promotion campaign to encourage the end customers to opt for electronic delivery. This budget will be targeted at EFFICIENT's initial group of customers in order to accelerate the adoption of EBP.

It is important to understand that the drivers for EBP are different from DDP. In the case of EBP, the end consumer (or EFFICIENT's customers' customer) must drive demand for the service. As an example, a bank customer will receive a monthly current account statement through the mail. That customer needs to make an active choice in requesting an electronic statement. Also the end consumer does not have any financial incentive to make the switch to electronic formats. The Group recognises this fact and has allocated RM600,000 from the proceeds raised from the Public Issue towards branding & promotion activities to help drive consumer demand for EBP.

6.3 Regional expansion

The Group has begun discussions with its foreign strategic partner, whose principal activity is the provision of advanced integrated document management services, to jointly explore opportunities in China, specifically in the provision of data conversion, document management and storage for major companies.

Within the Asia Pacific region, the Group is targeting opportunities in Indonesia and the Philippines. The Group will undertake overseas marketing and fact-finding missions where possible in conjunction with Malaysian government bodies.

6.4 Development of a new facility in Shah Alam

EMC has entered into a sale and purchase agreement with KLIE Assets Sdn Bhd on 6 April 2004 to acquire a plot of freehold land held under HS(D) 142710 , PT No. 17655, Mukim Damansara, Daerah Petaling, Selangor, measuring approximately 88,000 square feet located at Bukit Jelutong Industrial Park, Shah Alam, for a purchase consideration of RM4,475,250. The Directors of EFFICIENT propose to utilise RM4,475,250 of the proceeds raised from the Public Issue to fund the aforesaid acquisition of land.

The land to be acquired is to be developed into a new operations facility encompassing an office, operations centre and warehouse for the EFFICIENT Group. Upon completion of the new facility, the Group will relocate its existing operations from Petaling Jaya and the rented premises in Shah Alam to this new facility. The current office in Petaling Jaya will then be used as a dedicated disaster recovery site in the future. The relocation of the 2 offices to this new facility will enable the EFFICIENT Group to optimise its workflow process in the future as the current 2 offices set-up had resulted in difficulties in terms of achieving optimum workflow process and communication. Further, the Directors of EFFICIENT propose to acquire the land and construct the new facility instead of renting the required space so as to optimize the layout of the facility.

The estimated cost of the new facility and the relocation of machinery from the existing facility is approximately RM7,000,000, of which RM1,524,750 would be funded by the proceeds of the Public Issue and the balance by internally generated funds and/or bank borrowings. The construction of the new facility is expected to commence in February 2005 and expected to be completed by January 2006.