6. INDUSTRY OVERVIEW AND OUTLOOK

6.1 Malaysian Economy

The Malaysian economy expanded by 7.1% in 2004, the fastest growth since 2000. The economy benefited from both stronger external and domestic demand. Notwithstanding some moderation in global growth in the second half of the year, the Malaysian economy remained resilient with the private sector continuing to be the principal driving force of domestic economic expansion. In 2004, the Government progressed further in fiscal consolidation. The overall Federal Government deficit declined to 4.3% of GDP in 2004 (2003: 5.3%). The Government, while consolidating, remained supportive of growth with policies targeted at enhancing the business environment for the economy.

For 2005, global economic growth is expected to remain firm at 4% (2004: 4.8%), while world trade is expected to expand by 5.8% (2004: 8.8%). The pace of slowdown in the US and China is expected to be modest on the basis that adjustments of the imbalances in these economies would be gradual. In 2005, the US economy is expected to expand by 3.5% after a strong expansion of 4.4% in 2004 while China is expected to register a strong growth of 8.5%. Growth in the East Asian region, excluding Japan, is therefore is expected to expand at a reasonably high rate of 6.3 – 6.5%. Consumption is expected to be sustained by rising incomes and a growing share of the young age group with higher propensity to consume. Domestic demand is also likely to remain resilient given the larger contribution from new sources of growth and increased intra-regional trade. Given these positive developments, the prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to expand by 5 - 6% in 2005 (2004: 7.1%).

Economic growth in 2005 is expected to be supported by expansion in all sectors, except construction. Following the strong expansion in 2004, the manufacturing sector is expected to expand at a more moderate pace in tandem with developments in the global semiconductor industry. While the global semiconductor industry is consolidating after reaching a peak in mid-2004, the cyclical downturn is forecast to be modest in view of the strong Asian demand, the rapid inventory adjustments and relatively low inventory levels. Current indicators point to an expected upturn in the global semiconductor cycle in the second half-year. Growth in the services sector is projected to remain firm, reflecting expansion in all sub-sectors. The sector has shifted from depending on a narrow range of activities related to trade and manufacturing to a broader range of activities supported by domestic consumption and growth in new services activities related to tourism and business support services.

Inflation is expected to edge up in the first half year, reflecting the continuing one off impact of price adjustments to retail petroleum products as well as higher taxes on cigarettes and tobacco that were implemented in 2004. The impact is expected to be transitory, and inflation is expected to moderate in the second half-year. Given the lack of significant general demand pressures, inflation is projected to average 2.5% in 2005.

(Source: Bank Negara Malaysia Annual Report 2004)

Within the services sector, 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. As at end-August 2004, there were 1,099 MSC status companies, comprising 768 Malaysian-owned, 302 foreign-owned and 29 joint venture companies. The number of jobs created increased by 17.3%, from about 19,100 jobs in 2003 to 22,300 jobs in 2004, out of which 88% constitute knowledge workers in the fields of software development and programming as well as managerial and technical support in sales, finance and marketing. Currently, there are 65 international world-class companies operating in the MSC. In 2004, total sales from MSC activities is expected to reach RM6.8 billion, of which RM5.3 billion are exports while RM1.5 billion are local sales. In terms of R&D, MSC companies have had significant success. 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 focused on areas such as communications, software solutions, micro-systems and integrated circuit designs.

Arising from the R&D efforts, a total of 151 patents, 41 industrial designs and 188 trademarks were registered, signifying the achievements of the 590 R&D personnel working in the MSC. Development of the local ICT industry, shared services and business process outsourcing has been identified as new sources of high growth. Specific measures have been implemented to facilitate the development of this sector, including attracting ICT talents through the brain-gain programme and enhancing ICT infostructure, especially in wider broadband connectivity. Concerted efforts are ongoing in promoting strategic alliances and synergistic partnerships in areas of business process outsourcing and shared services. Arising from these measures, homegrown IT companies, now provide services to one of the world's leading telecommunications companies in customer support operations and manage regional supply chain activities and logistics for a major electrical and electronics (E&E) company in the Asia Pacific region. As for business process outsourcing, the MSC has already pulled in Global 500 companies.

(Source: Economic Report 2004/2005)

6.2 Malaysian Mobile Telecommunications Industry

IDC forecasts total mobile subscribers in Malaysia to reach close to 22.5 million in 2009, representing a CAGR of 5.3% from 2005 to 2009 and putting estimated mobile penetration at approximately 75% in 2009. No new entrants are expected in the 2/2.5G arena, with the market in the hands of the three players - Celcom, Maxis, and DiGi.

Among these players, only Celcom and Maxis have 3G licences and have rolled out their 3G services recently starting from the high-density Klang Valley. Locked out without a 3G licence, DiGi launched EDGE services in 2004 and currently have plans to bid for a 3G license. IDC expects early adopters of 3G services to begin with users that have high data usage profiles with GPRS.

IDC projects total cellular service revenue to reach US$4.34 billion in 2009, growing at a 4.2% CAGR. From 2005 to 2009. As Malaysia's voice market is fairly tapped, IDC expects nonvoice segments to rise faster, accounting for 47% of total revenue by 2009. However, SMS will continue to remain a significant contribution to nonvoice as SMS adoption will continue to gain increasing mainstream adoption through the forecast period. Despite MMS interoperability introduced from second quarter of 2004, MMS will only start to gain traction in the later years of the forecast period.

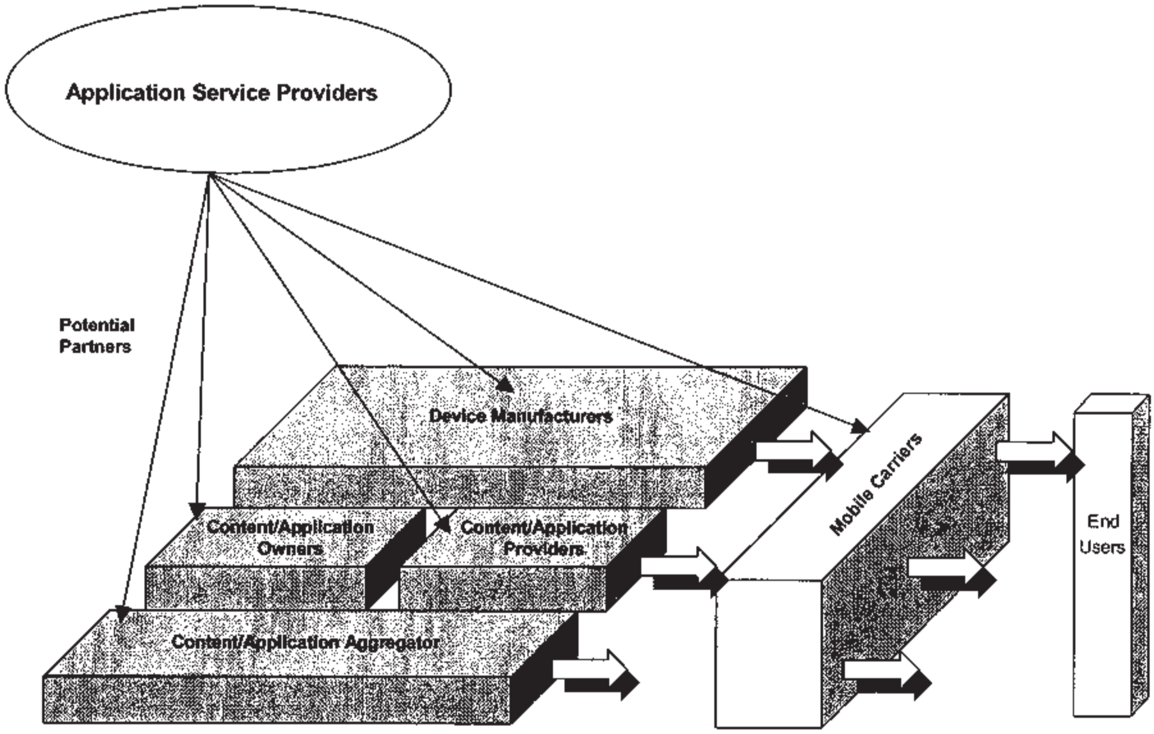
The bright spark will be the rapid rise in other data revenue on the back of high-speed network services offered by GPRS and DiGi's upgrade to EDGE in mid-2004, but revenue growth is off a current low base. With the launch of new mobile content and applications, coupled with improving consumer perception and awareness, operators will seek nonvoice strategies to boost ARPU over the forecast period.

(Source: IDC Wireless Tracker, April 2005 and IDC Report)

6.3 Overall structure of the mobile content and messaging industry

Mobile data services are one of the most dynamic, fastest-growing, and rapidly evolving areas of technology. Mobile data services adoption is rapidly growing in Europe and North America, while mobile data services have already been widely adopted in Asian markets like South Korea and Japan. The next wave of countries to experience enormous growth are going to be South America, Africa, Eastern Europe, and Asian markets like China and South East Asia.

The typical mobile content/application value chain is as follows:-



Members of the value chain are:-

(i) **Content/Application Owners** - This group is composed of multiple entities, including the music companies, media companies and gaming companies.

(ii) **Content/Application Providers** - Many companies in the provider space build on the content/application owned by the content/application owners group. They also include marketing functions in order to promote their content and applications. This group oftentimes works directly with carriers or in some cases with intermediaries (i.e, content/application aggregators) to deploy content/applications across their networks. Members of this group create the ringtones, wallpaper and games development.

(iii) **Content/Application Aggregators** - Content/Application aggregators are a somewhat new concept, having been established to provide seamless services, content and applications to the customers. Aggregators also play the role to interface to mobile carriers' various networks and billing systems. Mobile content/application aggregators host a variety of third party content and applications. The mobile content/application aggregator markets the content/application and acts as a billing intermediary between the service provider (i.e, carrier) and the content/application provider.

(iv) **Mobile Carriers** - These are the mobile operators, which in Malaysia comprise of Celcom, Maxis and DiGi. These carriers own the mobile infrastructure and are currently pursuing 2.5G and 3G network upgrades to deploy next-generation mobile services that include mobile data applications, allowing users to access types of content/application that are new to mobile but already familiar in the online world. Mobile games are a prime example of this type of content. Thus, as carriers transition to next-generation services, they will focus on creating new revenue streams by offering advanced mobile services and content/application as well as tapping into under-served markets, such as the youth market, in order to spur growth.

(v) **Device Manufacturers** - These are the mobile phone devices or handsets manufacturers. Today's mobile phones are advanced, colour-screen and polyphonic devices which include some PDA-type of functions like calendar and address book. Newer devices run operating systems like Microsoft SmartPhone, Symbian and Palm OS. In addition to that they offer unique hardware-independent platforms, such as J2ME and Binary Runtime Environment for Wireless ("BREW') for downloading gaming applications and BlueTooth.

However, in order for mobile data services to grow in the mobile content/application value chain, there needs to be application service providers who enable the provisioning of original or non-original content and applications to the mobile community. This is because while the Internet has a greater amount of homogeneity, the mobile web functions very differently with different operators running different networks, hence even offering access to mobile content/application across consumers in different countries can prove to be a significant problem.

Application Service Providers

ASPs usually provide 'Software as a Service' ("SaaS"). SaaS refers to the ongoing support of applications. The core value of these services is also maintenance and daily operation of business and consumer applications. The following are core-defining characteristics of SaaS:-

- The main value of SaaS is the provisioning of network-based access to and management of a commercially available (not custom) application.

- SaaS activities are managed from central locations, rather than at each customer's site. Customers access applications remotely.

- SaaS activities are characteristically closer to one-to-many services than one-to-one services. These include architecture, pricing, partnering, and management characteristics.

The Nextnation Group is an application services provider that develops application platforms focused on technology enabling solutions for the mobile market (specifically 2G-3G mobile market) and its target customers are mobile content/application developers, aggregators, handset manufacturers, mobile operators, corporate enterprises or advertising/media/marketers, who in turn target the end consumer.

Its core mobile application development and deployment platform is called MINDCEP™ and it consists of three (3) major application platforms:-

- SMSJET™: Offers mobile 'middleware' by allowing content developers to directly interface with its APIs.

- SOHOMOBILE™: Offers mobile content development and management solutions tailored to the Small Office Home Office ("SOHO") developer and consumer content developer market.

- mCommerce-Suit: Offers mobile commerce solutions tailored to the enterprise applications market.

(Source: Executive summary of the IDC Report prepared for inclusion in this Prospectus as disclosed in Section 15)

6.4 Mobile Subscriber Growth and Penetration Trends

In 2004 the Asia-Pacific (excluding) Japan ("APEJ") region recovered from the severe acute respiratory syndrome (SARS) epidemic that hit in second quarter of 2003, consumer and business sentiment was strong, and the wireless services market maintained its strong growth in terms of subscribers and service revenues. IDC estimated the APEJ wireless service revenue grew 18.1% in 2004 to US$69.8 billion on the back of 25.6% growth in cellular subscribers to 527.3 million at the end of 2004.

In the ten (10) key markets of APEJ, the total mobile subscribers grew a robust 25.6% in 2004 from 2003 to 527.3 million. Subscriber growth was strongest in India at 118%; it was followed by the Philippines and Malaysia. The mature markets of South Korea, Hong Kong, Singapore, and Australia still enjoyed healthy subscriber growth ranging from 8.9% to 15.7%; however, Taiwan experienced a fall of 12.6% largely due to a cleanup of its non-active subscriber base.

The People Republic of China, having the largest population in the world, was the biggest component of APEJ subscribers, accounting for 60%, with 317.3 million subscribers largely helped by the conversion of wireless local loop services to full mobility services in India, India overtook and upped three notches to rank as the second largest subscriber base in APEJ in 2004, accounting for 9%. South Korea (7%), the Philippines (6%), Thailand (5%), and Taiwan (4%) followed. The remaining four countries of the region made up the 8% of APEJ mobile subscribers, with Singapore ranked last due to its small domestic market size.

In terms of mobile penetration in APEJ, five of the markets enjoyed high penetration of 75% and above, reflecting the maturity of basic mobile services in these developed markets. Taiwan and Hong Kong stood highest at over 96%, followed by Singapore, Australia, and South Korea. The other emerging and less developed markets are catching up fast, ranging from 20% to 62%, with Malaysia achieving the biggest improvement in 2004. However, India, still lags far behind with 4.5% penetration in 2004, although this more than doubled from 2.1% penetration in 2003.

(Source: IDC Wireless Tracker, April 2005 and IDC Report)

6.5 Prospects of Mobile Messaging

The mobile market is one of the fastest growing markets in the telecommunications segments. In Malaysia, SMS Revenues compound annual growth rate from 2005-2009 is 6.8%, while MMS are at 58.6% and other data (where premium SMS is classified) is growing at 31%. This high growth market is present with opportunities for mobile service providers to gain a stake in.

SMS is currently still the biggest non-voice revenue generator at 11% of total mobile revenues in 2003. Usage of SMS in recent years has been encouraging and SMS Users rose to 8.5 million at the end of 2004. IDC forecasts SMS Users to continue growing at 7.9% CAGR from 2005 to 2009 reaching 15.7 million in 2009. In terms of SMS Revenues, IDC projects USD633 million in 2009, representing CAGR of 6.8% from 2005 to 2009.

The non-voice market (including SMS, MMS, GPRS and other data services) grew 9.8% on average over a six (6) quarter (third quarter of 2003 to fourth quarter of 2004) whilst the voice market grew more modestly on an average of 4.4% over the same period. However, the non-voice market is a smaller contributor to the total wireless market. In 2003, total non-voice market revenue made up 11.4% of Malaysia's total wireless services market. By the end of 2004, market share of non-voice went up 1.8 percentage points to make 13.2% of the total wireless market. The spike in the non-voice revenue segment was due to the growing mass demand of premium SMS in early 2003 such as ringtone and wallpaper downloads as well as the increased usage of SMS by Malaysian mobile subscribers. The introduction of prepaid plans in early 2004, which ignited price wars in both the voice and non-voice segments explains the dip in first quarter and second quarter of 2004. The non-voice segment later in second quarter of 2004 grew again due to MMS interoperability that was introduced in second quarter of 2004. This market segment continued to grow throughout 2004 due to contest-based premium SMS from contests such as Akademi Fantasia and Malaysia Idol as well as increased GPRS usage for information searches such football scores, stock prices, news updates (to name a few). The dip in voice revenue also made a turn around as it is buoyed by increase in minutes of use as well as lower IDD rates to key countries with higher mobile IDD traffic such as Singapore and Hong Kong.

(Source: IDC Wireless Tracker, April 2005 and IDC Report)

6.6 Industry Players and Competition

The competitors may take the form of the existing players, new entrants or new start-ups from various industries locally and internationally such as software developers, network equipment vendors and Celcos.

The Group is able to compete effectively with other players in the content and application developer service industry as the Group is able to present a different business model in which it allows developers and mobile content providers to use its MINDCEP™ technology at a very low cost of entry.

6.7 Demand/Supply Conditions

The Directors of Nextnation are of the view that the mobile revolution is changing the way people live and work and mobile phones are already pervasive in all countries. The rapid evolving of mobile communication technology has made the telecommunication companies around the world working towards the commercialization of 3G mobile phone technology, which enable the fast transmission of high-quality data, and realizes new mobile multimedia communications services and applications.

For the Malaysia market, the mobile subscribers have increased from 2.2 million to 22 million from 1998 to 2003. The local subscribers are expected to continue grow to at least 16 million in 2009, with sum of revenue for mobile content and application market for other data to increase from USD11.2 million to USD277.5 million (RM42.5 million to RM1.12 billion) from 2003 to 2009, in a compounded annual growth rate of 31.6% throughout this forecast period. *(Source: IDC Wireless Tracker, April 2005 and IDC Report)*

6.8 Substitutes Products and Services

According to the IDC Report, the threats of substitutes arise from other businesses who are able to provide the mobile application platform and/or its functionality via a different kind of technology or a different business model. Some of the examples are service providers or IT vendors offering turnkey mobile solutions or selling specialised mobile middleware solutions for operators and content providers.

In order to mitigate these risks, the Group's R&D team constantly keeps abreast with new technologies and market trends wherein the business development team works closely with the R&D team to provide feedbacks on market trends and client requirements. The Group also focuses on creating and enhancing value for its products and services.

6.9 Relevant Laws and Regulations Governing the Industry

The Ministry of Energy, Communications and Multimedia established on 1 November 1998 as the regulator and policy formulator for the energy, communications and multimedia sectors and the regulatory and policy framework is primarily based on the concept of convergence of the telecommunications, broadcasting and IT industries.

The MCMC was created in November 1998 to regulate the communication and multimedia industry based on the powers provided for in the Malaysia Communication and Multimedia Commission Act (1998) and the Communications and Multimedia Act (1998). The MCMC's main objectives are to implement and promote the Government's national policy objectives for the communications and multimedia sector as well as oversees the new regulatory framework for the converging industries of telecommunications, broadcasting and on-line services.

MDC was established in 1996 to spearhead the development and implementation of the MSC. MDC manages the MSC's information infrastructure and urban development as well as to help to shape the policies, laws and practices.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

7. FINANCIAL INFORMATION

7.1 Proforma Consolidated Income Statements

The table below sets out a summary of the proforma consolidated income statements of the Nextnation Group for the past five (5) financial period/years ended 30 April 2005, prepared based on the assumption that the current structure of the Nextnation Group has been in existence throughout the financial years under review. The proforma consolidated income statements are presented for illustrative purposes only and have been extracted from and should be read in conjunction with the accompanying notes and assumptions included in the Accountant's Report set out in Section 13 of this Prospectus:-

	20 April 2000 to 30 April 2001	For the financial year ended 30 April			
		2002	2003	2004	2005
	RM	RM	RM	RM	RM
Revenue	-	9,349	1,940	2,896,696	45,124,871
Gross profit	-	9,349	(1,307)	1,943,055	15,247,607
EBIDTA	-	1,835	(4,530)	1,565,121	13,231,604
Depreciation	-	-	-	(57,040)	(180,877)
Amortisation	-	-	-	(243,799)	(334,829)
Interest expenses	-	-	-	(9,204)	(21,202)
Share of result of jointly controlled entity	-	-	-	-	(70,366)
Share of result of associate company	-	-	-	-	(6,252)
Consolidated PBT/(LBT)	-	1,835	(4,530)	1,255,078	12,618,078
Taxation	-	(514)	(313)	-	(115,000)
Consolidated PAT/(LAT)	-	1,321	(4,843)	1,255,078	12,503,078
Minority interest	-	-	-	-	186
Consolidated net profit	-	1,321	(4,843)	1,255,078	12,503,264
Number of Nextnation Shares assumed in issue ('000) (1)	94,000	94,000	94,000	94,000	94,000
Gross EPS (sen)(2)	-	(3)	(3)	1.34	13.42
Net EPS (sen)(2)	-	(3)	(3)	1.34	13.30

Notes:-

(1) Being the number of Nextnation Shares in issue before the Issues.

(2) Computed based on the number of Nextnation Shares in issue before the Issues.

(3) Negligible.

There were no extraordinary and exceptional items in all the financial period/years under review.

7.2 Segmental Analysis of Financial Information

The analysis of revenue and PAT by products and services within the Group for the past five (5) financial period/years ended 30 April 2005 are set out below:-

(i) Analysis of Revenue By Products and Services

	20 April 2000 to 30 April 2001	For the financial year ended 30 April			
		2002	2003	2004	2005
	RM	RM	RM	RM	RM
SOHOMOBILE™	-	-	-	2,896,696	36,321,766
SMSJET™	-	-	-	-	8,803,105
Others*	-	9,349	1,940	-	-
Total	**-**	**9,349**	**1,940**	**2,896,696**	**45,124,871**

Note:-

* *Provision of IT services.*

(ii) Analysis of PAT by products and services

	20 April 2000 to 30 April 2001	For the financial year ended 30 April			
		2002	2003	2004	2005
	RM	RM	RM	RM	RM
SOHOMOBILE™	-	-	-	1,255,078	8,101,712
SMSJET™	-	-	-	-	4,401,552
Others*	-	1,321	(4,843)	-	-
Total	-	**1,321**	**(4,843)**	**1,255,078**	**12,503,264**

Note:-

* *Provision of IT services.*

(iii) Analysis of Revenue By Markets/Geographical Location

A breakdown of revenue by market/geographical location is not applicable as the Group has not been very active in its operations in the overseas markets and up to 30 April 2005, all of the revenue was generated from its local operations.

7.3 Analysis and Commentary on Financial Information

(i) Revenue Analysis

In the financial period ended 30 April 2001, no revenue was generated.

The Group generated RM9,349 revenue for the financial year ended 30 April 2002 and the revenue was contributed from the provision of IT related services.

In the financial year ended 30 April 2003, revenue decreased by 79.0% to RM1,940 as the Group focused on researching and developing MINDCEP™ and SOHOMOBILE™.

In financial year ended 30 April 2004, revenue increased significantly to RM2,896,696 as the Group commercialised the developed products that generate revenue by providing a mobile application platform which enables wireless communication and mobile application services using mobile technology.

For the financial year ended 30 April 2005, the Group registered strong revenue growth of 1,458% to achieve a record of RM45.1 million from the previous financial year. The growth was attributed to increasing demand on other data services by mobile users, market acceptance of the Group's platform and aggressive marketing and promotion strategy adopted by the Group. The Group's revenue during the period was mainly contributed by SOHOMOBILE™ and SMSJET™.

(ii) Profit Analysis

In the financial year ended 30 April 2002, the significant expenses during the year were preliminary and pre-operating expenses written off amounting to RM3,120 and recruitment expenses of RM2,576. Profit after tax for the financial year amounted to RM1,321.

The loss after tax in the financial year ended 30 April 2003 was mainly due to the Group's focus on researching and developing MINDCEP™ and SOHOMOBILE™.

Improvement in the profit after tax in the financial year ended 30 April 2004 was mainly due to increase in revenue, as a result of the commercialisation of SOHOMOBILE™. The cost of sales has also increased in line with the increase in revenue due to advertising costs and amortisation of R&D expenditures of RM922,773 and RM243,799 respectively. No taxation expenses were incurred as the Group utilised the double deduction arising from the research and development expenditure.

The Group registered a profit after tax and minority interest growth of 896% from the previous financial year to RM12.5 million for the financial year ended 30 April 2005, which is in tandem with the strong growth of the Malaysian mobile telecommunications sector and strong revenue growth enjoyed by the Group. The disproportionate tax rate was a result of pioneer status enjoyed by a subsidiary company, thus resulting in its profit being exempted from tax.

7.4 Directors' Declaration on Financial Performance

Save as disclosed in this Prospectus, the Directors of Nextnation are of the view that the financial performance, position and operations of the Group are not affected by any of the following:-

(i) known trends, demands, commitments, event or uncertainties that have had or that the Group reasonably expects to have, a material or unfavourable impact on the financial performance, position and operations of the Group;

(ii) material capital expenditure commitments;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of the Group;

(iv) increase in prices or volume of products sold or the introduction of new products; and

(v) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

7.5 Working Capital, Borrowings, Material Litigation, Material Capital Commitments and Contingent Liabilities

(i) Working capital

The Directors of Nextnation are of the opinion that after taking into account the cash flow position, banking facilities available and proceeds to be raised from the Public Issue, the Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

(ii) Borrowings

Save as disclosed below, as at the Latest Practicable Date, the Group does not have any loan capital outstanding or created, convertible debt securities, mortgages or charges outstanding:-

Type of interest bearing borrowings	Payable within 12 months RM	Payable after 12 months RM
Hire purchase	54,098	186,929
Term loans	113,113	998,310
Total	**167,211**	**1,185,239**

There has been no default on payment of either interest and/or principal sum, in respect of the abovementioned borrowings throughout the past one (1) financial year and the subsequent financial period thereof immediately preceding the Latest Practicable Date.

(iii) Material Litigation

Save as disclosed below, as at the Latest Practicable Date, the Group is not engaged in any material litigation, either as plaintiff or defendant, which has a material and adverse effect on the financial position or business of the Group and the Directors of Nextnation have no knowledge of any proceedings pending or threatened against the Group or of any fact likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the Group.

A legal proceeding vide Kuala Lumpur High Court Civil Suit No. MT4-22-1739-2004 for copyright infringement has been commenced against Celcom by Goodsound Music Publishing Sdn Bhd and eight (8) others ("Plaintiffs"). In the said suit, the Plaintiffs alleged that Celcom has converted and reproduced certain songs owned by them collectively and made the same available to the general public in the form of downloadable ringtones from Celcom's website, without any authority, licence or permission of the Plaintiffs. Celcom's solicitors, Messrs Bustaman has via a letter dated 9 May 2005 informed NN that Celcom has obtained leave to issue a third party notice against NN in the above legal suit. However, at the date hereof, Celcom has not served any third party notice on NN. NN's solicitors, Messrs Cheang & Ariff via a letter dated 1 August 2005, are of the view that there is no legal basis for Celcom to proceed with a third party proceeding against NN in relation to the above legal suit as NN has never provided any ringtones to Celcom's website. Similarly, the Plaintiffs would also have no recourse against NN as NN has, at the material time, provided its services based on valid licences obtained and has always made the necessary payment according to the terms of the various licence agreements.

(iv) Material Capital Commitments

As at the Latest Practicable Date, the Directors of Nextnation are not aware of any material capital commitments contracted or known to be contracted by the Group which, upon becoming enforceable, may have a material impact on the financial position the Group.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

(v) **Contingent Liabilities**

As at the Latest Practicable Date, the Directors of Nextnation are of the opinion that the Group has no contingent liabilities which, upon materialisation would have a material impact on the financial position and business of the Group.

7.6 Trade Receivable Ageing Analysis as at 30 April 2005

The Group monitors its credit policy closely and to take reasonable steps to ensure collections are within the credit period allowed. The trade debtors analysis as at 30 April 2005 are as follows:-

	<30 days RM	31-90 days RM	91-120 days RM	>120 days RM	Total RM
Trade debtors	5,657,204	8,030,425	1,413,452	1,189,852	16,290,933
Collection up to the Latest Practicable Date	3,032,606	5,811,414	1,413,452	1,189,852	11,447,324
Outstanding balance	2,624,598	2,219,011	-	-	4,843,609

Note:-

* *Up to the Latest Practicable Date, the Group has collected RM11,447,324 of RM16,290,935, representing 70.27% of the trade debtors as at 30 April 2005.*

No provision for doubtful debts is made for the outstanding balance of the trade debtors of RM4,843,609 as the Directors of Nextnation believe that all of the outstanding balance of the trade debtors are collectable as it is the current industry norm for the delay in collection from certain Celcos.

7.7 Exclusion of Profit Forecast and Projection

The Nextnation Group's turnover and operating results are difficult to forecast and could be adversely affected by many factors, some of which are highlighted in Section 4 of this Prospectus. As such, the Nextnation Group's profit forecast and projection are not disclosed in this Prospectus.

7.8 Dividend Policy

The Company has not declared or paid any dividends since its incorporation. However, going forward, the Company will make it a policy to recommend dividends to allow shareholders to participate in the profits of the Group as well as leaving adequate reserves for future growth of the Group.

The declaration, amount and payment of final dividends are subject to the approval by the shareholders of the Company on recommendation by the Board of Directors of the Company and the pay-out ratio will depend on the Group's operations results, financial conditions, cash requirements and other factors deemed relevant by the Board of Directors of the Company.

Investors should note that all the foregoing statements are merely statements of the Company's present intention, thus are not legally binding statements in respect of the Company's future dividends intention and are subject to modification at the sole and absolute discretion of the Board of Directors of the Company.

8. SUMMARY OF FIVE-YEAR BUSINESS DEVELOPMENT PLAN

8.1 Vision Statement

The Group strives to become the market leader for mobile multimedia application service industry in the Asia Pacific region offering innovative and value-added services through the following:-

- To focus in R&D in the mobile multimedia ASP industry;
- To meet and fulfill the expectations of the industry, customers, suppliers, shareholders and employees; and
- To bridge the gap between business and technology by changing the technology to meet the needs of the marketplace to ensure revenue generation.

The Group is committed to provide flexible, scalable, fastest time-to-market application services to the wireless industry following the corporate quality policy as follow:-

- <u>M</u>anpower – Stresses on people competency and teamwork.
- <u>I</u>nnovative – Staffs are encouraged to come out with innovative design and ideas on company management system, technology, product, process improvements.
- <u>N</u>etworking – Understand and fulfill customer and market expectation through people and corporate networking to create mutual beneficial relationships among strategic partners, suppliers and customers
- <u>D</u>efect prevention rather than detection concept – quality focus and utilize systematic approach on development to ensure development meet its expected requirements.
- <u>C</u>ontinual Improvement – Focus on continual improvement on technology, product and personnel through customer care, continuing R&D and personnel continuous professional development.
- <u>E</u>fficiency – Ensure the development meets its expected requirements with minimum resources and cost.
- <u>P</u>roductivity – Ensure the development meets its expected requirements within stipulated time frame, hence improve on time-to-market.

To maintain quality and standard, each and every assignment is developed using a multidisciplinary approach and systematic manner. The Group ensures that these methodologies and standards are adopted and applied consistently by all service professionals within the firm to attain maximum quality.

The Group's slogan is:-

"Adding value into your business"

8. SUMMARY OF FIVE-YEAR BUSINESS DEVELOPMENT PLAN (Cont'd)

8.2 Business Strategies

For its business development plans over the next five (5) years, the Group intends to embark on the following future growth strategies to achieve its vision:-

- Continuous R&D in mobile application and solutions technologies;
- Developing more feature rich application solutions;
- On-going improvement for the development of AI content and user management engine for SOHOMOBILE™;
- Expanding more mCommerce-Suit modules to cater commercial enterprise solutions segment;
- Continuous search for collaboration with strategic technology alliances;
- Capitalizing on business Partners; and
- Establishing joint ventures or strategic partnerships.

(i) Continuous R&D in Mobile Application and Solutions Technologies

To facilitate the growth strategy, the Group will allocate budget over the next five (5) years to R&D activities as its continuous commitment in development of advance mobile technologies.

The low-cost, easy-to-use and fast time-to-market competitive advantage relies heavily on MINDCEP™ R&D, the mastermind and state of the art multimedia communication platform. In the first two (2) years upon the successful propose listing exercise, the Group will recruit additional engineers & programmers, and purchase additional computers to expand the capability of next generation multimedia communication developer platform MINDCEP™. From the research, the Group will utilize the information to develop new mobile technologies to further fulfill customer demand and counter attack new competitions due to business environment shift and technology changes. The R&D will enable the Group to continuous advance its technology edge.

(ii) Developing More Feature Rich Application Solutions

In order to maintain its competitive edge in the mobile application service provider industry, the Group will continue to develop more feature rich communication solutions. Through R&D activities, it will add new and advance features in existing solutions, in particular the SOHOMOBILE™ for wireless value-added solutions segment and mCommerce-Suit for commercial enterprise solutions segment.

For the wireless value-added solutions segment, over the next two (2) years, the Group will develop content development tools for SOHOMOBILE™. This will further equipped the Group's customers to provide more feature rich services to their users.

(iii) On-going Improvement for the Development of AI Content Management Engine for SOHOMOBILE™

With the readiness of 3G, the Group intends to focus on development of AI content management engine for SOHOMOBILE™ as a part of MINDCEP™ 3rd Generation R&D mission. The AI module will enable SOHOMOBILE™ to recognize and analyze customer behavior based on transaction flows, and further auto select relevant services for specific customer. The module will better predict transaction failure based on pattern analysis.

On top of new product development, the Group intends to be one of the first local companies in the region to develop AI content management system. The readiness of SOHOMOBILE™ in local market will equip the Group to export the new technology to regional markets, including Singapore, Indonesia and China. The expected launch of first AI equipped with SOHOMOBILE™ solution is in the mid of financial year ending 2006.

(iv) Expanding More mCommerce-Suit Products to Cater Commercial Enterprise Solutions Segments

The Group intends to expand the features of its mCommerce-Suit products through continuous R&D activities in order that upon 3G arrival, the Group will be ready with powerful multimedia application development solutions for commercial enterprise solutions segment, mCommerce-Suit customers. The Group envisages that by year 2005-2006, mCommerce-Suit users will enjoy live video streaming, mobile teleconferencing and multimedia advertisement personally designed for each user. The feature rich solution division is expected to contribute to the Group's earnings base over the next five (5) years.

(v) Continuous Search for Collaboration with Strategic Technology Alliances

The mobile technology continues to evolve rapidly and collaborations with strategic technology partners are one of the key factors for success. The Group has identified that the intended strategic partner that they will try to tie up with, will be the mobile devices manufacturers, such as Nokia, Samsung, Motorola and Sony Ericsson, followed by telecommunication network providers, such as Maxis, Celcom and DiGi.

In addition, the Group will continue to seek out other strategic alliances with other technology partners for transfer of technologies. Key areas to be focused include telecommunication, financial and manufacturing sectors.

(vi) Capitalise on Business Partners

The Group has signed partnership agreements with local Bumiputera partners for the government sector. The Group will capitalize on its business partners to explore opportunities in other industry segments to expand its market share in mobile application service provider services. These partners will be responsible to secure projects from various public and private sectors within local markets.

(vii) Establishing Joint Ventures or Strategic Partnerships

Presently, the Group has established three (3) strategic partnerships in Indonesia and Brunei. Preliminary negotiations for the strategic partnership are to launch SOHOMOBILE™ in the respective country and set up operation center in each country for the mobile application service provider business.

8. SUMMARY OF FIVE-YEAR BUSINESS DEVELOPMENT PLAN (Cont'd)

8.3 Overseas Market Expansion Plan

As part of the regional expansion plans, the Group intends to utilise part of the proceeds to expand its wireless value-added developer solution services and mCommerce-Suit to regional markets.

The Group intends to expand its market share in Indonesia, Singapore, Thailand and further expands into China within the next one to two year period. The Group may also form joint ventures or strategic partnerships, if opportunity arises to expand regionally. The Group will identify joint venture potentials that has strong customer base that will allow it to leverage on the existing customer base to introduce wireless value-added solutions and mCommerce-Suit. Local operation centers may be considered upon launching of the Group's business in each market.

In addition, the Group intends to provide cost effective solutions to the wireless value-added content management industry. The combination of SOHOMOBILE™ and SMSJET™ modules will place the Group as one of the first local companies to provide one-stop solution in wireless value-added application service provider industry in the Asia Pacific region.

8.4 Human Resource Development

The Group recognises that having knowledge workers are highly critical to ensure its ability to meet customers demand and maintain its competitive edge. Thus, the Group places great emphasis in developing knowledge workers to ensure that the services and solutions provided by the Group are of the highest quality and standards. The Group will always strive to recruit and retain highly competent staff in the pursuit of its corporate objectives.

The proposed human resource development plan for the next five (5) years is as follows:-

- Expanding the Group's workforce in line with the Group's expansion plans, particularly the R&D team to further enhance and develop new products and services; and
- Ensuring that the staff are adequately equipped with the right competency and provided with staff training via in house sessions and on-the-job training to be acquainted with the Group's product implementation process.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK