(Prepared for inclusion in the Prospectus)

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***Prepared for the inclusion in the Prospectus to be dated 27 October 2005***

14 October 2005

The Board of Directors
Litespeed Education Technologies Berhad
Unit L5-1-4, Technology Park Malaysia
Level 5- Enterprise 4
Lebuhraya Puchong Sungai Besi
Bukit Jalil
57000 Kuala Lumpur

Dear Sirs,

This report has been prepared by Ernst & Young as an approved company auditor, for inclusion in the Prospectus to be dated 27 October 2005 in connection with the Initial Public Offering of Litespeed Education Technologies Berhad ("LET") on the MESDAQ Market of the Bursa Malaysia Securities Exchange Berhad ("Bursa Securities") as referred to in Section 3.1 of this report.

This report has been prepared solely for the purpose stated above, in connection with the aforementioned Prospectus. This report is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

This financial statements included in this report has been prepared on a basis consistent with the accounting policies normally adopted by LET and its subsidiary, Litespeed Education Pte Ltd ("LES") (collectively referred to as the "Group") which are in compliance with applicable MASB Approved Accounting Standards.

## A. GENERAL INFORMATION

### 1. Incorporation

LET was incorporated in Malaysia on 25 March 2004 as a private limited company under the name of Litespeed Education Technologies Sdn Bhd. LET was converted to a public limited company on 15 April 2004 and adopted its present name.

### 2. Principal activities

The principal activities of LET are investment holding and the provision and development of e-learning and related education services.

LET commenced its operations in December 2004.

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**3. Listing Scheme**

**3.1** As an integral part of and in conjunction with the listing of LET shares in the MESDAQ Market of Bursa Securities, LET implemented a restructuring scheme involving:

- the acquisition of LES;
- the issuance of a renounceable rights issue of 52,750,000 new ordinary shares of RM0.10 each by LET (ordinary shares issued by LET are henceforth known as "LET shares") at par for cash; and
- the public issue of 32,500,000 new LET shares of RM0.10 each at an issue price of RM0.47 per share.

Details of the restructuring scheme are provided below:

**3.1.1 Acquisition of LES**

The acquisition involved the acquisition by LET of LES, a private limited company incorporated in the Republic of Singapore.

Prior to the acquisition, LES issued 140,484 Redeemable Cumulative Preference Share ("RCPS") of SGD1 each at an issue of SGD7.00 (approximately RM15.61 per RCPS based on a exchange rate of RM2.23/SGD1.00) resulting in a share premium of SGD842,904 (approximately RM1,879,676). The RCPS was converted into 140,484 new ordinary shares of LES (ordinary shares issued by LES is henceforth known as "LES shares") on 3 March 2005 based on a conversion price of SGD1.00 per RCPS.

The 140,484 new LES shares issued pursuant to the RCPS conversion ranked pari passu in all respects with the existing LES shares in issue except that they will not be entitled for any dividends, rights, allotments and/or distribution declared or paid prior to the date of allotment thereof. With the conversion of the RCPS, LES increased its issued and paid capital to SGD1,410,000 comprising 1,410,000 ordinary shares of SGD1.00 each.

On 31 March 2005, LET acquired the entire issued and paid-up share capital of LES comprising 1,410,000 ordinary shares of SGD1.00 each for a purchase consideration of RM5,350,637 satisfied by the issuance and allotment of 52,000,000 new LET shares of RM0.10 each at an issue price of approximately RM0.10 per LET share to the shareholders of LES ("Vendors"). The share premium of RM150,637 has been credited to the share premium account.

The new LET shares issued pursuant to this acquisition ranked *pari passu* in all respects with the existing LET shares except that they will not be entitled for any dividends, rights, allotments and/or distribution declared or paid prior to the date of allotment thereof.

Upon the completion of the acquisition of LES, LET's issued and paid up share capital was increased to RM5,275,000 comprising 52,750,000 ordinary shares of RM0.10 each.

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### 3.1.2 Renounceable Rights Issue

On 29 July 2005 LET completed a renounceable rights issue of 52,750,000 new LET shares of RM0.10 each at an issue price of RM0.10 per share to the then existing shareholders on the basis of 1 rights share for every 1 existing ordinary share of RM0.10 each. On completion of the rights issue, LET's issue and paid up share capital increased to RM10,550,000 comprising 105,500,000 LET shares of RM0.10 each.

The new LET shares issued pursuant to this renounceable rights issue ranked *pari passu* in all respects with the existing LET shares except that they will not be entitled for any dividends, rights, allotments and/or distribution declared or paid prior to the date of allotment thereof.

### 3.1.3 Public Issue

The public issue comprises 32,500,000 new LET shares of RM0.10 each at an issue price of RM0.47 per share to be allotted as follows:

- 4,243,000 new LET shares of RM0.10 each made available for application by eligible directors, employees and business associates of the Group;
- 5,000,000 new LET shares of RM0.10 each made available for application by the Malaysian Public; and
- 23,257,000 new LET shares of RM0.10 each to be placed with identified inventors under private placements.

Upon completion of the public issue, the issued and paid-up share capital of LET will increase to RM13,800,000 comprising 138,000,000 LET shares of RM0.10 each analysed as follows:-

| Issued and fully paid-up share capital | Number of ordinary shares at par value of RM0.10 each | RM |
|---|---|---|
| As at 30 September 2005 | 105,500,000 | 10,550,000 |
| Public issue | 32,500,000 | 3,250,000 |
| On completion of public issue | 138,000,000 | 13,800,000 |

### 3.2 Information on LES

Details on LES are as follows:

**LES**

Incorporation and Principal Activities

LES was incorporated in the Republic of Singapore under the Singaporean Companies Act (Chapter 50) on 17 October 2000 as a private limited company and is principally involved in the business of the provision of educational programmes.

**3.2 Information on LES (Contd)**

Share Capital

Details of the changes in the authorised ordinary share capital and RCPS of LES since incorporation are as follows:

| Date of creation | Class of share | No of share of SGD1.00 each | Cumulative total (SGD) |
|---|---|---|---|
| At date of incorporation, 17 October 2000 | Ordinary | 100,000 | 100,000 |
| 3 October 2001 | Ordinary | 300,000 | 400,000 |
| 19 January 2004 | Ordinary | 1,600,000 | 2,000,000 |
| 12 April 2004 | RCPS | 500,000 | 2,500,000 |

Details of the changes in the issued and paid up ordinary share capital of LES since incorporation are as follows:

| Date of allotment | No of shares of SGD1.00 each allotted | Consideration | Cumulative total (SGD) |
|---|---|---|---|
| At date of incorporation, 17 October 2000 | 700 | Subscribers' shares issued for cash | 700 |
| 25 February 2001 | 100 | Cash | 800 |
| 26 February 2001 | 120 | Partly in cash and partly in kind | 920 |
| 26 September 2001 | 80 | Cash | 1,000 |
| 1 October 2001 | 125 | Cash | 1,125 |
| 5 October 2001 | 454 | Cash | 1,579 |
| 8 October 2001 | 315,800 | Bonus issue (200:1) | 317,379 |
| 19 January 2004 | 952,137 | Bonus issue (3:1) | 1,269,516 |
| 3 March 2005 | 140,484 | Conversion of RCPS (1:1) | 1,410,000 |

### 3.2 Information on LES (Contd)

Details of the changes in the RCPS issued by LES since incorporation are as follows:

| Date of allotment | No of shares of SGD1.00 each allotted | Consideration | Cumulative total (SGD) |
|---|---|---|---|
| 25 May 2004 | 140,484 | Cash | 140,484 |
| 3 March 2005 | (140,484) | Conversion of RCPS to ordinary shares | - |

### 4. Share capital of LET

Details of the changes in the authorised share capital of LET since incorporation are as follows:

| Date of creation | No of share of RM0.10 each | Cumulative total (RM) |
|---|---|---|
| At date of incorporation, 25 March 2004 | 1,000,000 | 100,000 |
| 31 March 2005 | 249,000,000 | 25,000,000 |

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

| Date of allotment | No of shares allotted | Consideration | Cumulative total (RM) |
|---|---|---|---|
| At date of incorporation, 25 March 2004 | 200 | Cash | 20 |
| 29 March 2004 | 749,800 | Cash | 75,000 |
| 31 March 2005 | 52,000,000 | Acquisition of LES | 5,275,000 |
| 29 July 2005 | 52,750,000 | Renounceable Rights Issue for cash | 10,550,000 |

## B. FINANCIAL STATEMENTS AND AUDITORS

**LET**

The first set of financial statements of LET from the date of incorporation, 25 March 2004 to 30 April 2005 was audited by Ernst & Young without any qualification.

**LES**

The financial statements of LES for the financial period from the date of incorporation, 17 October 2000 to 30 September 2001 were audited by S L Koh & Co, who had reported on the financial statements for the financial period without qualification.

The financial statements for the financial period from 1 October 2001 to 30 April 2002 were audited by Arthur Andersen, who had reported on the financial statements for the financial period without qualification.

The financial statements for the financial year from 1 May 2002 to 30 April 2003 were audited by Ernst & Young, who had reported on the financial statements for the financial year without qualification but included the following emphasis of matter:

"Without qualifying our opinion, we draw attention to Note 2 to the financial statements. As at 30 April 2003, the Company's current liabilities exceeded its current assets by S$399,170. This factor raises substantial doubt that the Company is able to continue as a going concern. Two shareholders of the Company, who are also the directors of the Company, have undertaken to provide continuing financial support to the Company for at least twelve months from the date of the directors' report. The validity of the going concern assumption on which the financial statements are prepared is largely dependent on the realisability of the undertakings from the two shareholders. If the Company were unable to continue in operational existence for the foreseeable future, the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Company may have to reclassify non-current assets and long term liabilities as current assets and liabilities. No such adjustments have been made in the financial statements."

The financial statements for the financial years ended 30 April 2004 and 30 April 2005 respectively were audited by Ernst & Young, who had reported on the financial statements without qualification.

## C. SUMMARISED PRO FORMA CONSOLIDATED INCOME STATEMENTS AND BALANCE SHEETS

As stated in Section B of this report, the first set of financial statements of LET covered the period from the date of incorporation, 25 March 2004 to 30 April 2005. However, we have in this report, for illustrative purposes only, presented the historical financial information of LET and its subsidiary, LES, as a pro forma Group, assuming that LES was wholly-owned subsidiary of LET throughout the relevant periods under review.

Accordingly, for the purpose of illustration, the pro forma Group's financial periods covered by in this report can be summarised as follows:-

| | <---------------------------------Period/year ended-----------------------------------------> | | | | |
|---|---|---|---|---|---|
| | **17 October 2000 to 30 September 2001 RM'000** | **1 October 2001 to 30 April 2002 RM'000** | **1 May 2002 to 30 April 2003 RM'000** | **1 May 2003 to 30 April 2004 RM'000** | **1 May 2004 to 30 April 2005 RM'000** |
| Duration covered | 11.5 months * | 7 months # | 12 months | 12 months | 12 months |

* *The first set of audited financial statements for LES covered a 11.5-months period from date of incorporation, 17 October 2000 to 30 September 2001.*

\# *The second set of audited financial statements for LES covered a 7-months period from 1 October 2001 to 30 April 2002 pursuant to a change in financial year-end from 30 September to 30 April.*

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**Pro forma Consolidated Income Statements**

The pro forma consolidated income statements of the Group, which have been prepared for illustrative purposes only, are summarised below:

| | 17 October 2000 to 30 September 2001 RM'000 | 7 months Ended 30 April 2002 RM'000 | <---Financial year ended 30 April---> 2003 RM'000 | 2004 RM'000 | 2005 RM'000 |
|---|---|---|---|---|---|
| Revenue | 696 | 509 | 4,063 | 11,233 | 16,044 |
| (Loss)/ Earnings before interest, depreciation, taxation and amortisation | (668) | (1,500) | 1,291 | 2,896 | 8,359 |
| Interest expense | - | # | (4) | (11) | (29) |
| Depreciation expense | (61) | (55) | (200) | (505) | (580) |
| Amortisation expense | (66) | (37) | (864) | (712) | (846) |
| Profit before tax | (795) | (1,592) | 223 | 1,668 | 6,904 |
| Tax expense * | | | | | |
| - current | - | - | - | - | - |
| - deferred | - | - | - | 58 | (613) |
| (Loss)/Profit after tax | (795) | (1,592) | 223 | 1,726 | 6,291 |

\# *Less than RM500*

* There was no tax charge for the financial periods 30 September 2001 and 30 April 2002 in view of the losses incurred. For the financial years ended 30 April 2003 and 2004 LES utilised its brought forward unabsorbed tax losses to offset against taxable profits. LET was granted MSC Status on 11 August 2004 and therefore enjoys exemption of tax on business income for the financial year ended 30 April 2005. Deferred taxation in 2005 arose primarily from taxable temporary differences in respect of development costs incurred by LES.

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**Pro forma Consolidated Income Statements (Contd.)**

Based on enlarged share capital of LET, after acquisition of LES and before renounceable rights, and before public issue:

| | 17 October 2000 to 30 September 2001 | 7 months Ended 30 April 2002 | <------------Financial year-----------> ended 30 April 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| No. of ordinary shares ('000) | 52,750 | 52,750 | 52,750 | 52,750 | 52,750 |
| Pro forma gross earnings per ordinary share (sen) | (1.51) | (3.02) | 0.42 | 3.16 | 13.09 |
| Pro forma net earnings per ordinary share (sen) | (1.51) | (3.02) | 0.42 | 3.27 | 11.93 |
| Exchange rate used per one SGD (RM) | 2.14 | 2.08 | 2.16 | 2.23 | 2.28 |

Based on enlarged share capital of LET, after acquisition of LES and renounceable rights, and before public issue:

| | 17 October 2000 to 30 September 2001 | 7 months Ended 30 April 2002 | <------------Financial year-----------> ended 30 April 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| No. of ordinary shares ('000) | 105,500 | 105,500 | 105,500 | 105,500 | 105,500 |
| Pro forma gross earnings per ordinary share (sen) | (0.75) | (1.51) | 0.21 | 1.58 | 6.54 |
| Pro forma net earnings per ordinary share (sen) | (0.75) | (1.51) | 0.21 | 1.64 | 5.96 |
| Exchange rate used per one SGD (RM) | 2.14 | 2.08 | 2.16 | 2.23 | 2.28 |

(1) There were no exceptional or extraordinary items in all the financial periods/years under review.
(2) There were no minority interests in all the financial periods/years under review.

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**Pro forma Consolidated Balance Sheets**

The pro forma consolidated balance sheets of the Group, which have been prepared for illustrative purposes only as at 30 September 2001, 30 April 2002, 30 April 2003 and 30 April 2004 and the audited consolidated balance sheet of the Group as at 30 April 2005, are summarised below:

| | Pro forma As at 30 September 2001 RM'000 | Pro forma As at 30 April 2002 RM'000 | Pro forma As at 30 April 2003 RM'000 | Pro forma As at 30 April 2004 RM'000 | Audited 30 April 2005 RM'000 |
|---|---|---|---|---|---|
| **NON CURRENT ASSETS** | | | | | |
| Plant and equipment | 121 | 307 | 456 | 1,052 | 688 |
| Development costs | - | - | 1,579 | 1,426 | 2,670 |
| Goodwill | 267 | 223 | 161 | 98 | 30 |
| Deferred tax asset | - | - | - | 58 | - |
| | 388 | 530 | 2,196 | 2,634 | 3,388 |
| **CURRENT ASSETS** | | | | | |
| Trade debtors | 286 | 191 | 1,083 | 2,233 | 10,640 |
| Other debtors, deposits and prepayments | 34 | 111 | 274 | 283 | 914 |
| Due from a shareholder (non-trade) | - | 104 | - | - | - |
| Fixed deposit | - | 842 | 259 | - | 230 |
| Cash and bank balances | 4 | 17 | 274 | 464 | 256 |
| | 324 | 1,265 | 1,890 | 2,980 | 12,040 |
| **CURRENT LIABILITIES** | | | | | |
| Other creditors and accruals | 433 | 624 | 2,703 | 2,371 | 2,383 |
| Finance lease creditors | - | 38 | 41 | 96 | 27 |
| Bank overdrafts (secured) | - | - | - | - | 598 |
| | 433 | 662 | 2,744 | 2,467 | 3,008 |
| **NET CURRENT (LIABILITIES)/ASSETS** | (109) | 603 | (854) | 513 | 9,032 |
| | 279 | 1,133 | 1,342 | 3,147 | 12,420 |
| **FINANCED BY:-** | | | | | |
| Share capital | 2 | 671 | 671 | 2,831 | 5,275 |
| Share premium | 1,085 | 2,839 | 2,839 | 873 | 151 |
| Retained profits/ (Accumulated loss) | (795) | (2,387) | (2,164) | (582) | 3,553 |
| Other reserves | (13) | (24) | (6) | - | 2,881 |
| | 279 | 1,099 | 1,340 | 3,122 | 11,860 |
| **NON CURRENT LIABILITIES** | | | | | |
| Finance lease creditors | - | 34 | 2 | 25 | - |
| Deferred tax liability | - | - | - | - | 560 |
| | 279 | 1,133 | 1,342 | 3,147 | 12,420 |

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## C. SUMMARISED INCOME STATEMENTS AND BALANCE SHEETS

**Summarised income statement of LET**

The summarised income statement of LET since the date of incorporation, based on the audited financial statements, is depicted below:

| | Financial period from 25 March 2004 (date of incorporation) to 30 April 2005 RM'000 |
|---|---|
| Revenue | 5,783 |
| Cost of sales | (104) |
| Gross profit | 5,679 |
| Other income | 4 |
| General and administrative expenses | (410) |
| Profit before taxation | 5,273 |
| Taxation * | - |
| Profit after taxation | 5,273 |
| Depreciation | (25) |
| Amortisation | (40) |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) | 5,338 |
| Based on share capital of LET at 30 April 2005 | |
| No. of ordinary shares | 52,750,000 |
| Gross earnings per share (sen) | 10.0 |
| Net earnings per share (sen) | 10.0 |

* The Company was accorded the MSC status by the Multimedia Development Corporation Sdn Bhd on 11 August 2004 and in connection therewith, was awarded the pioneer status for an effective period of 5 years ending 2009. Accordingly, the business income for the period ended 30 April 2005 was not subject to Malaysian Income Tax.

**Summarised income statements of LES**

The summarised income statements of LES since the date of incorporation, based on the audited financial statements, are depicted below:

| | 17 October 2000 to 30 September 2001 RM'000 | 7 months Ended 30 April 2002 RM'000 | <--------Financial year ended 30 April 2003 RM'000 | 2004 RM'000 | ------------> 2005 RM'000 |
|---|---|---|---|---|---|
| Revenue | 696 | 509 | 4,063 | 11,233 | 10,461 |
| Cost of sales | (277) | (273) | (2,213) | (2,916) | (2,820) |
| Gross profit | 419 | 236 | 1,850 | 8,317 | 7,641 |
| Other operating income | 5 | 20 | 1,832 | 229 | 65 |
| General and administrative expenses | (1,219) | (1,848) | (3,455) | (6,867) | (5,886) |
| (Loss)/Profit before operations | (795) | (1,592) | 227 | 1,679 | 1,820 |
| Interest expense | - | # | (4) | (11) | (29) |
| (Loss)/Profit before taxation | (795) | (1,592) | 223 | 1,668 | 1,791 |
| Taxation | | | | | |
| -current | - | - | - | - | - |
| -deferred taxation | - | - | - | 58 | (613) |
| (Loss)/Profit after taxation | (795) | (1,592) | 223 | 1,726 | 1,178 |
| Revenue growth rate * | N.A. | 20.10% | 365.60% | 176.47% | (6.86 %) |
| Gross profit margin | 60.20% | 46.40% | 45.50% | 74.05% | 73.04% |
| Depreciation | (61) | (55) | (200) | (505) | (556) |
| Amortisation | (66) | (37) | (864) | (712) | (846) |
| Interest expense | - | # | (4) | (11) | (29) |
| (Loss)/Earnings before interest, taxation, depreciation and amortisation (EBITDA) | (668) | (1,500) | 1,291 | 2,896 | 3,222 |
| Based on share capital of LES as at year/period end: | | | | | |
| No. of ordinary shares | 1,000 | 317,379 | 317,379 | 1,269,516 | 1,410,000 |
| Gross (loss)/earnings per share (RM) | (795.00) | (5.02) | 0.7 | 1.31 | 1.27 |
| Net (loss)/earnings per share (RM) | (795.00) | (5.02) | 0.7 | 1.36 | 0.84 |

*# Less than RM500*

** Where the accounting period is less than 12 months, revenue has been annualised for the purpose of this computation.*

**Summarised balance sheet of LET**

The summarised balance sheet of LET since the date of incorporation, based on the audited financial statements, is depicted below:

| | As at 30 April 2005 RM'000 |
|---|---|
| **NON CURRENT ASSET** | |
| Plant and equipment | 148 |
| Investment in a subsidiary | 5,351 |
| Intangibles | 160 |
| | 5,659 |
| **CURRENT ASSETS** | |
| Trade debtors | 5,650 |
| Other debtors, deposits and prepayments | 809 |
| Cash and bank balances | 208 |
| | 6,667 |
| **CURRENT LIABILITIES** | |
| Other creditors and accruals | 86 |
| Due to LES | 1,523 |
| Due to director | 19 |
| | 1,628 |
| **NET CURRENT ASSETS** | 5,039 |
| | 10,698 |
| **FINANCED BY:-** | |
| Share capital | 5,275 |
| Share premium | 151 |
| Accumulated profit | 5,272 |
| | 10,698 |

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**Summarised balance sheets of LES**

The summarised balance sheets of LES since the date of incorporation, based on audited financial statements, are depicted below:

| | As at | | | | |
|---|---|---|---|---|---|
| | **30 September 2001** | **30 April 2002** | **30 April 2003** | **30 April 2004** | **30 April 2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **NON CURRENT ASSETS** | | | | | |
| Plant and equipment | 121 | 307 | 456 | 1,052 | 540 |
| Development costs | - | - | 1,579 | 1,426 | 2,670 |
| Goodwill | 267 | 223 | 161 | 98 | 30 |
| Deferred tax asset | - | - | - | 58 | - |
| | 388 | 530 | 2,196 | 2,634 | 3,240 |
| **CURRENT ASSETS** | | | | | |
| Trade debtors | 286 | 191 | 1,083 | 2,233 | 4,990 |
| Other debtors, deposits and prepayments | 34 | 111 | 274 | 283 | 104 |
| Due from a shareholder (non-trade) | - | 104 | - | - | - |
| Due from holding company | - | - | - | - | 1,523 |
| Fixed deposit | - | 842 | 259 | - | 230 |
| Cash and bank balances | 4 | 17 | 274 | 464 | 48 |
| | 324 | 1,265 | 1,890 | 2,980 | 6,895 |
| **CURRENT LIABILITIES** | | | | | |
| Other creditors and accruals | 433 | 624 | 2,703 | 2,371 | 2,277 |
| Finance lease creditors | - | 38 | 41 | 96 | 27 |
| Bank overdrafts (secured) | - | - | - | - | 598 |
| | 433 | 662 | 2,744 | 2,467 | 2,902 |
| **NET CURRENT (LIABILITIES)/ASSETS** | (109) | 603 | (854) | 513 | 3,993 |
| | 279 | 1,133 | 1,342 | 3,147 | 7,233 |
| **FINANCED BY:-** | | | | | |
| Share capital | 2 | 671 | 671 | 2,831 | 3,243 |
| Share premium | 1,085 | 2,839 | 2,839 | 873 | 2,839 |
| (Accumulated loss)/Retained profits | (795) | (2,387) | (2,164) | (438) | 740 |
| Translation reserve | (13) | (24) | (6) | (144) | (149) |
| | 279 | 1,099 | 1,340 | 3,122 | 6,673 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Finance lease creditors | - | 34 | 2 | 25 | - |
| Deferred tax liability | - | - | - | - | 560 |
| | 279 | 1,133 | 1,342 | 3,147 | 7,233 |

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## E. DIVIDENDS

LET and LES did not pay or declare any dividends since their respective date of incorporation.

## F. STATEMENT OF ASSETS AND LIABILITIES

The following pro forma statement of assets and liabilities of the Group has been prepared based on the consolidated audited financial statements of LET and LES as at 30 April 2005 after the issue and conversion of RCPS of LES and the acquisition of the entire, the issued and paid-up share capital of LES and on the assumption that renounceable rights issue and public issue had been effected as at 30 April 2005:

| | Note | Audited as at 30 April 2005 RM'000 | Pro forma I After renounceable rights issue RM'000 | Pro forma II After Pro forma I and after public issue RM'000 | Pro forma III After Pro forma II and after utilisation of proceeds from rights and public issues RM'000 |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | |
| Property, plant and equipment | 2 | 688 | 688 | 688 | 6,288 |
| Developments costs | 3 | 2,670 | 2,670 | 2,670 | 2,670 |
| Goodwill | 4 | 30 | 30 | 30 | 30 |
| | | 3,388 | 3,388 | 3,388 | 8,988 |
| **CURRENT ASSETS** | | | | | |
| Trade debtors | 5 | 10,640 | 10,640 | 10,640 | 10,640 |
| Other debtors, deposits and prepayments | 6 | 914 | 914 | 914 | 914 |
| Fixed deposit | 7 | 230 | 230 | 230 | 230 |
| Cash and bank balances | 7 | 256 | 5,531 | 20,806 | 13,406 |
| | | 12,040 | 17,315 | 32,590 | 25,190 |
| **CURRENT LIABILITIES** | | | | | |
| Other creditors and accruals | 8 | 2,383 | 2,383 | 2,383 | 2,383 |
| Finance lease creditors | 9 | 27 | 27 | 27 | 27 |
| Bank overdrafts (secured) | 10 | 598 | 598 | 598 | 598 |
| | | 3,008 | 3,008 | 3,008 | 3,008 |
| **NET CURRENT ASSETS** | | 9,032 | 14,307 | 29,582 | 22,182 |
| | | 12,420 | 17,695 | 32,970 | 31,170 |
| Financed by: | | | | | |
| **SHARE CAPITAL AND RESERVE** | | | | | |
| Share capital | 11 | 5,275 | 10,550 | 13,800 | 13,800 |
| Share premium | 12 | 151 | 151 | 12,176 | 10,376 |
| Retained profits | 13 | 3,553 | 3,553 | 3,553 | 3,553 |
| Other reserves | 14 | 2,881 | 2,881 | 2,881 | 2,881 |
| | | 11,860 | 17,135 | 32,410 | 30,610 |
| **NON-CURRENT LIABILITY** | | | | | |
| Deferred taxation | 15 | 560 | 560 | 560 | 560 |
| | | 12,420 | 17,695 | 32,970 | 31,170 |

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## G. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

### 1. Significant Accounting Policies

**(a) Basis of Preparation**

The pro forma financial statements of the Group have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

The Group has consistently applied these accounting policies.

**(b) Principles of consolidation**

The pro forma consolidated financial statements include the financial statements of LET and LES. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the merger accounting principles. When the merger method is used, the cost of investment in the Company's book is recorded at the nominal value of shares issued and the difference between the carrying value of the investment and the nominal value of shares acquired is treated as merger reserve or deficit. The results of the companies being merged are included as if the merger had been affected through the current and previous financial years.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Upon the disposal of a subsidiary, the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences is taken to the income statement.

**(c) Subsidiaries**

The Company's investment in subsidiary is stated at cost less impairment losses.

Upon disposal, the difference between net disposal proceeds and the carrying amounts of the investments is recognised in the income statement.

1. **Significant Accounting Policies (Contd.)**

(d) **Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and impairment loss.

Depreciation is provided on all plant and equipment at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life as follows:

| | Years |
|---|---|
| Computers | 3 |
| Office equipment | 3 |
| Office furniture | 3 |

Fully depreciated plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

Upon disposal, the difference between net disposal proceeds and the carrying amounts of the assets is recognised in the income statement.

(e) **Development costs**

Expenditure on development activities is recognised as an expense in the period in which it is incurred except when the expenditure meet the following criteria where it will be capitalised as intangible assets:

- The product or process is clearly defined and costs are separately identified and measured reliably;
- The technical feasibility of the product is demonstrated;
- The product or process will be sold or used in-house;
- The assets will generate future economic benefits; and
- Adequate technical, financial and other resources required for completion of the project are available.

Development costs initially recognised as an expense are not recognised as an asset in subsequent periods.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is recognised as an expense in the income statement based on a straight line method not exceeding 3 years.

(f) **Goodwill**

Goodwill represents the premium paid to acquire an on-going business from a partnership which was computed as the excess of the consideration paid over the fair value of identifiable net assets of the business acquired. Goodwill is amortised on a straight-line basis over a period of 5 years.

1. **Significant Accounting Policies (Contd.)**

(g) **Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(h) **Cash and cash equivalents**

Cash consists of cash on hand, cash with banks and fixed deposit. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(i) **Government grant**

Government grants are deferred and recognised as income in the income statement over the period necessary to match them with the related costs that they are intended to compensate. Grants contributed towards the acquisition of fixed assets are deducted from the costs of those assets. Income relating to government grant is recognised as a deduction from the appropriate expenses.

(j) **Work-in-progress**

Work-in-progress consists of costs incurred on projects, net of progress billings raised in respect of those projects and is stated at the lower of cost and net realisable value. The project is considered complete upon acceptance by customers. Provision is made for amounts that may not be recoverable.

For those projects where progress billings exceed costs incurred, the net credit amount is reflected as a current liability.

(k) **Leases**

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the lease item, are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased fixed assets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease terms.

1. **Significant Accounting Policies (Contd.)**

(l) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(m) **Revenue recognition**

(i) *Project income*

Revenue from contracts with durations of not more than 6 months are recognised upon completion of the contract, which generally coincides with delivery of goods and services to and acceptance by customers.

Revenue from contracts with durations exceeding 6 months are recognised by reference to the stage of completion at the balance sheet date. The stage of completion is measured by reference to the costs incurred at the date of the balance sheet as a percentage of estimated total costs of each contract.

(ii) *Rendering of services*

Revenue from provision of services are recognised upon rendering of services.

(iii) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer which generally coincides with delivery and acceptance of the goods sold.

(iv) *Interest*

Interest income is recognised on a time proportion basis unless collectibility is in doubt.

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1. **Significant Accounting Policies (Contd.)**

(n) **Income taxes**

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

(o) **Employee benefits**

(i) *Pensions and other post employment benefits*
The Group makes contributions to national defined contribution pension schemes as defined by the laws of the countries in which it has operations. These contributions are recognised as an expense in the period in which the related service is performed.

(ii)*Employee leave entitlement*
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to balance sheet date.

(p) **Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

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**1. Significant Accounting Policies (Contd.)**

**(p) Financial Instruments (Contd.)**

**(i) Trade and other debtors**

Trade debtors, which generally have 30 - 90 day terms, are recognised and carried at original invoiced amount less provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Other debtors are recognised and carried at cost less provision for any uncollectible amounts.

**(ii) Other creditors**

Other creditors, which are normally settled on 30 - 90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**(iii) Equity**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

**2. Plant And Equipment**

| **At 30 April 2005** | **Computers RM'000** | **Office equipment RM'000** | **Office furniture RM'000** | **Total RM'000** |
|---|---|---|---|---|
| Cost | 1,633 | 218 | 214 | 2,065 |
| Accumulated Depreciation | (1,148) | (82) | (147) | (1,377) |
| Net Book Value | 485 | 136 | 67 | 688 |
| Pro forma adjustment: | | | | |
| Add: Acquisition of plant and equipment using proceeds from the public issue | | | | 5,600 |
| Proforma III | | | | 6,288 |

As at 30 April 2005, computers and office equipment with net book values of RM95,703 are held under finance leases.

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### 3. Development Costs

| | RM'000 |
|---|---|
| At 1 May 2004 | 3,054 |
| Additions during the year | 2,055 |
| At 30 April 2005 | 5,109 |
| | |
| Less: Accumulated amortization | (2,439) |
| Net book value | **2,670** |
| | |
| Movement in accumulated amortisation: | |
| At 1 May 2004 | 1,593 |
| Charge for the year | 846 |
| At 30 April 2005 | 2,439 |

### 4. Goodwill

| | RM'000 |
|---|---|
| At cost | 356 |
| Less: Accumulated amortisation | (326) |
| **Total** | **30** |
| | |
| Movement in accumulated amortisation: | |
| At 1 May 2004 | 256 |
| Charge for the period | 70 |
| At 30 April 2005 | 326 |

### 5. Trade Debtors

| | RM'000 |
|---|---|
| Trade debtors | 10,640 |

The Group's normal trade credit term is between 30 to 90 days. Trade debtors of the Group amounting to RM8,789,502 are repayable by way of instalment plans ranging between 180 days and 300 days.

Included in the trade receivables of the Group are amounts due from three customers which represent the Group's primary concentration of credit risk.

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### 5. Trade Debtors (Contd.)

Ageing of trade debtors as at 30 April 2005 is as follows:

| | Current RM'000 | 0-30 days RM'000 | 31-60 days RM'000 | 61-90 days RM'000 | > 90 days RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| Trade debtors | 6,425 | 210 | 312 | 115 | 3,578 | 10,640 |

### 6. Other Debtors, Deposits And Prepayments

| | RM'000 |
|---|---|
| Deposits | 903 |
| Prepayments | 11 |
| | **914** |

### 7. Cash And Bank Balances

| | RM'000 |
|---|---|
| Fixed deposit | 230 |
| Cash and bank balances | 256 |
| | 486 |
| **Pro forma adjustments:** | |
| Pro forma I – Proceeds from renounceable rights issue | 5,275 |
| After Pro forma I | 5,761 |
| Pro forma II – Proceeds from public issue | 15,275 |
| After Pro forma II | 21,036 |
| Pro forma III – Listing expenses and acquisition of plant and equipment (Note 2) | (7,400) |
| After Pro forma III | 13,636 |

The fixed deposit is charged as security for the bank overdrafts facility.

### 8. Other Creditors And Accruals

| | RM'000 |
|---|---|
| Other creditors | 480 |
| Advanced billings | 590 |
| Accrued expenses | 557 |
| Deferred revenue | 67 |
| Due to directors | 347 |
| Due to a factoring company | 342 |
| | **2,383** |

## 8. Other Creditors And Accruals (Contd.)

Deferred revenue of the Group represents the deferred portion of maintenance contract, which will be recognised as income when services are performed.

Balance due to a factoring company is secured by joint and several guarantees for RM2,300,000 by certain directors of LES.

Amounts due to directors are unsecured, interest free and repayable on demand.

## 9. Finance Lease Creditors

The Group conducts a portion of its operations with leased assets, which includes computer and office equipment. These leases are classified as finance leases and expire over the next 5 years. The discount rate implicit in the leases range from 4.5% to 5.8% per annum. Lease terms are for two years with option to purchase at the end of the lease term. Lease terms do not contain restrictions concerning dividends, additional debt or further leasing. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:-

| | RM'000 |
|---|---|
| **Minimum payments** | |
| Within one year | 27 |
| Less: Amounts representing finance charges | - |
| **Present value of minimum lease payments** | **27** |
| | |
| **Present value of payments** | |
| Within one year | **27** |

## 10. Bank Overdrafts (Secured)

Bank overdraft are secured by joint and several guarantees by certain directors and the fixed deposits.

## 11. Share Capital

| | Number of ordinary shares of RM0.10 each '000 | RM'000 |
|---|---|---|
| As at date of incorporation | * | * |
| Issued for cash on 29 March 2004 | 750 | 75 |
| | 750 | 75 |
| Add: | | |
| Issued as consideration for the acquisition of LES | 52,000 | 5,200 |
| Renounceable rights issue | 52,750 | 5,275 |
| Issued and paid-up share capital before public issue | 105,500 | 10,550 |
| Add: Public issue | 32,500 | 3,250 |
| Enlarged issued and paid-up share capital | 138,000 | 13,800 |

* This represents RM20 comprising 200 ordinary shares of RM0.10 each.

## 12. Share Premium

The share premium account may be applied only for the purposes specified in the Singapore Companies Act and Malaysian Companies Act. The balance is not available for distribution of dividends except in the form of shares.

| | RM'000 |
|---|---|
| At 30 April 2005 | 151 |
| **Pro forma adjustments:** | |
| Premium arising from public issue | 12,025 |
| Pro forma II | 12,176 |
| Less: Listing expenses | (1,800) |
| Pro forma III | **10,376** |

## 13. Retained Profits

Subject to agreement with the Inland Revenue Board, the entire profits of LET can be distributed as tax exempt dividend.

## 14. Other Reserves

| | RM'000 |
|---|---|
| Foreign translation reserve arising from merger with subsidiary | 73 |
| Capital reserve arising from share premium of merged subsidiary | 2,808 |
| | 2,881 |

**15. Deferred Tax Liabilities**

| | RM'000 |
|---|---|
| Deferred tax liabilities | |
| Accelerated capital allowances | 78 |
| Development costs | 534 |
| | 612 |
| Deferred tax assets | |
| Tax losses | (33) |
| Other assets | (19) |
| | **560** |

**16. Non-Cancellable Operating Lease Commitments**

The Group has various operating lease agreements for office premises and equipment. The leases contain renewable options. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

| | RM'000 |
|---|---|
| Future minimum lease payments : | |
| - not later than 1 year | 506 |
| - 1 year through 5 years | 738 |
| | **1,244** |

**17. Financial Instruments**

***Financial risk management objectives and policies***

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The policies for managing each of these risks are summarised below.

***Interest rate risk***

The Group obtains additional financing through leasing arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

The Group places surplus funds with reputable banks to generate interest income for the Group. The Group manages its interest rate risk by placing such balances on varying maturities and interest rate terms.

***Liquidity risk***

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Additional funds are obtained through the utilisation of banking facilities to meet the Group's liquidity requirements.

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**17. Financial Instruments (Contd.)**

***Credit risk***

The carrying amounts of cash and bank balances, fixed deposits, trade and other debtors represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

As at 30 April 2005, 82% of the Group's trade debts relate to three major customers located in Malaysia and Singapore respectively who have extended credit periods by way of instalment plans repayment ranging between 180 days and 300 days.

***Fair values***

The carrying amount of finance lease creditors (non-current portion) approximates fair values as these instruments bear interests which also approximates current market interest rates.

As the Group's financial assets and liabilities comprise cash and bank balances, fixed deposits, trade and other debtors, other creditors and accruals and finance lease liabilities (current portion) which have relatively short-term maturities, the book values of these financial instruments approximate their fair values.

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## I. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following pro forma consolidated cash flow statement of the Group has been prepared based on the audited financial statements of LET and LES as at 30 April 2005 on the assumption that the conversion of RCPS of LES, acquisition of the entire issued and paid-up share capital of LES, renounceable rights issue and public issue and utilisation of proceeds had been effected as at 30 April 2005:

| | **30 April 2005 RM'000** |
|---|---:|
| **Cash flow from operating activities :** | |
| Profit before tax | 6,904 |
| Adjustments for : | |
| Depreciation of plant and equipment | 580 |
| Amortisation of goodwill | 70 |
| Amortisation of development costs | 846 |
| Bad debts written off | 318 |
| Equipment written off | 6 |
| Interest expense | 29 |
| **Operating profit before working capital changes** | 8,753 |
| Receivables | (9,127) |
| Payables | (499) |
| Due to directors | 347 |
| **Cash used in operating activities** | (526) |
| Interest paid | (29) |
| **Net cash used in operating activities** | (555) |
| **Cash flow from investing activities :** | |
| Purchase of plant and equipment | (5,795) |
| Development costs incurred, net | (2,055) |
| **Net cash used in investing activities** | (7,850) |
| **Cash flow from financing activities :** | |
| Issuance of shares | 75 |
| Issuance of redeemable convertible preference shares in subsidiary | 2,237 |
| Proceeds from renounceable rights issue | 5,275 |
| Proceeds from public issue, net of listing expenses | 13,475 |
| Repayment of lease creditors | (98) |
| **Net cash generated from financing activities** | 20,964 |

## I. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT (CONTD.)

| | 30 April 2005 RM'000 |
|---|---|
| Net increase in cash and cash equivalents | 12,559 |
| Cash and cash equivalents at the date of incorporation | # |
| Cash and cash equivalents of merged subsidiary at the beginning of the period | 479 |
| **Cash and cash equivalents as at end of period** | **13,038** |

Pro forma III: Cash and cash equivalents comprise:

| | |
|---|---|
| Cash and bank balances | 13,636 |
| Bank overdrafts | (598) |
| | **13,038** |

# This denotes RM20 of 200 ordinary shares of RM0.10 each.

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## J. PRO FORMA NET TANGIBLE ASSETS COVER

Based on the pro forma statement of assets and liabilities of the Group as at 30 April 2005, the Net Tangible Assets ("NTA") per ordinary share after incorporating the adjustments for proposed listing scheme and estimated cost of flotation will be as follows:

(i) Net Tangible Assets

| | RM'000 |
|---|---|
| Pro forma NTA of the Group as at 30 April 2005 after renounceable rights but before public issue | 14,435 |
| Proceeds from initial public offering | 15,275 |
| | 29,710 |
| Less : Estimated cost of listing | (1,800) |
| Pro forma NTA after public issue | 27,910 |

(ii) Share Capital

| | Number of ordinary shares of RM0.10 each '000 |
|---|---|
| As at date of incorporation | * |
| Issued for cash on 29 March 2004 | 750 |
| | 750 |
| Add: | |
| Issued as consideration for the acquisition of LES | 52,000 |
| Renounceable rights issue | 52,750 |
| Issued and paid-up share capital before public issue | 105,500 |
| Add: Public issue | 32,500 |
| Enlarged issued and paid-up share capital | 138,000 |
| Pro forma NTA per ordinary share of RM0.10 each before public issue | 13.7 sen |
| Pro forma NTA per ordinary share of RM0.10 each after public issue | 20.2 sen |

* This represents 200 ordinary shares of RM0.10 each.

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## K. EFFECT OF ACQUISITION METHOD OF ACCOUNTING

The completion of the restructuring scheme detailed in Section 3.1 of this report has resulted in a business combination between LET and LES through an exchange of shares. As the business combination meets the relevant criteria set out in MASB 21 "Business Combination", the consolidated financial statements of the Group has been accounted for using the merger method of accounting pursuant to a group reorganisation. The merger method has been applied with retrospective effects such that comparative periods will also be presented in a manner depicting the combination of LET and LES as if they had been in combination for the periods covered in this report.

Had the acquisition method of accounting been used to account for the business combination of LET and LES, LET would be required to recognise the assets and liabilities of LES at their fair values as at the effective date of acquisition by LET. On the assumption that the unaudited net assets of LES as at 31 March 2005 (effective date of acquisition) approximate its fair value, the Group would have recognised a negative goodwill of approximately RM1.3 million on its acquisition of LES based on the agreed purchase consideration of RM5,350,637.

## L. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There were no significant events subsequent to 30 April 2005 up to the date of this report.

## M. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 April 2005.

Yours faithfully,

ERNST & YOUNG
No. AF 0039
Chartered Accountants
Kuala Lumpur, Malaysia

Kua Choo Kai
No. 2030/03/06 (J)
Partner

## 12. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)

LITESPEED EDUCATION TECHNOLOGIES BERHAD
(Company No.646756-X)

Head Office: Unit L5-I-4, Technology Park Malaysia, Level 5 - Enterprise 4
Lebuhraya Puchong- Sungai Besi, Bukit Jalil, 57000 Kuala Lumpur
Tel: +6 03-8996 4402 Fax: +6 03-8994 1902
http://www.litespeed.com.my

**Registered Office**
Unit 07-02, Level 7, Menara Luxor
6B Persiaran Tropicana
47410 Petaling Jaya, Selangor

19 October 2005

The shareholders of Litespeed Education Technologies Berhad

Dear Sir/Madam:

On behalf of the Board of Directors of Litespeed Education Technologies Berhad ("LET"), I report that after making due enquiries in relation to the interval between 30 April 2005, being the date to which the last audited financial statements of LET and its subsidiary, Litespeed Education Pte Ltd ("LES") have been made up, and 14 October 2005 , being a date not earlier than fourteen (14) days before the issue of this Prospectus:

(i) the business of LET and LES has, in the opinion of the Directors of LET, been satisfactorily maintained;

(ii) in the opinion of the Directors of LET, save as disclosed in the Prospectus, no circumstances have arisen since the last audited financial statements of LET and LES which have adversely affected the trading or the value of the assets of LET or LES;

(iii) the current assets of LET and LES appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) save as disclosed in Section 10.3 of the Prospectus, no contingent liabilities have arisen by reason of any guarantee or indemnity given by LET or LES;

(v) since the last audited financial statements of LET and LES, there has been no default, or any known event that could give rise to a default situation, in respect of any payment of either interest and/or principal sums in relation to any borrowings of LET and/or LES; and

(vi) save as disclosed in Section 11 of the Prospectus, there have been no material changes to the published reserves or any unusual factors affecting the profits of LET and LES since the last audited financial statements of LET and LES.

Yours faithfully
For and on behalf of the Board of Directors
**LITESPEED EDUCATION TECHNOLOGIES BERHAD**

**POK VIC TOR**
Executive Chairman/ Group Chief Executive Officer

Singapore Office: No.152 Beach Road, #17-05/07 Gateway East, Singapore 189721 Tel: +65 68370024 Fax: +65 68370377

## 13. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in the Prospectus)

Infocredit D&B
Creating value...building trust

**Infocredit D&B (Malaysia) Sdn Bhd** (527570-M)
Level 9-3A, Menara Milenium, Jalan Damanlela,
Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.
Tel: (603) 2718 1000 Fax: (603) 2718 1001
Website: www.icdnb.com.my

12 October 2005

Board of Directors
**Litespeed Education Technologies Berhad**
Unit L5-I-4, Technology Park Malaysia
Level 5, Enterprise 4
Lebuhraya Puchong – Sungai Besi
Bukit Jalil, 57000 Kuala Lumpur

**RE: EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT ("EXECUTIVE SUMMARY") FOR LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET" OR THE "COMPANY")**

Infocredit D&B (Malaysia) Sdn Bhd ("Infocredit D&B") has prepared an Independent Market Research report ("Report") dated 24 May 2004, of which the Executive Summary dated 12 October 2005 which contains extracts updated from the said Report has been prepared for inclusion in the Prospectus to be dated 27 October 2005 pursuant to the listing of LET on the Mesdaq Market of the Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad).

This research has been undertaken with the purpose of providing an overview of the E-Learning industry in Malaysia. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house databases, internet research as well as online databases.

Infocredit D&B has prepared the Executive Summary in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Executive Summary. In addition, Infocredit D&B acknowledges that if there are significant changes affecting the content of Infocredit D&B's Executive Summary after the issue of the Prospectus and before the issue of securities, then Infocredit D&B has an on-going obligation to either cause the Executive Summary to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Executive Summary in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf

**INFOCREDIT D&B (MALAYSIA) SDN BHD**

Tan Sze Chong
Managing Director

# 1 GENERAL OVERVIEW

## *1.1 The Global Economy*

In 2004, the global economy expanded at its fastest pace of 5.0% since 1984, led by the United States ("US"), strong growth in the Asian region and a revival of growth in Japan and Europe. Above average growth in the first half-year reflected the strong rebound from the lower base of 2003 as a result of the economic uncertainties related to the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in Asia. In the second half-year, despite the dampening effects of sharply higher oil prices and the increase in interest rates, the growth momentum was sustained, reflecting sustained strong consumer spending and the revival in private investments. Overall, the global economy exhibited greater resilience to energy shocks.

Robust global expansion was reflected in significant improvements in both international trade and financial flows. Global trade expanded by 8.8% in 2004, due mainly to the global electronics up-cycle, higher commodity prices and rising import demand, notably in the US and China. In the Asian region, these developments in tandem with stronger domestic demand contributed to further expansion in intra-regional trade. In the financial markets, major equity market indices increased strongly, buoyed by improved investor optimism amidst higher corporate earnings. In the foreign exchange markets, growing concerns on the large and widening US current account imbalances, and the sustainability of capital inflows to finance the fiscal deficit led to the depreciation of the US dollar against the other key currencies.

The outlook for 2005 remains favourable. Both global output and global trade are projected to expand at 4.0% and 5.8%, respectively, in 2005. The pace of slowdown in the US and to a smaller extent, China is expected to be modest, on the basis that adjustments of the imbalances in these economies would be gradual. In addition, as crude oil prices recede from its peak as the supply and demand forces reach equilibrium, inflationary pressures are expected to remain manageable. This would provide flexibility for gradual increases in interest rates and in return, dampens the slowdown in consumer expenditure in the US. Monetary conditions are therefore, expected to remain supportive of growth. Meanwhile, China is expected to manage some softening of the economy so as to lessen its impact on the unemployment front. On the global inflation front, price increases are forecast to rise gradually, stemming mainly from the pass-through effects of higher commodity prices. Nonetheless, the rise in inflation is expected to be gradual as labour productivity continues to exceed real wage growth. The consensus is that the global expansion, while still solid, will therefore likely be somewhat weaker than earlier expected. The balance of risks has shifted to the downside with further oil price volatility a particular concern. On the policy side, interest rates will need to rise further as the economic recovery proceeds, although the pace and timing vary considerably across countries, depending on their relative cyclical positions.

### *1.2 The Malaysian Economy*

With the more robust growth in global trade and domestic demand, the momentum of economic expansion in Malaysia, which began in the second half of 2003, gathered steam in 2004. Real gross domestic product ("GDP") increased by 7.1% in 2004, registering the fastest growth since 2000. The economy benefited from the rapid growth of global trade in manufactured products and higher prices for primary commodities. Although global growth moderated somewhat in the second half of the year, the Malaysian economy remained resilient with stronger domestic demand providing the impetus for sustained expansion. The private sector was the main force of economic expansion, while the government continued with fiscal consolidation.

The prospects for the Malaysian economy in 2005 remain sound, with real GDP expected to grow by around 5.0% and accelerating to 5.5% in 2006. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support for exports. While the global electronics industry is beginning to consolidate after reaching a peak in mid-2004, the cyclical downturn is forecast to be modest in view of the strong Asian demand, fast product life cycle and the relatively rapid inventory adjustments. In the domestic economy, the private sector would remain as the main driver of growth, as the government remains committed to optimising expenditure in order to strengthen the fiscal position. Both household consumption and business outlays are projected to remain resilient, thereby cushioning some of the effects of lower public investment spending arising from the government's gradual fiscal consolidation programme.

As a small net oil exporter, Malaysia benefits to a degree from the higher world oil prices as crude oil accounts for around 5% of exports. Since the 2001 economic slowdown, most industrial countries, but notably the US, have pursued highly expansionary macroeconomic policies. As a result, world interest rates are close to historical lows and many countries have high fiscal deficits. Low interest rates have fuelled housing and asset price rises, at the same time supporting consumption and leading to a sharp deterioration in the current account in the US. As global GDP accelerated over the past year, inflationary pressure started to mount, albeit remaining very mild. However, higher oil prices, if sustained over a long period of time, will feed inflationary pressures, possibly forcing interest rates to rise faster than expected. This could trigger a sudden reversal in consumption and savings behaviour, leading to a substantial slowdown in world economic growth and affecting, in particular, non-oil exports from the Asian economies, including Malaysia. A slowdown in the US economy would have both heavy direct and indirect negative effects on exports, since the US is by far Malaysia's biggest export market. The signing of a Malaysia-US Trade and Investment Framework Agreement in May 2004 may help to mitigate this.

Inflation is likely to nudge up in 2005, as budgetary consolidation may lead the government to reduce its subsidies on consumer energy. Due to a slowdown in exports, particularly electronics and electrical products, private consumption is expected to remain the main source of GDP growth. The 2006 budget targets a modest reduction in the deficit to 3.5% of GDP. Going forward, the government's plan for a new broad-based goods and services tax in 2007 adds credibility to its commitment to fiscal balance, and may pave the way for a long-anticipated cut in business income taxes, which is critical in attracting more direct foreign investments.

### *1.3 The Malaysian Knowledge-based ("K-based) Economy*

Over the past few decades, Malaysia has enjoyed phenomenal economic development. The Government has envisaged that for sustainable growth to take place, productivity-driven and competitiveness-driven factors that are supported by knowledge intensive efforts are needed.
The Government recognised the need to fine-tune the country's economic strategy in light of intensifying world-wide competition and rising labour cost.

With this in mind, the Government launched the Knowledge-based Economy Master Plan (the "Master Plan") under the auspices of the Malaysian Ministry of Finance. This is the blueprint guiding the transforming and migration of the country into a K-based economy. The key is to move up the value chain by engaging in original and innovative design, improving quality, enhancing productivity and competitiveness in all sectors. The Master Plan has outlined seven (7) key strategies to realise the K-based economy vision:

- Cultivate and secure the necessary human resources;
- Establish the institutions necessary to champion, mobilise and drive the transition to a K-based economy;
- Ensure the incentives, infrastructure and infostructure necessary to prosper the optimal and ever-increasing application of knowledge in all sectors of the economy and the flourishing of knowledge-enabling, knowledge-empowering and knowledge intensive industries;
- Dramatically increase capacity for the acquisition and application of science and technology (including information and communication technology ("ICT")) in all areas;
- Ensure that the private sector is the vanguard of the K-based economy's development;
- Develop the public sector into a K-based Civil Service;
- Bridge the knowledge and digital divides.

### *1.4 The Malaysian ICT Industry*

The Government has been promoting ICT since the early 1990s. The country's ICT was fuelled by the public and private sectors' commitment to develop the country's ICT infrastructure with the latest technology, including the development of the Internet infrastructure. Examples of the efforts are the establishment of the Multimedia Super Corridor ("MSC") in 1996 followed by the rollout of the second phase of MSC in Kulim and Bayan Lepas as the hub of development for the northern region in Peninsular Malaysia. The MSC was established for the sole purpose of moving Malaysia towards a fully developed nation with knowledge-rich society by 2020.

As part of the strategy to achieve this vision, Malaysia embarked on a plan to leapfrog into the information age by providing intellectual and strategic leadership. This meant investing in an environment that encourages creativity and innovation, helping companies, both Malaysian and International, to reach new technology frontiers, partnering global IT players and providing the opportunities for mutual enrichment and success. In addition, special cyberlaws, policies and practices were set up to further facilitate the infrastructure.

Since the early 1990s, the use of the Internet became more popular in Malaysia. The rapid growth in the usage of the Internet was due to the increasing penetration of computer, modem and other access devices, decline in prices, reduction in Internet connection costs, emergence of new Internet & wireless appliances, development of the Web, introduction of easy-to use navigational tools and utilities, and growth in the number of information, entertainment and commercial applications available on the Internet.

Growth in client/server computing, multimedia PCs and online computing services and the proliferation of networking technologies have resulted in a large and growing group of people who are accustomed to using networked computers for a variety of purposes, including e-mail, electronic file transfers, online computing, information browsing and electronic financial transactions. These trends have increasingly led businesses to explore opportunities of providing Internet-based applications and services within their organisations and to customers and business partners.

## 2. INDUSTRY BACKGROUND

### *2.1 Introduction and Definition*

This report provides an overview of the industry in which the LET Group operates within. The coverage is focused on the electronic learning ("E-Learning") industry specifically web-based E-Learning solutions provided to the education market application.

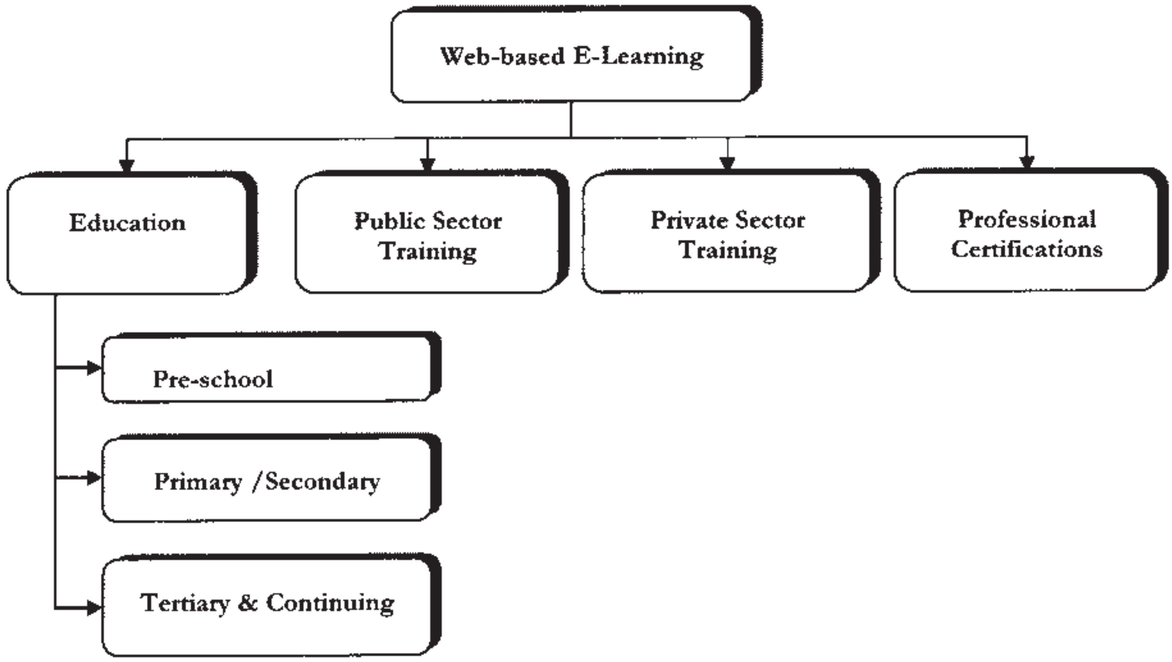
E-Learning, can be broadly defined as education and training delivered via electronic transmission. It takes advantage of technological advancement to blend ICT with contents in delivering education and training. It is an ICT-based methodology that enables a teaching-learning process to go beyond the constraint of being presence in a physical classroom. Examples of the different modes of delivering E-Learning via electronic transmission include CD-ROMs, intranet/extranet (LAN/WAN), audio & video tapes, television and the Internet.

The delivery of E-Learning contents through the Internet is known as web-based E-Learning. This electronic process enables delivery of personalised, comprehensive, dynamic learning contents on a real-time basis, and linking learners and trainers in different locations.
Web-based E-Learning is an effective learning process created by combining digitally delivered contents with learning support and services.

### *2.2 Application Markets*

Web-based e-Learning solutions could be used in a wide spectrum of applications namely in education (pre-school education, primary education, secondary education, tertiary education and continuing education); public sector training; private/corporate sector training as well as professional certifications. There has been an increasing adoption trend of web-based E-Learning occurring across all sectors, with the corporate and government sectors leading the trend.

**Figure 1: Application Markets of Web-based E-Learning Solutions**




*Source: Infocredit D&B Research*

This study focused on the education market application where the LET Group's main target market is. The advantages of web-based E-Learning for education applications can be summarised as follows:

- Flexibility & Economical
    1. Both teachers and students could access the contents via the Internet. This eliminates the constraint of having to be present in the same classroom as in traditional mode of teaching.
    2. Web-based E-Learning systems are equipped with tracking software which enables data to be uploaded and automatically tracked on to a server.
    3. Unlike CD-ROMs where course materials have to be reduplicated and redistributed to students whenever there are updates or changes, web-based E-Learning contents can be updated easily through Internet connection on real-time basis. Both educators and students can download the latest version of training materials with the connection to a particular website where the updated contents are uploaded by the developer.

- Real-time, Interactive & Customisable
  1. Web-based E-Learning allows users to obtain real-time contents and facilitate interactive learning courses.
  2. Web-based E-Learning systems may use an intelligent function to examine a student's study behaviour and provide convenience for students to receive results instantly after completing a test.
  3. Web-based E-Learning products can be customisable to suit end-users' preference.

## 3. MARKET TRENDS AND KEY DRIVERS

The concept of offering learning opportunities beyond the boundaries of physical classroom has emerged many years ago with conventional correspondence classes. It later involved using audio/video tapes and other non-real-time training methods. The effectiveness of these learning tools is relatively low as such self-pace, non-interactive teaching methods are difficult to retain students' attention. The training and education landscape has changed significantly with the advances of ICT that allow interactive, real-time training utilising E-Learning systems.

### *3.1 Public Sector*

One of the largest consumers of E-Learning is the government. This is especially true for emerging markets in Asia such as Malaysia, Thailand, Vietnam, China and Indonesia and other Asian countries where E-Learning expenditure is public sector driven.

One of the key United Nations Millennium Development Goals ("MDG") is to achieve universal primary education by ensuring all children complete a full course of primary schooling by the year 2015. For most Asian Emerging Markets which are striving to achieve the MDG goals, the government are expected to be placing strong emphasis on education. With limited resources, these countries are looking for the most cost effective way to propel the population to being better educated. This opens opportunities for E-Learning solution providers.

For example, the Federal Government of Malaysia allocated RM22.66 billion or 20.6% of total development expenditure to increase the education quality during the 8th Malaysian Plan period. As part of the concerted efforts to boost IT literacy, a total of 5,750 computers were supplied to rural schools around the country. Realising the rapid change in technology and rising knowledge seeking culture among Malaysians, Government has placed emphasis in increasing ICT education among school children by allocating RM945.0 million for computerisation of rural schools and RM401.1 million for smart schools[1]. The Malaysian Government hopes to bridge digital divide among rural and urban school children as well as to lead the nation towards a K-based economy. To realise this, various projects were implemented during the Eighth Malaysia Plan ("8MP") period to increase ICT usage and literacy rates among the people.

The other good example is Singapore's effort in creating a learner-centred school environment where the government's spending on education is budgeted at SGD6.4 billion under the Singapore Budget 2004. This budget was allocated to benefit students from primary to university levels. The Singapore government believes it provides quality education to its people, citing an increasing percentage of secondary school graduates that enter public universities in Singapore.

### *3.2 Corporate Sector*

The corporate sector has been a big market segment for E-Learning for staff training and development. With the implementation of E-Learning, the objective of cost containment may be achieved as employees that are dispersed at different locations could attend to training programmes via the Internet or other E-Learning solutions. The geographical structure of the modern corporate sector is driving the trend of E-Learning adoption. As the corporate sector becomes more globalised, the ability to convey a standard corporate understanding becomes a challenge. Web-based and asynchronous E-Learning solutions are hence being demanded by large corporations. The corporate sector also demands for higher security and improved technology in ensuring smooth content delivery.

[1] Source: 8th Malaysia Plan

### *3.3 Content Customisation*

The ability to customise E-Learning contents according to customers' specific requirements will be one of the features that attract governments to adopt this mode of teaching-learning methodology. Governments are generally concerned about the ability of E-Learning solutions to adapt to the local language and education curriculum requirements. This has driven E-Learning solutions providers to be responsive by improving its contents rather than focusing on just advance technology. Due to the differences across national borders, customisation or personalisation has become an integral part of the development of E-Learning solutions.

The trend in E-Learning content for the corporate sector is also changing. Previously, corporate customers use E-Learning for IT skill enhancement, while today, these corporate customers are seeking to improve the employees' "soft skills" like communications, management and negotiation through E-Learning programmes. Again, E-Learning solution providers that have the ability to provide customised content have the competitive edge in penetrating this segment.

### *3.4 Collaboration*

Collaboration is becoming a trend in the E-Learning market. Collaborative E-Learning strategies with strategic partners among local content providers, technology solution providers, training service providers and publishing houses are becoming a common trend in the market. Increasingly, IT companies strike strategic partnerships with publishers, academic institutions, E-Learning providers and educators to tap into the potential E-Learning education markets across all sectors.

### *3.5 Internet Usage*

The number of worldwide Internet users is projected to rise from 352.2 million in 2000 to 709.1 million in 2004. Broadband subscribers exceeded 150 million by end of 2004 in the global broadband market. Asia Pacific alone dominated global broadband uptake in terms of number of broadband households (50.4 million broadband households) in 2004. With faster Internet speed and cheaper cost of service, broadband will be the driving factor for web-based E-Learning programmes. In Asia alone, Internet penetration is growing rapidly in emerging markets such as China, India and Indonesia. However, the degree of Internet penetration in Asia varies across national boundaries with the Asian Developed markets leading in the provision of high speed Internet / broadband services. Among these countries, South Korea leads the way in terms of penetration rates and Seoul boasts of the most sophisticated broadband / high-speed Internet networks with approximately 21 broadband users to every 100 inhabitants. With the availability of Internet access and high-speed services in these countries, deployment of web-based E-Learning would be easy as compared to countries which lacked the IT infrastructure.

On the other hand, some ASEAN countries have been experiencing diverse digital divide. Internet connectivity is low in Laos, Cambodia and Vietnam while Malaysia, Thailand and Indonesia recorded higher penetration rates. Although, lower Internet penetration rates were observed in some of these countries, efforts have been made in recent years to instil ICT in ASEAN schools' education curriculum due to the growing awareness of knowledge based economy and technological advancement.

## 4. GOVERNMENT LEGISLATION, POLICIES, INITIATIVES AND INCENTIVES

### *4.1 Intellectual Property Protection*

The number of online courses available and use of Web-based learning for distance education is redefining intellectual property rights and its protection. Malaysia is a member of the World Property Intellectual Property Organisation ("WIPO"), the Berne Convention for Protection of Literacy and Artistry Works and signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPS"). WIPO is one of the 16 specialised organisations of the United Nations, which administers 23 international treaties dealing with different aspects of intellectual property protection.

Some of the key Malaysian legislation for intellectual property protection and the ICT industry are as follows:

Malaysia's IP comprises two (2) key areas:

- Industrial Property
  - Trade Marks Act 1976;
  - Patents Act 1973;
  - Malaysian Industrial Designs Act 1996;
  - Industrial Designs Regulations Act 1999; and
  - Layout Design of Integrated Circuit Act 2000
- Copyrights
  - The Copyright Act 1987; and
  - The Copyright (Amendment) Act 1990.

### *4.2 MSC Status*

MSC status is one of the key initiatives of the Government to facilitate ICT growth in Malaysia and to spearhead Malaysia's Vision 2020. MSC physically occupies a 15 kilometres by 15 kilometres garden corridor located close to the Malaysia's international airport, Kuala Lumpur International Airport, the administrative capital of Malaysia, Putrajaya and an intelligent city, Cyberjaya. It is also an integrated logistics hub with express rail links to Kuala Lumpur. MSC is also supported by a world-class high-capacity global telecommunications and logistics network built on a 2.5 – 10 gigabits digital fibre optic backbone.

In order to drive the development and growth of the MSC, seven (7) MSC Flagship Applications were launched, namely, e-Government, multipurpose card, smart schools, tele-health, R&D cluster, e-business and technopreneur development. Together, these Flagship Applications will push ahead the development of MSC and will provide business opportunities for ICT companies, the ultimate effect of which will be to transform the Malaysian society into a knowledge society.

To attract participants to the MSC, it has offered a ten (10) point Bill of Guarantee, that is:

(i) Provide a world-class physical and information infrastructure;

(ii) Allow unrestricted employment of local and foreign knowledge workers;

(iii) Ensure freedom of ownership by exempting companies with MSC Status from local ownership requirements;

(iv) Give the freedom to source capital globally for MSC infrastructure, and the right to borrow funds globally;

(v) Provide competitive financial incentives, including no income tax for up to ten (10) years or an investment, tax allowance, and no duties on import of multimedia equipment;

(vi) Become a regional leader in intellectual property protection and cyberlaws;

(vii) Ensure no Internet censorship;

(viii) Provide globally competitive telecommunications tariffs;

(ix) Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub; and

(x) Provide an effective one-stop agency - MDC.

### *4.3 Educational Policies and Initiatives*

In line with Malaysia's aim to become a knowledge-based economy and in achieving its vision of becoming a fully developed country by the year 2020, the Government realizes the importance of expanding ICT usage to promote economic growth. Some of the initiatives of the Government to promote ICT usage are summarized as follows:

**Smart Schools Project**

The Smart Schools Project is part of the Malaysian's Government's initiative to provide the foundation for K-economy concept. One of the main objectives of the Smart School Project was to produce a 'thinking' labour force and increase the IT literacy level in the country.

As part of the Government's effort to promote the use of ICT in the learning process and initiative from the Smart School project, a website called "Myschoolnet" was introduced. The website promotes interactive training subjects in English, Bahasa Malaysia, Mathematics and other topics for primary as well as the secondary level.

**ICT Teacher Training Programmes**

The ICT teachers training programme is carried out with the realization that training is a vital aspect in implementation of any pilot projects. The Teacher Education Division of the Malaysian MOE has to date trained 55,000 teachers of which half of these teachers had gone through in-service training and the other half were teacher trainees from the Teacher Training Colleges. Teacher trainees are obliged to expose themselves to the use of ICT in teaching pedagogy. ICT teacher training programmes to be effective, the Malaysian Government has offered various incentives for the training, community partnerships, conduct informal training support and provide sufficient access of technology for teachers. Teachers are provided with electronic books and E-Learning to encourage them to develop ICT competencies.

### *4.4 Barriers to Entry*

**Evolving Industry Standards and Compliance**

E-Learning solution providers not only have to attract customers and constantly upgrade their solutions in an increasingly competitive environment, but they face a raft of compliance and standards to conform in meeting certain levels of delivery quality. One of the most critical challenges is to address the issue of adopting acceptable technical standards which are crucial to facilitate interoperability of contents and accessibility of products. Among the more popular standards are SCORM, IMS, Institute of Electrical and Electronic Engineers ("IEEE") and AICC. The SCORM and IMS compliances adhered by the LET Group ensure that its Learning Management System ("LMS") is compatible with various online E-Learning systems. Additionally, the standardisation to enable interoperability will result in lower development cost as E-Learning solutions provider like the LET Group can produce contents to be delivered in any system and give access to reusable contents which can be updated easily. For new players to establish a strong foothold in the web-based environment, it is crucial for them to understand and keep up with E-Learning standards and compliances so that their tools will conform to the international standards.

**High Quality Content**

Provision of E-Learning solutions not only requires good bandwidth and technical systems but more importantly, good content development. E-Learning solution providers need to have a pool of skilled manpower to actively develop contents for their target users. The people developing the contents need to be well-versed on the subject matter and have knowledge in the education field. Some of these providers may have the know-how and skills to develop the software and they rely on copyrighted materials from third parties such as publishing houses. The LET Group has the advantage of having its own in-house academic content developers with vast academic experience which allows them to have the privilege to have ownership control of their contents.

**Technology Capability**

In providing quality E-Learning solutions, a company needs to have a strong track record not only in the education sector but also on its technical capability. E-Learning solution providers need to have the technology know-how in developing the application software and to create an advance LMS as tools for managing and delivering web-based E-Learning contents. In addition, players with the capability to develop enhanced features such as diagnostic tools and other interactive features (audio, 3-D animation) in their solutions would differentiate their products from the rest. The Group's numerous awards received for the development of DTAS and ICAM engines such as The Enterprise Challenge (TEC) "Innovator Award" have proven that the products are commercially viable. The Group's E-Learning programmes such as Dr. Series and Dr. Editor that are powered with DTAS and ICAM have diagnostic and auto-marking capabilities even on open-ended questions.

## 5. PLAYERS & COMPETITION

The E-Learning industry in general is a fragmented industry in terms of product diversity and mode of delivering educational courses. In Malaysia, the E-Learning industry is still a relatively new industry with a limited number of local solution providers specialising in online education content development and deployment to the market. Most E-Learning solution providers are still offering computer-based learning such as CD-ROMs. CD-ROMs are still used widely as educational materials in the country. Most of these imported interactive educational CD-ROMs are distributed through major retail chains such as MPH, Popular and Berita Book Centre.

For the provision of web-based E-Learning, the two (2) local E-Learning providers catering for primary school and secondary school markets are:

- Kakaktua.com Sdn Bhd ("Kakaktua"); and
- Vision Pathway Bhd ("Vision Pathway").

Established in 1999, Kakaktua developed the portal under a pilot programme funded by the Demonstrator Application Grant Scheme (DAGS) by the Malaysian Government. Established in November 1999, Vision Pathway was not involved in providing web-based E-Learning solutions until late 2003. The company offers E-Learning solutions to primary and secondary school students.

Meanwhile, in Singapore where the E-Learning industry is more advance, there are several companies which offer a combination of interactive web-based E-Learning and computer-based training (example CD-ROM format) to schools. Examples of such companies are

- MoreAtOnce Pte Ltd (formerly known as Daiichi Media Pte Ltd),
- iTutor Net Pte Ltd;
- Ednovation Pte Ltd;
- Sky Media Pte Ltd;
- Wiz Learn Pte Ltd;
- AsknLearn.com Pte Ltd; and
- EduNet Technology Pte Ltd.

The Group is well positioned in the market as there are limited local E-Learning providers who are capable of providing web-based E-Learning solutions to the education market. It strives to ensure consistent quality, prompt delivery and offer a broad range of its proprietary E-Learning technologies to various education markets locally and regionally.

The total revenue of selected major players in Malaysia and Singapore operating with similar business activities as the LET Group does is estimated at RM53.6 million based on the latest publicly available companies' audited financial reports. The LET Group has about 21% of total market share in 2004.

## 6. SUBSTITUTE PRODUCTS/SERVICES

E-Learning models have evolved from classroom learning environment to integrate technology in providing content, delivery and creating E-Learning communities (i.e. online). This web-based learning may be subject to potential risk or challenge to be substituted by other forms of E-Learning delivery methods such as CD-ROMs and DVDs which are typically referred to as "computer-based" training. However, the delivery method is sometimes determined by the level of advancement in content development.

This challenge is however minimal due to the fact that the web-based solutions are gaining popularity among primary and secondary schools in parts of Asia where governments have increase their efforts to upgrade and invest in ICT infrastructure to support online content, delivery and service. In addition, the proliferation of high-speed Internet connections and PC ownership enhance the effectiveness of Web-based delivery learning contents. These include among others, allowing real-time interaction, flexibility in accessing contents and enabling instantaneous content download.

## 7. INDUSTRY CHALLENGES

Some of the industry challenges are as follows:

### *7.1 IT infrastructure readiness*

The issue of IT infrastructure readiness is one of the main challenges to penetrate developing countries in Asia. The availability of PCs and the efficient Internet services are prerequisite for the provision of its real-time, interactive E-Learning services. PC ownership and Internet penetration rates are low in developing countries particularly in South East Asia except for Malaysia and Singapore.

### *7.2 Low IT literacy rate*

One of the most common ways of promoting IT literacy is through education. For less developed countries, this issue is a challenge compared to the more developed countries like Hong Kong, Singapore, Taiwan and Japan. Low IT literacy rate translates to low availability of qualified IT personnel. In Malaysia, it has been projected that the demand for core ICT occupations such as hardware engineers, software engineers, systems analysts, computer programmers and technical support personnel will increase from 108,000 in 2000 to 181,600 in 2005. In countries like Vietnam, Indonesia and Thailand, the shortage of IT personnel becomes more acute due to the language barrier as competency in IT requires basic knowledge of the English language.

### *7.3 Market Awareness and Perception*

Developing countries have yet to have a clear understanding of the benefits associated with introducing E-Learning into their education system. Some teachers are of the opinion that the concept of E-Learning diminishes the importance of teacher/student relationship as part of the learning process and that E-Learning only promotes the effective delivery of knowledge but neglects the importance of social issues like communication, cultural interaction, the value of compatriotism among students. Nevertheless, most teachers and educators have begun to realise the importance of imparting knowledge to today's new generation of students through effective E-Learning programmes. This can be observed in the various developing countries' initiative programmes undertaken to promote E-Learning programmes.

## 8. PROSPECTS OF THE INDUSTRY

Education and training play a vital role in the economic development of a country. The education sector and private corporations need to continuously seek new skills and new methods of acquiring knowledge. This would open the door to a revolution of E-Learning adoption. With Governments in many Asian countries actively promoting ICT usage in education and allocating budget for ICT education, there are opportunities abound for technology-based educational companies like the LET Group. The areas of potential are also observed in Asian countries with the growing number of schools, institutions of higher learning and the corporate market as well.

In summary, the driving factors nurturing the growth of web-based E-Learning solutions industry in the future are as follows:

- Growing number of initiatives undertaken by the governments across markets such as investing in ICT infrastructure to upgrade the education of students to be more IT savvy;
- Increasing adoption of ICT application in the teaching learning process in the education sector with government supports;
- Increasing youth literacy rates, Internet penetration and PC ownership among Asian countries;
- Strategic alliances between E-Learning solution providers with hardware vendors and publishers to ride on the synergistic effect in pursuing market opportunities; and
- Increasing corporate sponsorship especially for institutes of higher learning will accelerate ICT adoption in education.

The market opportunities presented within the growing E-Learning industry are summarised as follows:

### *8.1 Provision of E-Learning Content*

Industry players involved in providing E-Learning contents usually use a combination of a few training delivery methods and media vehicles. The more traditional delivery method is through classroom-led instructor like teachers or trainers. However, many E-Learning players are now promoting a combination of web-based online training methods to complement classroom instructions. For E-Learning solution providers, the ability to combine the most effective training delivery methods based on customers requirements and clients' operating conditions will ensure sustainability in the future.

E-Learning content is not only confined to learning institutions but also to the corporate sector. Asia is expected to mimic the trend in the U.S. where companies are increasingly looking to outsource their training needs to specialised training consultants with the ability to design and develop course content. These trainings range from specialised IT training programmes to skills enhancement workshops. This type of training is most effective for large corporations with offices scattered around as it ensures that its employees receive the same corporate understanding at the same time and through the same medium hence stimulate growing demand for E-Learning solutions.

Besides, consumers may be interested in enhancing their personal development skills like language courses, writing skills, communications skills and professionals' certifications. E-Learning is an attractive alternative to a classroom environment as it provides the flexibility to working adults and housewives to enrol in such self-improvement courses.

### *8.2 Provision of Technological Support*

Another potential area is the provision of technological support of E-Learning platform. Some institutes of higher learning prefer to manage online E-Learning contents but require the tools and technological infrastructure. These institutions may prefer to concentrate on content development and hence outsource the back end operation management of the E-Learning process to a third party. E-Learning solution providers could offer application hosting services or provide the platform of the E-Learning solution. One example of such platform provider is providing synchronous learning platforms which in turn create a virtual classroom thus dispense the need for physical presence in meeting, video or teleconferencing. This platform allows for presentation of visual materials and voice interaction. This is especially practical for presentation of seminars and workshops by trainers or instructors.

(Prepared for inclusion in the Prospectus)

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Dear Sirs

**LITESPEED EDUCATION PTE LTD ("Litespeed")**

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**(C) DIVIDEND POLICIES**

**(D) POLICIES OF FOREIGN INVESTMENTS, IN PARTICULAR, THE REPATRIATION OF PROFITS AND THE TIMEFRAME FOR THE REPATRIATION OF PROFITS**

We are a law firm practising Singapore law. We are given to understand that Litespeed Education Technologies Berhad, a company incorporated in Malaysia had entered into a sale and purchase agreement dated 25 May 2004 (the "Sale and Purchase Agreement") to acquire the entire issued share capital in Litespeed comprising 1,410,000 ordinary shares of SGD$1.00 each for a consideration of RM5,350,637 to be satisfied by the issuance of 52,000,000 new ordinary shares of RM0.10 each in Litespeed Education Technologies Berhad (the "Acquisition"). We are further given to understand that the Acquisition was completed on 31 March 2005.

Litespeed is incorporated and operating in Singapore.

We have been requested by Litespeed to advise on the following in relation to itself:

(a) ownership of title to the securities/assets of Litespeed in Singapore;

(b) enforceability of agreements, representations and undertakings given by Litespeed under Singapore laws;

(c) the dividend policies of Litespeed; and

(d) the current position in Singapore laws regarding foreign investment policies in Singapore, in particular the repatriation of profits from Singapore to Malaysia and the timeframe for the same.

This opinion has been prepared for the purposes of inclusion in the prospectus ("Prospectus") in connection with the listing of Litespeed Education Technologies Berhad on the MESDAQ Market of Bursa Malaysia Securities Berhad.

**1. INTRODUCTION**

Our opinion herein is limited to matters of the laws of the Republic of Singapore as currently applied by the Singapore courts at the date of this opinion and we express no opinion with respect to the laws of any other jurisdiction. We have made no investigation of the laws of any country or jurisdiction other than the Republic of Singapore and do not express or imply any opinion thereof. This letter addresses exclusively the Acquisition and we express no view with respect to any other matter and are under no obligation to advise you of any matters that may occur after the date of this letter which could render the views expressed herein no longer applicable.

**2. DOCUMENTS**

For the purposes of rendering our opinion, we have been provided with and have reviewed the copies of the following:

(a) minute books and statutory register of Litespeed;

(b) the Sale and Purchase Agreement dated 25 May 2004 made between Litespeed Education Technologies Berhad and Ednovation Pte Ltd, Baring Communications Equity (Asia-Pacific) Ltd, Popular E-Learning Holdings Pte Ltd, Pok Vic Tor, Pok Vic Sent, Fock Mun Hong, Tham Siew Keong, Faridah bt Hj Tun Mohd Fuad Stephens and Dr Wong Kai Choo @ Wong Ka Chon (the "Vendors") in respect of the Acquisition; and

(c) certain other agreements executed and representations and warranties by Litespeed.

Other than the documents ("Documents") referred to above which we have reviewed for the purpose of this opinion, we have not reviewed any other document and have not made any other enquiries or investigations in connection with the rendering of this opinion. Our opinion herein is accordingly subject to there not being anything contained in any document not reviewed by us that may require us to vary or amend this opinion.

**3. ASSUMPTIONS**

In considering the Documents, we have assumed:

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(a) the authenticity of all seals, chops and signatures, duty stamp or marking, and the authenticity and completeness of each document submitted to us, that each signature on behalf of each party thereto is that of a person authorised to execute the same, the conformity with the relevant originals of all documents submitted to us as copies thereof and the authenticity and completeness of the documents from which such copies were taken and the correctness of all facts and information stated or given in all of such documents;

(b) the minute book and statutory register of Litespeed submitted to us for examination are true and complete and the board resolutions and shareholders resolutions set out in the minute book of Litespeed have not been rescinded or modified and they remain in full force and effect and that no other resolution or action has been taken which could affect the validity of the board resolutions or shareholders' resolutions; and

(c) the representations and confirmation made by Litespeed are true, accurate and complete.

The making of the above assumptions does not imply that we have made any enquiry to verify any assumption (other than as expressly stated in this opinion). No assumption specified above is limited by reference to any other assumption.

**4. OPINION**

Based upon and subject to the foregoing and to the reservations and qualifications set forth below it is our opinion that:

**LITESPEED**

(a) <u>Ownership and Title to Securities/Assets in Singapore</u>

There are no restrictions in Singapore laws which would prohibit the transfer and ownership of shares in Litespeed to Litespeed Education Technologies Berhad. The Acquisition does not infringe any governmental laws and regulations in Singapore and there are no provisions in the Memorandum and Articles of Association of Litespeed which prohibits the Acquisition. However, the Acquisition must comply with the Memorandum and Articles of Association of Litespeed concerning the transfer of its shares. It must also comply with the terms and conditions of the following:

(i) Charge over Cash Deposits dated 22 June 2004 in favour of Standard Chartered Bank (Singapore);

(ii) letter of offer dated 2 November 2004 ("MBB Letter of Offer") from Malayan Banking Berhad in connection with facilities granted under the Local Enterprise Finance Scheme ("LEFS"), in particular, the terms and conditions in the MBB Letter of Offer and such terms and conditions as may be approved and/or specified from time to time by SPRING Singapore in its absolute discretion under the LEFS; and

(iii) letter of offer dated 8 April 2005 from United Overseas Bank.

(b) Enforceability of Agreements, Representations and Undertakings

Agreements, representations and undertakings given by a Singapore company are generally enforceable in the Singapore courts in accordance with their terms unless:

(i) the validity, performance and enforcement is limited by statutes of limitation, lapse of time, waiver and laws relating to bankruptcy, insolvency, reorganisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally; and

(ii) where the obligations are illegal or contrary policy.

(c) Dividend Policies

We are given to understand that Litespeed does not have a fixed dividend policy. However, the Memorandum and Articles of Association of Litespeed provides for the declaration of dividends upon approval in general meeting and no dividend shall exceed the amount recommended by the directors. Further, the directors of Litespeed may also, from time to time pay to the shareholders, such interim dividends as appears to the directors to be justified by profits of the company. Under the laws of Singapore, dividends may only be paid out of profits.

Subject to the settlement of the applicable taxes described in the following paragraph, Singapore places no restrictions nor time frame on the reinvestment or repatriation of earnings and capital, and maintains no significant restrictions on remittances, foreign exchange transactions and capital movements.
Companies which are controlled or managed in Singapore are regarded as residents in Singapore and are subject to Singapore income tax on income that is accrued in or derived from Singapore and foreign income received or deemed to be received in Singapore. The corporate tax rate in Singapore is 22% for the year of assessment 2004, with certain exemptions for the first S$100,000 of chargeable income. Subject to any applicable tax treaty, non resident taxpayers are subject to withholding tax at the Singapore corporate tax rate on certain types of income derived from Singapore.

5. **QUALIFICATIONS**

Our opinion is subject to the following qualifications:

(1) the term "enforceable" as used above means that the obligations assumed by Litespeed under any agreement are of a type which the Singapore courts would generally enforce. It does not mean that the obligations under any agreement will necessary be enforced in accordance with their terms, in particular:-

(a) the validity, performance and enforcement of the agreement may be limited by statutes of limitation, lapse of time, waiver and by laws relating to bankruptcy, insolvency, reorganisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally and claims may be or become subject to set off or counter claim;

(b) where obligations are to be performed in a jurisdiction outside Singapore, they may not be enforceable in Singapore to the extent that performance would be illegal or contrary to public policy under the laws of that jurisdiction;

(c) enforcement may be limited by general principles of equity – for example, equitable, equitable remedies such as injunction and specific performance, are discretionary and may not be available where damages are considered to be an adequate and appropriate remedy;

(d) enforcement proceedings are subject to the general jurisdiction of the court in regard to awards of costs, even as against a successful party;

(e) any provision in any of the agreement providing for the severance of any provision which is illegal, invalid or unenforceable may not be binding under the laws of Singapore as it depends on the nature of the illegality, invalidity or unenforceability in question which issue would be determined by a Singapore court at its discretion;

(f) a Singapore court may refuse to give effect to clauses in any of the agreements in respect of the costs of unsuccessful litigation brought in a Singapore court or where the court itself made an order for costs;

(g) in appropriate circumstances and at the court's discretion, the courts of Singapore may render judgments in foreign currencies (such judgments may, however, have to be converted into local currencies for enforcement purposes);

(h) the courts of Singapore may refuse to accept jurisdiction or stay proceedings in certain circumstances (for example, if the matter concerned is res judicata, if litigation is pending in another forum on the same matter or if another forum is more convenient;

(i) where as party to any of the agreements is vested with a discretion or may determine a matter in its opinion, Singapore law may require such discretion to be exercised reasonably or that such an opinion is based upon reasonable grounds;

(j) an obligation to pay an amount may be unenforceable if the amount is held to constitute a penalty;

(k) we have assumed that the choice of the laws of Singapore in the respective agreements is bona fide and not in contravention of public policy. The choice of law governing any agreement will only be recognised and upheld by the Singapore courts provided that the same is bona fide and there being no reasons for avoiding it for reason of contravention of public policy. A choice of law clause may also not be upheld if it was made with the express purpose of avoiding the law of a jurisdiction with which the relevant agreement has the most substantial connection and which, if in the absence of the stated choice of law would have invalidated the relevant agreement or been inconsistent with it;

(l) failure to exercise a right may be held by a Singapore court to operate as a waiver of that right notwithstanding any provision to the contrary in any of the agreement;

(m) the effectiveness of any provisions exculpating a party from liability or duty otherwise owed may be limited by law; and

(n) the terms and conditions of the agreements may be amended, revised, varied and/or supplemented orally or by course of conduct notwithstanding any provisions to the contrary.

(2) Save as expressly stated in this opinion, we express no opinion on the accuracy and completeness of any statements or warranties of fact set out in any agreement, which statements and warranties we have not independently verified.

(3) Save as expressly stated in this opinion, we express no opinion as to the ability of the relevant parties to any of the agreements to observe and comply with their respective obligations thereunder.

Kindly acknowledge receipt of this letter.

Yours faithfully

Y&P/G/2003/0201422/Ltr- Expert Report -Litespeed(Eng) 30Sept05