7. INDUSTRY OVERVIEW

7.1 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 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.

(Source: Infocredit D&B Report)

7.2 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 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.

(Source: Infocredit D&B Report)

7.3 KNOWLEDGE-BASED ECONOMY IN MALAYSIA

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 knowledge-based ("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 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; and
- bridge the knowledge and digital divides.

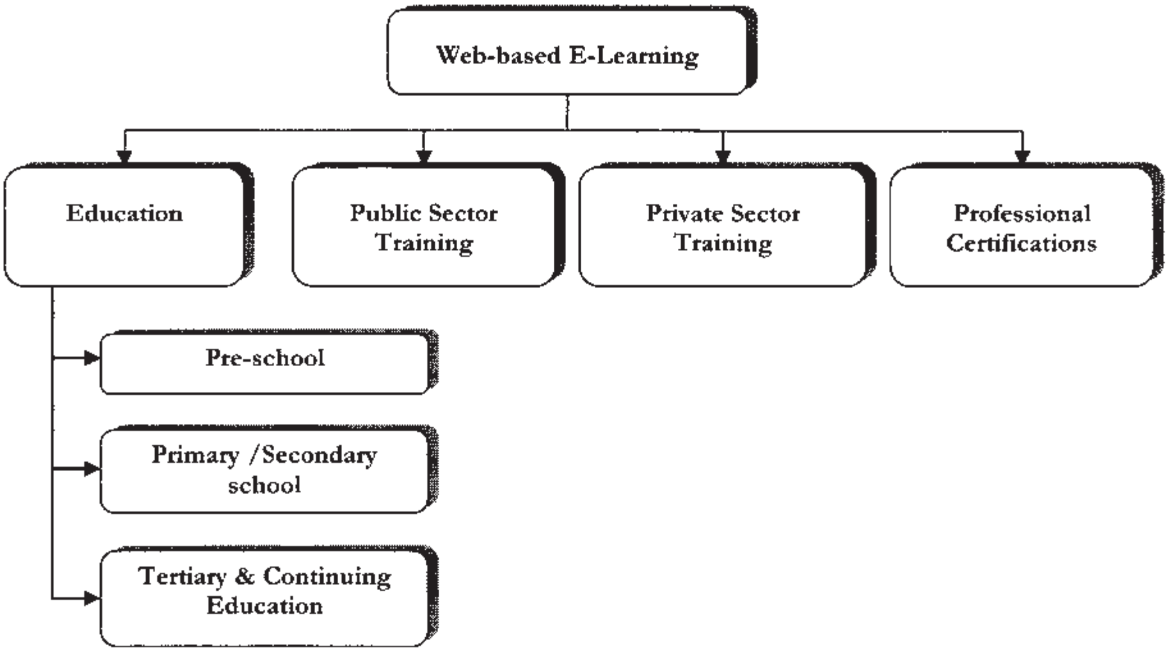
(Source: Infocredit D&B Report)

7.4 E-LEARNING INDUSTRY

7.4.1 Markets for Web-Based E-Learning

The education market is significantly related to per capita income growth in a country. In industrialised and developed countries, the concept of E-Learning has gained wide acceptance among educators and students. The corporate sector is the largest market for E-Learning while the use of E-Learning is becoming a trend in higher learning education and is often used in distance learning programmes.

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.



7.4.2 Market Trends and Key Drivers

(i) 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 governments 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 Eighth Malaysian Plan (8MP) 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, the 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. The Malaysian Government hopes to bridge digital divide among rural and urban school children as well as to lead the nation towards a knowledge-based economy. To realise this, various projects were implemented during the 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.

(ii) 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.

(iii) 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 often use E-Learning for IT skill enhancement, while today, these corporate customers are also 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 into this segment.

(iv) 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.

(v) 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.

7.4.3 Substitute Products/Services

E-Learning models have evolved from classroom replication works to integration with technology in the provision of content, delivery and creation of E-Learning communities. This Web-based learning is open to the challenge of being 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 mitigated by 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.

(Source: Infocredit D&B Report)

7.5 GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES

7.5.1 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 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. WIPO is one (1) of the sixteen (16) specialised organisations of the United Nations, which administers 23 international treaties dealing with different aspects of intellectual property protection .

A brief description of some of the key Malaysian legislation for intellectual property protection and the ICT industry is as follows:

(i) The Trade Marks Act 1976. This piece of legislation provides for a registration system for marks (for example, logos, brands, signs) used in relation to goods and services. The registration of a mark in relation to specified goods or services is valid for ten (10) years from the date of filing and is renewable for subsequent periods of ten (10) years each. The registered proprietor is entitled to commence infringement action against others who use his mark without consent or lodge a complaint under the Trade Description Act 1972.

(ii) The Patents Act 1983, provides for a system for registration of patents and utility innovations. Upon grant, a patent is valid for twenty (20) years from the date of application. The owner of a patent has the exclusive rights to exploit the patentable invention, assign or transmit the patent and to conclude licence contracts, and to make claims where there is an infringement of its rights.

(iii) The Copyright Act 1987, gives the exclusive right to the owner of a copyright for a specific period. There is no system of registration for copyright in Malaysia. Literary works, musical works, artistic works, films, sound recordings, broadcasts and derivative works is protected automatically if sufficient effort has been expended to make the work original in character; the work has been written down, recorded or otherwise reduced to a material form. The Copyright Act 1987 also specifies the circumstances amounting to and remedies for infringements and offences. The Copyright (Amendment) Act 1997 which amended the Copyright Act 1987 provides for unauthorised transmission of copyright works over the Internet as an infringement of copyright. It is also an infringement of copyright to circumvent any effectivetechnological measures aimed at restricting access to copyright works.

(iv) The Industrial Designs Act 1996, implements a system for the registration of an "industrial design" in Malaysia, which are "the features of shape, configuration, pattern or ornament applied to an article by any industrial process" being features which in the finished article, appeal to and are judged by the eye. The registration is valid for five (5) years and is renewable for two (2) further periods of five (5) years each. The Industrial Designs Act 1996 further specifies the extent of rights granted to the owner and what amounts to infringement.

(v) The Layout Designs of Integrated Circuits Act 2000 sets out the criteria for the protection of the layout design of integrated circuits and the extent of protection conferred upon the right holder. A layout design is valid for ten (10) years from the date it is first commercially exploited.

(vi) The Digital Signature Act 1997. This is an enabling legislation which allows for the development of, amongst others, e-commerce by providing a method for secure online transactions through the use of digital signatures.

(vii) The Communications and Multimedia Act 1998, provides a regulatory framework to cater for the convergence of the telecommunications, broadcasting and computing industries in Malaysia. It includes the formation of The Malaysian Communications and Multimedia Commission as the sole regulator of the new regulatory regime.

(viii) The Computer Crimes Act 1997, creates several offences relating to the misuse of computers, such as unauthorised access to computer material, unauthorised access with intent to commit other offences and unauthorised modification of computer contents.

7.5.2 MSC Status

MSC status is one (1) 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 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.

7.5.3 Educational Policies and Initiatives in Malaysia

More than 30 years ago, the focus of the national educational policy emphasised on the use of the Bahasa Malaysia as the medium of instruction and given towards vocational and technical education to fulfil the country's need for skilled workers. Today, the MOE in Malaysia is focused on the improving the standard of education especially in the area of Science and Technology thus the move from Bahasa Malaysia to English as the medium of instruction for Science and Mathematics subject. These two (2) subjects are the foundation of Science and Technology and with the delivery in English, it is hoped to better facilitate an easier transition to being an IT-enabled nation.

Within the Asia Pacific region, the national education policies differ from one (1) country to another. However, the trend of most education reforms was gearing towards more focus on privatisation, marketisation and diversifications in education especially as most developing countries are still heavily dependent on their population to drive the economy to the future. On the operational level, IT seems to be the leading initiatives for many education reforms but many policy makers are still facing the challenge of implementing it.

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:

(i) Smart Schools Project

The Smart Schools Project is part of the Malaysian Government's initiative to provide the foundation for K-based economy concept. One (1) of the main objectives of the Smart Schools 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 Schools 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.

(ii) ICT Teacher Training Programmes

The ICT teachers training programme is carried out with the realisation 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.

(Source: Infocredit D&B Report)

7.6 PROSPECTS AND INDUSTRY OUTLOOK

7.6.1 Provision of E-Learning Content

Industry players which are involved in providing the design and development of E-Learning course content usually use a combination of a few training delivery methods and media. The more traditional training delivery method is through classroom-led instructor like teachers or trainers. However, many E-Learning players are now promoting a combination of online training methods as well as classroom instructions. Other training delivery methods could be the use of Internet video system or self-paced training modules allowing the trainee to control the learning process. For E-Learning service providers, the ability to combine the most effective training delivery methods based on customers requirements and operating conditions of the organisation will ensure sustainability in the future.

E-Learning content is not only confined to learning institutions but also the corporate sector. Asia is expected to mimic the trend in the US 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 ranges from specialised IT training to skills enhancement workshops. Such training is most effective for large corporations with offices in several locations ensuring its employees receive the same corporate understanding at the same time and through the same medium, thus stimulating the growing demand for E-Learning systems.

The corporate sector is just one (1) segment of the market. The other segment that holds much potential is the consumer market where 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 busy housewives.

7.6.2 Growing Number of Schools and Institutions of Higher Learning

The information age has created vast market opportunities for E-Learning providers as more schools move into E-Learning. For example, in Singapore, many of the schools are adapting themselves to an E-Learning environment. Although the corporate sector has been one of the earliest to adopt E-Learning, the education sector is also catching up with the trend. In Malaysia, more private institutions (such as colleges and private universities) have sprung out over the last few years giving rise to potential for growth. For example, many universities in Malaysia have begun offering web-based E-Learning for tertiary education such as Universiti Tunku Abdul Rahman ("UNITAR") which has a Virtual Online Instructional Support System consisting of a series of functions such as e-mail, forums, On-Line tutorial, online bulletin board, virtual library and announcements. UNITAR has established seven centres throughout the country to cater to more than 7,500 students. Besides UNITAR, other universities such as Open University Malaysia and Multimedia University Malaysia are also working towards offering online content courses to promote web-based E-Learning solutions.

Furthermore, the introduction of English as a medium of instruction for Mathematics and Science subjects in primary and secondary schools will press more usage of ICT from students or teachers. For example, the Internet would be an alternative source for teachers to download learning materials or access certain online education websites to view how lessons of such subjects are presented in English.

7.6.3 Technological Support

Another area of market potential is in the provision of technological support for the E-Learning platform. Some institutes of higher learning prefer to manage the online E-Learning content but require the tools and technological infrastructure. These institutions often outsource the back end operation management of the E-Learning process and prefer to concentrate on the content and course structure. E-Learning service providers could offer application hosting service or provide the platform of the E-Learning solution. One (1) example of such platform provider is the offering of synchronous learning platforms which 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, workshops by trainers or instructors.

7.6.4 Customised Services

The provision of customised services is very wide, as it practically involves all areas of E-Learning solutions and the boundaries are only those specified by the customers. Some service providers only provide testing and assessment services whereby they are only responsible for ensuring the marking process of a mass examinations based on the content of the customers. Other services could be in the form of provision and management of a learning portal for institutions and corporate customers. These portals will act as centralised information dissemination and collection centre to facilitate a larger database or control student admissions.

7.6.5 Bundling E-Learning solutions with Multinational Corporations

There is a slow growing trend in the industry for E-Learning service providers to form strategic alliances with large corporations such as IBM, Sun Microsystems, Hewlett Packard and Cisco Systems to ride on the synergetic effect to pursue larger market opportunities. These companies co-market and co-sell their combined products and services to corporate and government agencies as a united entity merging resources and tapping into each other's customer base. The E-Learning concept can also be utilised in-house for its large networks of employees to enhance their knowledge and skills.

7.6.6 Corporate Sponsorship

The corporate sector has been actively involved in the promotion of educations for many years now. This is evidenced with the growing number of scholarships and education funds established over the years, in the pursuit of academic excellence and improve the quality of the graduates. In addition to focus on individual development, the corporate sector has also been contributing their resources to improve the quality of the institutions of higher learning. Intel Malaysia has been actively involved in the promotion of IT awareness with various programmes that include tertiary equipment grant, scholarships, Fellowship Faculty Research Grant, Technical Lectures, and Component Donation. The company has also established Intel Labs in a few institutions of higher learning. These schemes will help in improving IT literacy of the nation's population and with the availability of resources, it will provide the foundation for increase accessibility to E-Learning.

7.6.7 Increasing Youth Literacy Rates

Youth Literacy Rates Amongst Developed and Under Developed Countries*

Region	Year		
	1990 (%)	**2000 (%)**	**2015 (%)**
World	84	87	91
Developing countries	81	84	90
Least Developed Countries	57	65	78
Eastern Asia and Oceania	95	97	99
Southern Asia	61	68	79
Sub-Saharan Africa	68	77	87
Arab States	69	79	89
Latin America & Caribbean	92	94	96

* *For Youths aged 15 to 24*

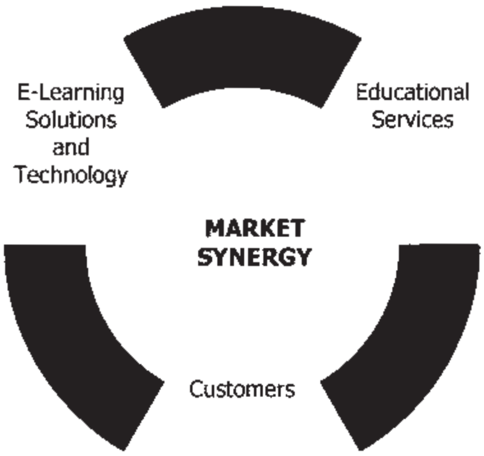
Literacy rates of young adults within this age group are generally higher across the other age groups with increasing access of schooling over the years. World youth literacy rate is projected to increase to 91% in 2015 from 87% in 2000. Increasing literacy rates among youths reveals the importance of education in a country's social economic development. This trend has also begun to reflect a potential growth for online education where there will be a growing awareness of imparting knowledge through the use of ICT in education among youths and to eliminate digital disparities among the developed, underdeveloped and advance countries.

(Source: Infocredit D&B Report)

8. SUMMARY OF BUSINESS PLAN

8.1 BUSINESS OBJECTIVES

The LET Group's vision of becoming the market leader in the development and distribution of E-Learning technologies and solutions will be targeted at the global public sector markets. As such the Group will establish closed working relationships with educational companies such as global IT MNCs and local companies who supply to the education public sector market worldwide. To meet the demands of the various educational sectors, the Group intends to leverage on its proprietary technology tools and educational solutions to develop new E-Learning products, enhance its existing suite of E-Learning products and at the same time provide enrichment programmes. Coupled with an extensive customer service and support operations, LET Group will capitalise its market synergy to expand its business.



8.2 KEY BUSINESS STRATEGIES

8.2.1 Business Development

The LET Group's business development strategy for its E-Learning Division for the next five (5) years will focus on continuous R&D efforts in the areas of technology and product development and forming strategic partnerships. New products development and enhancement which run on new engines such as DART, DBA, ICAM Multi-lingual and ICAM Grammar are expected to spur demand from the Asian markets. The LET Group will also continue to evolve its current suite of E-Learning technologies to provide for corporate E-Learning solutions.

The Group will continually build and expand its E-Learning products and services by forging close working relationships with these strategic partners to create new products and provide a more efficient delivery system to customers.

For its Education Services Division, the LET Group plans to develop a new range of CTY and enrichment programmes for the school market. The enrichment services to schools will aim to meet the changing needs of the education system.

8.2.2 Market Development

In order to achieve its vision to be a world leader in education technologies, the LET Group has set its sights on appointing regional strategic partners such as global IT MNCs and local companies. It intends to set-up its own sales offices in the Asian region such as Hong Kong, Vietnam and China for future market expansion within the next three (3) years. The regional sales offices or strategic partners in each of these countries will provide customer support and serve as business development, operations and logistic centres. The LET Group aims to secure public sector projects by providing E-Learning solutions to the various education ministries in these target countries.

8. SUMMARY OF BUSINESS PLAN *(Cont'd)*

8.2.3 Product Development Strategy

The LET Group intends to roll several new products and technologies within the next five (5) years to complement and enhance its existing E-Learning programmes, including new Dr. Series courseware such as Dr. Malay and E-University. In addition, the LET Group intends to penetrate into the corporate sector via the rolling out of the corporate training courseware.

Alongside this, the LET Group is intending to deploy DART which is a diagnostic engine presently being developed by LET Group to combine diagnostic discovery and adaptive testing methodology with item response theory with the objective of the engine to facilitate the students' learning process through the identification and assignment of assessment questions that correspond to the students' prior knowledge and learning capability. Additionally, a new technology DBA is also being designed by LET Group which aims to integrate free-form diagrams into an assessment system.

The LET Group also intends to introduce new products and services to support its CTY and enrichment programmes to contribute to the growth of the Group's business operations.

8.3 PROSPECTS FOR THE FUTURE

With the identified key business strategies as set out above being implemented over the next five (5) years, the LET Group believes that it will be able to continuously meet the technological and financial expectations of the market through diversification and enhanced depth of its product offerings and market reach. The confluence of proprietary diagnostic E-Learning technologies, a keen understanding of global customers' needs and a strong corporate culture that fosters synergistic relationships with partners will underpin LET's fast paced growth as a regional E-Learning company.

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9. OTHER INFORMATION ON THE LET GROUP

9.1 MATERIAL LICENCES AND PERMITS

There are no material licences and permits required to be held by the Group for the purpose of conducting its business.

9.2 LANDED PROPERTY

The LET Group does not own any landed property and there has been no acquisition of landed property for the past two (2) years preceding 30 September 2005.

9.3 RELATED PARTY TRANSACTIONS AND/OR CONFLICT OF INTERESTS

Save as disclosed below, there are no existing or potential related party transaction and/or conflict of interests between the LET Group and its Directors, substantial shareholders and/or persons connected with such Directors, substantial shareholders as defined under Section 122A of the Act and/or its key management and/or key technical personnel:

(i) EPL and PELH are both shareholders of Learning Edvantange Pte Ltd ("LEAD"). LEAD has by a Letter of Award dated 14 December 2004 commissioned LES for a sum of SGD1,500,000 to provide E-Learning products such as Dr English, Dr Maths, Dr Science, Lower Secondary Science and Lower Secondary Maths to 100 of their educational websites in Singapore. The appointment is for a period of one (1) year commencing from 1 January 2005 and expiring 31 December 2005 with the option to extend the same for another year on terms to be negotiated by both parties;

(ii) LES has by a Letter of Award dated 20 January 2005 commissioned LEAD to provide LES with the software and services in LEAD's capacity as the exclusive provider of basic E-Learning Platform with More@once Science product. The appointment is for a period of one (1) year commencing from 1 May 2005 to 1 May 2006 with an option to extend for another year on the terms to be negotiated by both parties; and

(iii) The existing base technology for ICAM, that is the Neural Cortex Technology, is exclusively licensed to LES from Neural Cortex Global Holdings Limited ("NCG") for use solely in relation to E-Learning and educational applications for a period of one (1) year commencing from 30 April 2004 and is renewable every year thereafter at the option of LES. The licence has been renewed for a further year, and will now expire on 30 April 2006. A license fee of SGD25,000 is payable to NCG per annum. Pok Yang Ming @ Fook Yon Men has and controls 50% of the shareholding in NCG. Pok Yang Ming @ Fook Yon Men is Pok Vic Tor and Pok Vic Sent's father.

All related party transactions will be monitored by the Audit Committee to ensure that all such transactions entered into by the LET Group with the related parties are on arms' length basis and on no-less favourable terms than those normally obtainable on that basis.

9.4 TRANSACTIONS OF UNUSUAL NATURE OR CONDITION

There is no transaction that is unusual in its nature or condition, involving goods, services, or tangible or intangible assets, to which LET or LES was a party in respect of the FYE 30 April 2005, and for the subsequent financial period immediately preceeding 30 September 2005.

9.5 OUTSTANDING LOANS TO/OR FOR THE BENEFIT OF THE RELATED PARTIES

There is no amount of outstanding loan (including guarantees of any kind) that has been made by LET or LES to or for the benefit of any director, substantial shareholder and/or persons connected with such director and/or substantial shareholder, as at 30 September 2005.

9. OTHER INFORMATION ON THE LET GROUP *(Cont'd)*

9.6 INTEREST IN SIMILAR BUSINESS

Save as disclosed below, none of the Directors and substantial shareholders of LET has any interest, direct or indirect, in any other business or company which is carrying on a business similar to that as LET and/or LES.

9.6.1 EPL's principal activities are in the provision of educational software and programmes, which includes E-Learning products. Whilst the LET Group may from time to time supply E-Learning products to EPL or collaborate with EPL in the ordinary course of business, EPL similarly supplies E-Learning products to schools in Singapore. Nevertheless, the E-Learning products of EPL are largely targeted at the pre-school market, a market in which the LET Group is not presently involved. The LET Group's E-Learning target markets include primary and secondary schools. The LET Group also provides education services such as sports-related and enrichment programmes which EPL does not presently offer to schools.

9.6.2 PELH's principal activities include the production of E-Learning products, including educational CD-ROMs and Web-based educational products. Notwithstanding that PELH is also involved in the business of provision of E-Learning products, PELH's main focus is in enabling publishers to put into electronic form their educational resources whereas the LET Group's main focus is in the public sector market.

9.7 INTEREST IN MATERIAL ASSETS ACQUIRED, DISPOSED OR LEASED

Other than the Acquisition, none of the Directors or substantial shareholders of LET has any interest, direct or indirect, in any promotion of, or in, any material asset, within the two (2) years preceding the date of this Prospectus, acquired or disposed of by, or leased to LET or LES, or is proposed to be acquired or disposed of by or leased to LET or LES.

9.8 DECLARATIONS OF NO CONFLICT BY ADVISERS

Hwang-DBS confirms that there is no existing or potential conflict of interest in its capacity as the Adviser for the Public Issue.

Messrs. Ernst & Young confirms that there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants for the Public Issue.

Messrs. Zain & Co. confirms that there is no existing or potential conflict of interest in its capacity as the Solicitors for the Public Issue.

Messrs. Yoong & Partners confirms that there is no existing or potential conflict of interest in its capacity as the Expert for the Expert's Report/Legal Opinion pertaining to LES for the Public Issue.

Infocredit D&B confirms that there is no existing or potential conflict of interest in its capacity as the Independent Market Research Consultant for the Public Issue.

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10.1 PROFORMA CONSOLIDATED INCOME STATEMENT

The following table sets out a summary of the proforma consolidated income statement of the LET Group for the eleven and a half (11.5) months financial period ended 30 September 2001, seven (7) months financial period ended 30 April 2002 and the three (3) financial years ended 30 April 2005 based on the assumption that the current structure of the LET Group has been in existence throughout the financial years and period under review. The following table is presented for illustrative purposes only and has been extracted from the Accountant's Report set out in Section 11 of this Prospectus and should be read in conjunction with the notes and assumptions thereto.

	Eleven and a half (11.5) months financial period ended 30 September	Seven (7) months financial period ended 30 April		FYE 30 April	
	2001	2002	2003	2004	2005
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	696	509	4,063	11,233	16,044
EBITDA	(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)
LBT/PBT	(795)	(1,592)	223	1,668	6,904
Tax expense*					
- deferred	-	-	-	58	(613)
(LAT)/PAT	(795)	(1,592)	223	1,726	6,291
No. of ordinary shares ('000)^	52,750	52,750	52,750	52,750	52,750
Proforma gross LPS/EPS (sen)	(1.51)	(3.02)	0.42	3.16	13.09
Proforma LPS/EPS (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

Notes:

#	*Less than RM500*
*	*There was no tax charge for the financial periods ended 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 FYE 30 April 2005. Deferred taxation arose in 2005 primarily from taxable temporary differences in respect of development costs incurred by LES.*
^	*Based on enlarged share capital of LET after Acquisition but before Public Issue and Rights Issue.*
(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.*

10.2 FINANCIAL INFORMATION ANALYSIS

10.2.1 Revenue Analysis

A segmental analysis of the revenue of the LET Group is as follows.

	<-----Financial period/year ended----->				
	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
By Company					
LES	696	509	4,063	11,233	10,261
LET	-	-	-	-	5,783
Proforma Group	696	509	4,063	11,233	16,044
By Business Segments					
Educational Services	696	463	2,976	5,126	3,831
E-Learning	-	46	1,087	6,107	12,213
Proforma Group	696	509	4,063	11,233	16,044
By Geography					
Singapore	696	509	3,369	7,449	10,185
Malaysia	-	-	694	2,734	2,056
Hong Kong	-	-	-	1,050	-
Indonesia	-	-	-	-	3,803
Proforma Group	696	509	4,063	11,233	16,044

Commentary on Revenue:

For the financial period ended 30 September 2001, revenue of RM0.7 million was generated solely from conducting the CTY programme.

The revenue decreased by RM0.2 million or 26.9% to RM0.5 million for the financial period ended 30 April 2002, which is mainly attributed to the following:

(i) CTY programmes contributed RM0.4 million as compared to pro-rated revenue of RM0.4 million for the year period ended 30 September 2001; and

(ii) E-Learning sales contributed RM0.1 million as a result of several educational institutions purchasing the new Dr. Series E-learning products.

The revenue increased by RM3.6 million or more than 100% to RM4.1 million for the FYE 30 April 2003, which is mainly due to the following:

(i) increase in subscription fee income relating to Educational Services division by RM1.6 million due to increase in the number of educational institutions serviced;

(ii) increase in coaching income relating to Educational Services division by RM0.8 million due to increase in number of users trained as a result of more educational institutions serviced; and

(iii) revenue from E-Learning products of approximately RM1.1 million to an educational institution and Ednovation Berhad.

The revenue increased by RM7.2 million or more than 100% to RM11.2 million for FYE 30 April 2004 mainly due to the following:

(i) increase in subscription fee income relating to Educational Services division by RM2.2 million due to increase in the number of educational institutions serviced; and

(ii) the increase in the E-Learning segment which is attributed to the new deliveries of E-Learning products to Malaysia and Hong Kong as well as the completion of the learning programmes within the stipulated time in the agreements with LES' customers.

The revenue for the FYE 30 April 2005 increased by RM4.8 million or 43% to RM16.0 million mainly due to the following:

(i) the increase in revenue contribution from the E-Learning segment which is attributed to the sale of E-Learning products to new market being the secondary school segment in Singapore and the securing of two (2) E-Learning contracts amounting to RM6.95 million, one of which helped the Group to penetrate into new regional market like Indonesia; and

(ii) the reduction in revenue contribution from the Education Services division due to the shortening of an academic week in Singaporean schools and the resulting CTY programmes reduction.

10.2.2 LBT/PBT Analysis

A segmental analysis of the LBT/ PBT of the LET Group is as follows.

	<------Financial period/year ended------>				
	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**
By Company					
LES	(795)	(1,592)	223	1,668	1,631
LET	-	-	-	-	5,273
Proforma Group	(795)	(1,592)	223	1,668	6,904
By Business Segments					
Educational Services	(795)	(1,481)	125	822	587
E-Learning	-	(111)	98	846	6,317
Proforma Group	(795)	(1,592)	223	1,668	6,904

Commentary on LBT/PBT:

The LBT of LET Group deteriorated from an operating loss of RM0.8 million for the financial period ended 30 September in 2001 to RM1.6 million for the financial period ended 30 April 2002 mainly due to the decrease in gross profit margin and revenue earned as well as an increase in staff cost in the period ended 30 April 2002, in anticipation of expansion of activities.

The PBT improved by more than 100% to RM0.2 million for the FYE 30 April 2003 mainly due to economies of scale and receipt of government grant amounting to approximately RM1.6 million, offsetted by an increase in operating costs in line with the higher level of activities for the FYE 30 April 2003.

The PBT further improved by RM1.4 million or more than 100% to RM1.7 million for the FYE 30 April 2004 mainly attributable to the economies of scale in line with the rise in revenue of the LET Group.

For the FYE 30 April 2005, the PBT improved by more than 100% to RM6.9 million mainly attributable to the economies of scale in line with the rise in revenue of the LET Group, with a higher revenue contribution from E-Learning division which has a higher profit margin in comparison to the Education Services division.

10.3 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND MATERIAL LITIGATION

10.3.1 Working Capital

The Directors of LET are of the opinion that, after taking into account the cashflow forecast, banking facilities available and the proceeds from the Rights Issue and Public Issue, the LET Group will have adequate working capital for a period of twelve (12) months from the date of issuance of the Prospectus.

10.3.2 Borrowings

As at 30 September 2005, the LET Group has RM566,842 in outstanding borrowings, all of which are interest bearing, the summary of which is as follows:

Outstanding borrowings	**SGD**	**RM**
Payable within twelve (12) months		
Interest bearing	254,189	566,842

There has been no default on payments of either interest and/or principal sums in respect of any borrowings throughout the past FYE 30 April 2005 and the subsequent financial period immediately preceeding 30 September 2005.

10.3.3 Contingent Liabilities

As at 30 September 2005, the Directors of LET are not aware of any contingent liability which, upon becoming enforceable, may have a material impact on the financial performance or financial position of the LET Group.

10.3.4 Capital Commitments

As at 30 September 2005, the Directors of LET are not aware of any capital commitment which, upon becoming enforceable, may have a material impact on the financial position of the LET Group.

10.3.5 Material Litigation

As at 30 September 2005, neither LET nor LES is engaged in any litigation and/or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of LET or LES, and the Directors of LET do not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of LET and/or LES.

10.4 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE

Save as disclosed in this Prospectus, as at 30 September 2005, the financial performance, position and operations of LET and LES are not materially affected by any of the following:-

(i) Known trends or known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in a material favourable or unfavourable impact on the financial performance, position and operations of the Company or the Group;

(ii) Unusual or infrequent events or transactions or any significant economic changes that materially affect the financial performance, position and operations of the Company or the Group;

(iii) Known trends, events, circumstances, uncertainties or commitments that are reasonably likely to make the historical financial information not indicative of future financial performance and position or that the Company and/or the Group reasonably expects will have a material favourable or unfavourable impact on the financial performance, position and operations of the Company or the Group;

10. FINANCIAL INFORMATION *(Cont'd)*

(iv) Material commitments for capital expenditure; and

(v) Substantial increase in revenue attributable to prices, volumes of products being sold, introduction of new products and services and/or any other particulars.

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10.5 PROFORMA BALANCE SHEET AND REPORTING ACCOUNTANTS' LETTER THEREON

10.5.1 The following table sets out the summary of the Proforma Consolidated Balance Sheets of the LET Group as at 30 April 2005, for illustrative purposes only, to show the effects of the Rights Issue, the Public Issue and the utilisation of Public Issue and Rights Issue proceeds on the assumption that the Listing will be completed as at that date, and had been prepared on bases and accounting principles consistent with those normally adopted in the preparation of audited financial statements of the LET Group, and should be read with the notes and assumptions to the proforma consolidated balance sheets of the LET Group as set forth in Section 10.5.2 and Section 11 of this Prospectus.

	Audited as at 30 April 2005 RM'000	Proforma I After Rights Issue RM'000	Proforma II After Proforma I and Public Issue RM'000	Proforma III After Proforma II and Utilisation of Public Issue and Rights Issue Proceeds RM'000
NON-CURRENT ASSETS				
Property, plant and equipment	688	688	688	6,288
Developments costs	2,670	2,670	2,670	2,670
Goodwill	30	30	30	30
	3,388	3,388	3,388	8,988
CURRENT ASSETS				
Trade debtors#	10,640	10,640	10,640	10,640
Other debtors, deposits and prepayments	914	914	914	914
Fixed Deposit	230	230	230	230
Cash and bank balances	256	5,531	20,806	13,406
	12,040	17,315	32,590	25,190
CURRENT LIABILITIES				
Other creditors and accruals	2,383	2,383	2,383	2,383
Finance lease creditors	27	27	27	27
Bank overdrafts (secured)	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	5,275	10,550	13,800	13,800
Share premium	151	151	12,176	10,376
Other reserves	2,881	2,881	2,881	2,881
Retained profits	3,553	3,553	3,553	3,553
	11,860	17,135	32,410	30,610
NON-CURRENT LIABILITY				
Deferred taxation	560	560	560	560
	12,420	17,695	32,970	31,170
Number of shares in issue	52,750,000	105,500,000	138,000,000	138,000,000
Net Tangible Assets (RM'000)	9,160	14,435	29,710	27,910
Net Tangible Assets per share (RM)	0.17	0.14	0.22	0.20

Note:

\# *The Directors of the Company are of the opinion that the outstanding trade receivables of the Group is collectible in view of the historical collection trends of the Group, repayment plan via installments and the customer profiles of the Group which are primarily made up of schools and governmental education agencies/ministries. Further details on the trade debtors have been set out in Sub-Section G(5) of Section 11 of this Prospectus.*

10.5.2 REPORTING ACCOUNTANTS' REPORT ON PROFORMA CONSOLIDATED BALANCE SHEETS
(Prepared for inclusion in the Prospectus)

ERNST & YOUNG
AF: 0039

■ Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur, Malaysia

Mail Address:
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50734 Kuala Lumpur, Malaysia

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Reporting Accountants' Report on Pro Forma Consolidated Balance Sheets
(Prepared for 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

LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
PRO FORMA CONSOLIDATED BALANCE SHEETS
AS AT 30 APRIL 2005

We report on the pro forma consolidated balance sheets set out in section 10.5 of the Prospectus to be dated 27 October 2005, which have been prepared for illustrative purposes only, to provide information about how the consolidated balance sheet of **LITESPEED EDUCATION TECHNOLOGIES BERHAD** and its subsidiary, namely, Litespeed Education Pte Ltd ("LES"), (collectively known as "the Group") as at 30 April 2005 that has been presented might have been affected by the public issue of 32,500,000 new LET Shares at an issue price of 47 sen per share ("Public Issue") payable in full upon application and the proposed admission to the Official List and the listing of and quotation for the entire enlarged issued and paid-up share capital of LET of RM13,800,000 comprising 138,000,000 LET Shares on the MESDAQ Market of Bursa Malaysia Securities Berhad.

It is the responsibility solely of the directors of the Group to prepare the pro forma consolidated balance sheets in accordance with the requirements of the Securities Commission Prospectus Guidelines in respect of Public Offerings ("the Guidelines").

It is our responsibility to form an opinion, as required by the Guidelines, and to report our opinion to you. Our work consisted primarily of comparing the unadjusted financial information presented with their original form, considering the adjustments and discussing the pro forma consolidated balance sheets with responsible officers of LET. Our work involved no independent examination of any of the underlying financial information other than the review of the audited financial statements of the Group that included the audited consolidated balance sheet of LET as at 30 April 2005, on which were reported to the members of the Company as of the date of the audit report.

ERNST & YOUNG
AF: 0039

In our opinion:

(a) the pro forma consolidated balance sheets have been properly compiled on the bases stated; and

(b) within the context of the assumed date of the Public Issue:

  (i) such bases are consistent with the accounting policies of the LET; and

  (ii) the adjustments set out are appropriate for the purposes of the pro forma consolidated balance sheets pursuant to the Guidelines.

The pro forma consolidated balance sheets set out in Section 10.5 of the Prospectus and this letter have been prepared solely for the purposes stated above, in connection with the aforementioned Public Issue. This letter is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

Yours faithfully

ERNST & YOUNG	Kua Choo Kai
AF:0039	No. 2030/03/06 (J)
Chartered Accountants	Partner
Kuala Lumpur, Malaysia	

LITESPEED EDUCATION TECHNOLOGIES BERHAD
PRO FORMA CONSOLIDATED BALANCE SHEETS AS AT 30 APRIL 2005

The pro forma consolidated balance sheets as set out below have been prepared for illustrative purposes only to show the effects of the Proposals on the audited consolidated balance sheet as at 30 April 2005, had the Proposals been implemented and completed on that date, and by application of the accounting policies of Litespeed Education Technologies Berhad .

	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	688	688	688	6,288
Developments costs	2,670	2,670	2,670	2,670
Goodwill	30	30	30	30
	3,388	3,388	3,388	8,988
CURRENT ASSETS				
Trade debtors	10,640	10,640	10,640	10,640
Other debtors, deposits and prepayments	914	914	914	914
Fixed deposit	230	230	230	230
Cash and bank balances	256	5,531	20,806	13,406
	12,040	17,315	32,590	25,190
CURRENT LIABILITIES				
Other creditors and accruals	2,383	2,383	2,383	2,383
Finance lease creditors	27	27	27	27
Bank overdrafts (secured)	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	5,275	10,550	13,800	13,800
Share premium	151	151	12,176	10,376
Retained profits	3,553	3,553	3,553	3,553
Other reserves	2,881	2,881	2,881	2,881
	11,860	17,135	32,410	30,610
NON-CURRENT LIABILITY				
Deferred taxation	560	560	560	560
	12,420	17,695	32,970	31,170

ERNST & YOUNG (AF: 0039)
Chartered Accountants, Kuala Lumpur
For identification purposes only

LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
NOTES TO THE PRO FORMA CONSOLIDATED BALANCE SHEETS

1. The pro forma consolidated balance sheets have been prepared for illustrative purposes only to show the effects of the Public Issue on the audited consolidated balance sheets as at 30 April 2005 had the Public Issue been implemented and completed on that date by way of incorporating the adjustments as stated in Notes 2 to 4 below.

2. Pro forma I reflects the implementation of rights issue of 52,750,000 new LET shares on the basis of one (1) new LET share for every existing LET shares held at an issue price of 10 sen per LET share;

3. Pro forma II reflects the implementation of the Public Issue of 32,500,000 new LET Shares at an issue price of 47 sen per share payable in full upon application and the proposed admission to the Official List and the listing of and quotation for the entire enlarged issued and paid-up share of LET of RM13,800,000 LET comprising 138,000,000 LET Shares on the MESDAQ Market of Bursa Malaysia Securities Berhad; and

   The proceeds arising from the Rights and Public Issues will be utilised as follows:

		RM'000
(a)	Regional offices set-up	8,500
(b)	Research and development expenditure	7,700
(c)	Working capital	2,550
(d)	Listing expenses	1,800
		20,550

4. Pro forma III reflects the utilisation of proceeds from the rights and public issues. The estimated listing expenses of RM1,800,000 is to be set off against the share premium arising. A portion of the proceeds of RM5,600,000 will be utilised to set up regional offices and is reflected as additions to property, plant and equipment.

10.6 CONSOLIDATED PROFIT FORECAST AND REPORTING ACCOUNTANTS' LETTER THEREON

10.6.1 The consolidated profit forecast of the LET Group for the FYE 30 April 2006, respectively, is as follow:

	Profit Forecast for FYE 30 April 2006
	RM'000
Consolidated Revenue	19,886
Consolidated PBT	7,287
Add: Taxation	224*
Consolidated PAT	7,511

Based on enlarged and paid-up share capital of 138,000,000 LET Shares after Public Issue

Gross EPS (sen)	5.3
Net EPS (sen)	5.4
Net PE multiple based on issue price of 47 sen per Public Share (times)	8.6

Note:

* *The portion of deferred taxation recognised in the FYE 30 April 2005, which arose from taxable temporary differences in respect of development costs is expected to be reversed in the FYE 30 April 2006.*

The consolidated profit forecast of the LET Group for the FYE 30 April 2006 has been prepared based on a set of assumptions as set out in the report prepared by the Reporting Accountant which is set out in Section 10.6.2 of this Prospectus and have been prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of LET and its subsidiary.

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10.6.2 REPORTING ACCOUNTANTS' LETTER ON CONSOLIDATED PROFIT FORECAST
(Prepared for inclusion in the Prospectus)

ERNST & YOUNG
AF: 0039

■ Chartered Accountants
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Reporting Accountants' Report on Profit Forecast
(Prepared for 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

LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 30 APRIL 2006

We have reviewed the forecast of consolidated profit after taxation of **LITESPEED EDUCATION TECHNOLOGIES BERHAD** and its subsidiary, Litespeed Education Pte Ltd ("LES"), (collectively known as "the Group") for the year ending 30 April 2006 as set out in Section 10.6 of the Prospectus to be dated 27 October 2005, in accordance with the professional standard in Malaysia applicable to the review of forecast, AI3400. The forecast have been prepared in connection with the Public Issue of 32,500,000 new LET Shares at an issue price of 47 sen per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of LET of RM13,800,000 comprising 138,000,000 LET Shares on the MESDAQ Market of Bursa Malaysia Securities Berhad.

Our review has been undertaken to enable us to form an opinion as to whether the forecast, in all material respects, are properly prepared on the basis of the assumptions made by the directors as set out in Section 10.6 of the Prospectus and are presented on a basis consistent with the accounting policies adopted and disclosed by the Group in their audited financial statements for the financial year ended 30 April 2005. The directors of the Group are solely responsible for the preparation of the profit forecast and the assumptions on which they are based.

A forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). In particular, forecast of consolidated profit after taxation are substantially dependent on the achievability of the Specific Assumptions as set out in Section 10.6 of the Prospectus. While information may be available to support the assumptions on which the forecast are based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variations could be material.

Subject to the matters stated in the preceding paragraphs, in our opinion, the forecast of consolidated profit after taxation, so far as the calculations are concerned, have been properly compiled on the basis of the assumptions made by the directors and are presented on a basis consistent with the accounting policies normally adopted by the Group.

ERNST & YOUNG
AF: 0039

The forecast as set out in Section 10.6 of the Prospectus and this letter have been prepared for inclusion in the Prospectus. This letter is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

Yours faithfully,

ERNST & YOUNG
AF:0039
Chartered Accountants
Kuala Lumpur, Malaysia

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

LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 30 APRIL 2006

The Directors of LET forecast the consolidated profit after taxation for the financial year ending 30 April 2006, will be as follows:

	Year Ending 30 April 2006 RM'000
Profit after taxation	7,511

The profit forecast for the financial year ending 2006 have been prepared based on a set of assumptions made by the directors, which includes significant assumptions about future events and outlook that may not necessarily occur. In particular, the forecast are dependent on the achievability of the Specific Assumptions as set out below. Forecast of results will be materially affected by economic, other circumstances and should the actual events differ from those specific assumptions, and for these reasons, the actual results may vary considerably from the forecast.

The principal assumptions underlying the profit forecast for the financial year ending 30 April 2006 are as follows:

Specific Assumptions

(i) The Listing is to be completed by 30 November 2005.

(ii) In respect of the "Catch Them Young" ("CTY") program, the Group will be able to conclude sales to approximately 850 students at an average selling price of RM1,700 per student;

(iii) In respect of the E-Learning products sold in Singapore, it is anticipated that the Group will be able to sell 72 units of the program at an average selling price of RM70,000 per unit in the financial year ending 30 April 2006;

(iv) The Group also anticipates to conclude the following significant contracts with the relevant Ministries of Education in the Asian region:

Program	Country	Contract Value	Remarks
Dr Series	Malaysia	RM2.5million	On joint venture basis with Kries Sdn Bhd
I-Read Series- Indonesia	Indonesia	RM3.3million	On joint venture basis with I-Read Pte Ltd
Teachers Portal	Malaysia	RM4.7million	On joint venture basis with Kries Sdn Bhd

All contracts are successfully implemented and completed within the forecast year. The contribution of revenue from the local and overseas markets are assumed to be at 37 % and 63 % of the total revenue respectively;

(v) The Group will be able to complete the "HKIEd Project" in Hong Kong SAR at a contract value of RM1.78 million;

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LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 30 APRIL 2006 (CONTD.)

Specific Assumptions (Contd.)

(vi) The Group anticipates to venture successfully into Vietnam and anticipates its market to contribute approximately RM1.1 million in revenue;

(vii) Overall gross profit margin of 66% for the financial year ending 30 April 2006 will be achieved as forecasted;

(viii) The Group will achieve its forecasted fixed deposit interest income of RM335,000;

(ix) Development costs of RM2,617,000, which will be incurred during the financial year ending 30 April 2006, will meet the criteria for capitalisation as specified in MASB 4 – Research and Development Costs; and

(x) There is no taxation charge for the business income arising from the profits from LET in view of the MSC Status granted to LET.

General Assumptions

(i) There will be no material changes in the present legislation or government regulations, lending guidelines and other operating guidelines and regulations that will adversely affect the operation of the Group. The profit forecast have been prepared based on the prevailing economic conditions and currently available information;

(ii) There will be no significant changes in the principal activities of the Group;

(iii) There will be no significant changes to the prevailing Malaysian, Singaporean and global economic and political conditions which will adversely affect the activities or performance of the Group;

(iv) There will be no material adverse changes in present demand and market conditions for various projects undertaken by the Group;

(v) There will be no material changes in the existing key management personnel which may adversely affect the operations of the Group;

(vi) There will be no significant changes in the accounting and operating policies presently adopted by the Group;

(vii) The rate of inflation will not fluctuate significantly from their forecasted levels;

(viii) Existing financing facilities will remain available to the Group, expiring financing facilities will be renewed and prevailing interest rate will not change. The Group will also be able to obtain new financing facilities when necessary at interest rates approximating those currently made available to it;

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LITESPEED EDUCATION TECHNOLOGIES BERHAD ("LET")
CONSOLIDATED PROFIT FORECAST FOR THE YEAR ENDING 30 APRIL 2006 (CONTD.)

General Assumptions (Contd.)

(ix) There will be sufficient supply of skilled and unskilled labour, materials, services and equipment to meet the operational requirements of the Group;

(x) There will not arise any instances or events requiring material provision for impairment in value of any assets of the Group;

(xi) There will be no significant fluctuations in foreign currency exchange rates, which would adversely affect the operations of the Group;

(xii) There will be no material increase in wages, contract costs, cost of raw materials and goods purchased, locally or imported, service and other costs that will adversely affect the activities and operations of the Group;

(xiii) The Group will not be engaged in any material litigation and there will be no legal proceedings, which will adversely affect its activities or performance or give rise to any additional contingent liabilities, which will materially affect its business; and

(xiv) There will be no delays in planning and obtaining necessary approvals in respect of the projects to be undertaken by the Group. The volume, timing and pricing of the projects will be achieved as planned.

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10.7 DIRECTORS' ANALYSIS OF THE CONSOLIDATED PROFIT FORECAST

The Directors of LET have reviewed and analysed the reasonableness of the bases and assumptions stated therein after due and careful inquiry in arriving at the consolidated profit forecast of the LET Group for the FYE 30 April 2006. The Directors of LET are of the opinion that the consolidated profit forecast is fair and reasonable in light of the future prospects of the LET Group, the future plans and strategies to be adopted by the LET Group and after taking into consideration the estimated level of gearing, liquidity and working capital requirements of the Group.

For the FYE 30 April 2006, the Group forecasted to achieve revenue of approximately RM19.9 million, an increase of RM3.8 million or 24% compared to previous financial year of RM16.0 million. The Group anticipates further contracts being awarded to the Group by the Malaysian, Hong Kong, Indonesian and Vietnam Governments and an increase in number of educational institutions purchasing the E-Learning products in Singapore. The Group forecasted a steady state in the number of educational institutions serviced and in the number of students in Singapore for the Education Services Division. The PBT is forecasted to increase from RM6.9 million for the FYE 30 April 2005 to RM7.3 million for FYE 30 April 2006, an increase of approximately 6%, mainly due to scalability and sustainability of the regional E-Learning business.

10.8 SENSITIVITY ANALYSIS

The following sensitivity analysis is prepared based on the forecast assumptions as set out in Section 10.6 of this Prospectus with the intention to show the possible impact on the forecast consolidated profit assuming all things remain unchanged except for 5% and 10% upward and downward variations in the selling price and production costs. Notwithstanding the impact of the variations in revenue and production cost, there may exist other factors that may not have been taken into account, which variations may have a significant impact, either positively or negatively, on the financials of the Group. The sensitivity analysis is as follows:

(a) **Variation in selling price**

	Profit Forecast for FYE 30 April 2006	
	PBT RM'000	**PAT RM'000**
As forecasted	7,287	7,511
Increase by 5%	8,282	8,441
Increase by 10%	9,276	9,371
Decrease by 5%	6,293	6,582
Decrease by 10%	5,299	5,652

(b) **Variation in production costs**

	Profit Forecast for FYE 30 April 2006	
	PBT RM'000	**PAT RM'000**
As forecasted	7,287	7,511
Increase by 5%	6,951	7,224
Increase by 10%	6,615	6,937
Decrease by 5%	7,624	7,798
Decrease by 10%	7,960	8,085

10.9 DIVIDEND FORECAST

It is the policy of the Directors of the Company to recommend dividends to allow shareholders to participate in the profits of the Company as well as leaving adequate reserves for the future growth of the Group.

For the FYE 30 April 2006, the Directors of the Company do not intend to declare any dividend. Nevertheless, the Directors will endeavour to declare dividends in the future, subject to the profitability of the Group for the relevant financial year, adequacy of reserves for the future growth of the Group and suffiency of cash flows to meet any dividend payments.

Notwithstanding the above, the Directors of the Company have full discretion not to propose any future dividend payment as and when deemed necessary, if it is in the best interest of the Company.

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