

8. SUMMARY OF THE 3-YEAR BUSINESS DEVELOPMENT PLAN

8.1 Business Overview

We were incorporated in Malaysia under the Act on 22 August 2005 as a private limited company known as Pearl Discovery Sdn Bhd. On 3 October 2005, we changed our name to Key ASIC Sdn Bhd. Subsequently, we were converted into a public limited company on 13 June 2007 and assumed our present name. On 14 April 2006, we were awarded with MSC status by MDeC.

Our Company is principally engaged in fabless high-end turnkey ASIC/SoC design services and development of IPs whilst our subsidiary is principally engaged in the business of providing manufacturing management services to fabless design companies, providing design-for-manufacturing and design-for-test consultation, and the sale of wafer and SoC products.

8.2 Revenue Models

Our revenue model is derived from 4 principal sources:

- (i) NRE charges are one time charges for the engineering effort in designing the chips or IP;
- (ii) IP licensing fee is a licensing fee charged for the usage of IPs in customer's design;
- (iii) Royalty fee is a recurring income paid by customers to our Group for every chip manufactured using the IP licensed from us; and
- (iv) Sale of chips are the sale of completed chips in the form of packaged chips or wafer.

8.3 Human Resource Development Plan

We have an aggressive human resource plan to hire more engineers to be based in the R&D centre in Malaysia. Our Group also places great emphasis in ensuring the continuous training and development of our employees. Our projected human resource plan for the FYE 2007 to FYE 2009 is as follows:

Categories	FYE 2007	FYE 2008	FYE 2009
Directors	7	7	7
Managerial & Professional	6	7	7
R&D ASIC/SoC Engineers	16	29	38
R&D Production Engineers	-	5	7
Sales & Marketing	-	2	3
Operations	1	3	4
TOTAL	30	53	66

8. SUMMARY OF THE 3-YEAR BUSINESS DEVELOPMENT PLAN (CONT'D)

8.4 Sales and Marketing Strategies

- (i) To focus on high-end turnkey markets where most design houses do not have the capability in designing;
- (ii) To target customers in the consumer electronic and communication industry due to the increased usage of consumer electronic and communication products such as mobile phones, MP3, DVD and PMP;
- (iii) To target high volume production chips to achieve economies of scale and provide us with sizeable recurring income;
- (iv) To target in providing services to fabless design houses, IDM, system ASIC companies and COT; and
- (v) To collaborate with design and testing partners and foundries to penetrate and to gain market share.

8.5 R&D Plan

Our management plans to expand the R&D team in the next 2 years. The total R&D staff is expected to increase to 49 personnel by the FYE 2009.

FYE	2007	2008	2009
Total R&D staff*	20	38	49

Note:

* Including R&D staff who are in managerial position.

Our Group conducts research in core areas such as developing and commercialising of silicon IPs, designing of ASIC and SoC (including prototype) with high performance, low power and small die size, turnkey services including back-end testing and fabrication manufacturing technology development and verification. We base our engineering development against the Silterra's process roadmap. This is to ensure that we are able to provide design expertise and validate the new logic and mixed signal process technologies into Silterra. Our main focus in the near term is to provide superior design flow and optimisation technology to quickly and cost-effectively meet SoC requirements for high-volume, high performance, and low cost consumer applications.

We have budgeted an annual R&D expenditure of about 24% of our annual consolidated revenue up to the FYE 2009, to finance our R&D activities.

8. SUMMARY OF THE 3-YEAR BUSINESS DEVELOPMENT PLAN (CONT'D)

8.6 Engineering Development Plan

2007

- Focus on porting IPs and plan to complete porting of all defined IPs on Silterra's 0.13 μ process technology;
- Focus on developing high performance ARM926 CPU at 333MHz on Silterra's 0.13 μ process technology;
- Work closely with Silterra to develop and fine tune the 0.09 μ device model; and
- Focus on improving the ASIC design flow to improve product testing and characterisation.

2008

- Focus on new IP development on Silterra's 0.11 μ and 0.09 μ process technologies;
- Focus on porting and characterising existing IP's into Silterra's 0.09 μ and 0.065 μ technologies; and
- Work on low power CPU, KeyWare, low power custom memory and optimising circuit techniques.

2009

- Focus on developing, porting, characterisation of IPs on Silterra's 0.065 μ ; and
- Focus on porting developing new methodology to support the use of multiple cores in a single SoC.

8.7 Conclusion

Our objective is to be one of the leading premier fabless IC design houses in Malaysia, providing high-end design and IP development services to its customers. With an experienced management team, multi-disciplined technical design expertise, rich IP library, proven technologies and global customers, we have chartered tremendous growth since 2005.

Emulating the successful business model of Faraday Technology Corporation and Global Unichip Corporation, we will continue to improve our competitive edge by continuously optimising the better performance, lower power consumption, smaller size and cheaper cost chips. We believe we are well-positioned to capture the significant benefit from the on-going evolvement of the industry trend as well as the growth of consumer electronics and communication products.

9. APPROVALS AND CONDITIONS

9.1 APPROVALS

The Listing Scheme was approved by the SC via its letter dated 19 September 2007, and is subject to the terms and conditions as stated in Section 9.2 of this Prospectus.

We had sought a waiver from the SC from complying with Paragraph 9.01 of the Prospectus Guidelines in relation to the disclosure of information of certain substantial shareholders of our Company in the Prospectus. In this regard, the SC had, on 11 December 2007, partially approved the waiver sought.

We had also sought the approval of the SC for the revision of the pricing mechanism and allocation of the Public Issue of 202,000,000 new Key ASIC Shares. In this regard, the SC approved the revision on 13 December 2007.

9.2 CONDITIONS

Details of the Conditions Imposed by the SC and Status of Compliance

Conditions imposed on the Public Issue

Conditions	Status of Compliance
(i) Approvals to be obtained from other relevant authorities, if any;	Met.
(ii) Full compliance with all the relevant requirements as specified by the MMLR; and	Noted.
(iii) CIMB /Key ASIC to inform the SC when the proposed flotation on MESDAQ Market is completed.	To be complied.

Waiver sought from compliance with the Prospectus Guidelines

SC's Decision	Status of Compliance
(i) Key ASIC is required to comply with Paragraph 9.01(a) and (b). In respect of Paragraph 9.01(c), Key ASIC/CIMB are required to disclose in the Prospectus, the indirect shareholdings of the said substantial shareholders in Key ASIC.	Met.

We were awarded the MSC status on 14 April 2006 by MDeC and thus, are not subject to any equity condition pursuant to the flotation scheme under the Foreign Investment Committee's guidelines on the acquisition of interests, mergers and take-overs by local and foreign interests.

9. APPROVALS AND CONDITIONS (CONT'D)

9.3 MORATORIUM ON THE DISPOSAL OF SHARES

Under the MMLR, shares held by the Promoters amounting to 45% of the nominal issued and paid-up share capital upon Listing are subject to a moratorium on disposal. Our Promoters will not be allowed to sell, transfer or assign of any part of their interests in Key ASIC Shares under moratorium for a period of 1 year from the date of our admission to the Official List of the MESDAQ Market of Bursa Securities. Thereafter, they are permitted to sell, transfer or, assign up to a maximum of one-third per annum on a straight-line basis of their shareholdings under moratorium. The moratorium period shall expire 3 years from the date of our admission to the Official List of the MESDAQ Market of Bursa Securities.

The Key ASIC Shares held by our Promoters and/or substantial shareholders who are under moratorium are as follows:

	Shareholdings after Public Issue		Shareholdings under moratorium	
	No of Shares	%	No of Shares	%
Direct Interest				
KAL	413,000,000	51.30	228,083,333	28.33
AQSB	133,000,000	16.52	93,916,667	11.67
CTVSB	57,000,000	7.08	40,250,000	5.00
	603,000,000	74.90	362,250,000	45.00

The restriction is specifically endorsed on the notice of allotment and our share certificate representing the shareholdings of our promoters which are under moratorium to ensure that our Share Registrar do not register any transfers not in compliance with the moratorium restrictions.

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10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS

10.1 DECLARATION BY THE ADVISERS

- (i) Our Adviser, CIMB hereby confirms that, as at the date of this Prospectus, there are no existing or potential conflicts of interest in its capacity as the Adviser, Underwriter, Sole Bookrunner, Sole Placement Agent and Sponsor for the Listing.

However, we would like to highlight that CIMB is a wholly-owned subsidiary of CIMBG. CTVSB, our substantial shareholder is a wholly-owned subsidiary of CAVSB, which in turn is a wholly-owned subsidiary of CIMBG. Although CIMB and CTVSB are held by a common holding company, namely CIMBG, both CIMB and CTVSB are in different businesses, and are managed by different senior management personnel. Furthermore, CIMB does not have any interest in the investment made by CTVSB and was not involved in the investment decision made by CTVSB. Accordingly, the objectivity and independence of CIMB is not compromised.

- (ii) We would also like to highlight that Eg Kaa Chee, a senior partner in Messrs. Rajah, Lau & Associates, being our Solicitors for the Listing, is the brother of Eg Kah Yee, the Chairman of our Company. In addition, Messrs. Rajah, Lau & Associates also provide legal services to our Company. A potential conflict of interest situation may arise between Messrs. Rajah, Lau & Associates, in its capacity as our Solicitors for the Listing. In this respect, we have appointed Messrs. Wong Beh & Toh as co-Solicitors for the Listing, and Messrs. Wong Beh & Toh hereby confirm that, as at the date of this Prospectus, there are no existing or potential conflicts of interest in its capacity as co-Solicitors for the Listing.
- (iii) Our Reporting Accountants, Messrs. Tan Chin Huat & Co hereby confirm that, as at the date of this Prospectus, there are no existing or potential conflicts of interest in its capacity as the Reporting Accountants for the Listing.
- (iv) Our Independent Market Researcher, D&B Malaysia hereby confirms that as at the date of this Prospectus, there are no existing or potential conflicts of interest in its capacity as the Independent Market Researcher for the Listing.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (CONT'D)

10.2 RELATED PARTY TRANSACTIONS

Under the MMLR, a “related party transaction” is a transaction entered into by a listed company or its subsidiaries that involves the interests, direct or indirect, of a related party. A “related party” of a listed company is:

- (i) a director; or
- (ii) a major shareholder having an interest in one or more voting shares in a company and the nominal amount of those shares is:
 - (a) equal to or more than 10% of the aggregate of the nominal amounts of all voting shares in the company where such person is the largest shareholder of the company; and
 - (b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the company where such person is the largest shareholder of the company,

of the listed company or its subsidiaries or holding company or the subsidiaries of its holding company and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a director or major shareholder. Further, a related party includes a person connected with such director or major shareholder.

10.2.1 Related Party Transactions between our Group and our Director and/or Substantial Shareholders

Save for the transactions as disclosed below, we do not have any transaction, existing or potential, entered or to be entered by us and our Directors, substantial shareholders, key management and/or person connected to them in respect of the past FYE 2006, 9-month FPE 2007 and estimate 9-month period from 1 October 2007 to 30 June 2008:

(i) Recurrent Related Party Transactions

Our Company, in the ordinary course of business, enters into transactions that are of revenue or trading in nature with related parties (“Recurrent Related Party Transactions”), which are necessary for our day-to-day operations. Our Directors confirm that such Recurrent Related Party Transactions are carried out and will be carried out on an arm’s length basis and on commercial terms which are not more favourable to the related parties than those generally available to third parties and which will not be detrimental to our minority shareholders.

We will make disclosures in our annual report of the aggregate value of transactions conducted based on the nature of the Recurrent Related Party Transactions made, names of the related parties involved and their relationship with our Company during the financial year and in the annual reports for the subsequent financial years.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (CONT'D)

Transacting Parties	Nature of Relationship	Nature of Transaction	Value			Estimate 1 October 2007 to 30 June 2008 RM 000
			Audited		9-month FPE 2007 RM 000	
			FYE 2005 RM 000	FYE 2006 RM 000		
Key ASIC and Silterra	Eg Kah Yee, the Chairman and substantial shareholder of our Company was appointed as the Chief Executive Officer of Silterra in January 2007. Khazanah, the substantial shareholder of AQSB, which in turn is a substantial shareholder of Key ASIC upon conversion of its preference shares to ordinary shares prior to Listing, is also the substantial shareholder of Silterra.	IP Porting Service Agreement with Silterra to grant Silterra IP license designed specifically for Silterra's semiconductor manufacturing process as well as CPU Agreement with Silterra to support and develop Silterra's products utilising the licensed IP.	N/A	N/A	18,724	15,606
		Foundry Service Sales Representative Agreement whereby Key ASIC was appointed as marketing representative for Silterra and was paid commission for introducing customers to Silterra.	N/A	N/A	1,019	2,000
		Fabrication of wafer services	N/A	N/A	86	15,300
Key ASIC and Palette Multimedia Berhad	Eg Kah Yee, the Chairman and substantial shareholder of our Company is also the Chairman/ Managing Director of Palette Multimedia Berhad	Tenancy paid to Palette Multimedia Berhad for the sharing of office premises in Menara Luxor* and Cyberjaya, as well as the supply of goods to Key ASIC.	-	45	25	10
Key ASIC and Key ASIC Inc.	Key ASIC Inc. is a wholly-owned subsidiary of KAL. KAL is also a substantial shareholder of our Company.	Agreement to outsource certain analogue IP development to Key ASIC Inc. as per the IP Porting Service Agreement with Silterra.	-	29,150	13,885	10,030
		Provision of License and Design Fees	-	-	35	-
		Appointment of sales and marketing representatives to Key ASIC pursuant to the Management Agreement dated 1 January 2006.	-	-	-	-
Key ASIC and KAL	KAL is a substantial shareholder of our Company	Licensing of IP and provision of EDA tools by KAL.	14,375	553	6,574	6,035

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (CONT'D)

Transacting Parties	Nature of Relationship	Nature of Transaction	Value			
			Audited			Estimate
			FYE 2005 RM 000	FYE 2006 RM 000	9-month FPE 2007 RM 000	1 October 2007 to 30 June 2008 RM 000
Key ASIC and Essensium NV	Essensium NV is a subsidiary of AQSB, which in turn is a substantial shareholder of our Company	Design and License Agreement where Key ASIC would license specific semiconductor IPs and provide certain design services.	-	-	88	-
Key ASIC and Anchor Bay Technologies. Inc	AQSB, which is a substantial shareholder of Key ASIC upon conversion of its preference shares to ordinary shares prior to Listing, is also the substantial shareholder of Anchor Bay.	Production Agreement whereby Key ASIC to license specific Semiconductor Intellectual Property, provide certain design services, and provide Semiconductor Product.	-	-	-	1,085

Notes:

N/A Not applicable.

* This transaction is no longer subsisting as Key ASIC has moved out of Palette Multimedia Berhad's office in Menara Luxor, Petaling Jaya.

(ii) Non-Recurrent Related Party Transactions

Transacting Parties	Nature of Relationship	Nature of Transaction	Value			
			Audited			Estimate
			FYE 2005 RM 000	FYE 2006 RM 000	9-month FPE 2007 RM 000	1 October 2007 to 30 June 2008 RM 000
Key ASIC and KAGL	KAGL is a substantial shareholder of KAL, which in turn is a substantial shareholder of our Company	Sale commission paid for marketing services carried out for Key ASIC	-	570	-	-
Key ASIC and Rajah, Lau & Associates	Eg Kaa Chee, a senior partner in Messrs. Rajah, Lau & Associates, is the brother of Eg Kah Yee.	Fees for corporate services rendered	6	74	1	150
Key ASIC and Eg Kah Chu	Eg Kah Chu, the owner of RECCE DESIGN, is the sister of Eg Kah Yee	Renovation and provision for fittings	-	6	322	45

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (CONT'D)

10.2.2 Acquisition of Assets

None of our Directors and substantial shareholders have any interest, direct or indirect, in the promotion of, or in any material assets, which have been, within the past FYE 2006, the subsequent period up to 9-month FPE 2007 and immediately preceding the date of this Prospectus, acquired by, disposed of by or leased to us or our Group, or proposed to be acquired by, disposed of by or leased to our Group.

10.2.3 Transactions Entered Into that are Unusual in their Nature or Conditions

Our Group has not entered into any transactions that are unusual in their nature or conditions, involving goods, services, tangible and intangible assets, to which our Company and/or our subsidiary was a party, in respect of the past FYE 2006, the subsequent period up to 9-month FPE 2007 and immediately preceding the date of this Prospectus.

10.2.4 Outstanding Loans

There are no outstanding loans (including guarantees of any kind) made by our Company and/or our subsidiary to or for the benefit of our related parties in respect of the past FYE 2006, the subsequent period up to 9-month FPE 2007, immediately preceding the date of this Prospectus.

10.2.5 Interest in Contracts or Arrangements

Save as disclosed in Section 10.2.1(i), with the exception of a transaction with Palette Multimedia Berhad in relation to the sharing of office premises which is no longer subsisting as we have moved out of Palette Multimedia Berhad's office, there are no contracts and arrangement, existing or proposed, entered into or to be entered into by our Company and/or our subsidiary which involved the interest, direct or indirect, of our Directors or substantial shareholders as at the date of this Prospectus which is significant in relation to the business of our Company and/or subsidiary taken as a whole.

10.3 INTEREST IN SIMILAR TRADE

None of our Directors or substantial shareholders has any interests, direct or indirect, directorships and/or shareholdings in other businesses or corporations carrying on a similar trade of our Group which would give rise to a conflict of interest situation.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (CONT'D)

10.4 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Measures taken/to be taken to address and mitigate potential conflict of interest

Related party transactions, by their very nature, involve a conflict of interest between us and the related parties with whom our Company has entered into such transactions. Any related party transaction or conflict of interest situation involving our Company (including any future related party transaction and conflict of interest situation) must be reviewed by our Audit Committee which would subsequently report to our Board for their further action. If any related party transaction involves any of:

- (a) our Directors;
- (b) our substantial shareholders; or
- (c) persons connected/related to our Directors and/or substantial shareholders,

then:

- (a) the relevant Director; or
- (b) the relevant substantial shareholder; or
- (c) persons connected/related to the relevant Director and/or substantial shareholder

are required to abstain from deliberation and/or voting at the relevant Board meeting and general meeting in deciding on the related party transaction.

Further, our Audit Committee periodically reviews the procedures set by us to monitor related party transactions to ensure that these transactions are carried out on normal commercial terms not more favourable to the related party than those generally available to the third parties, dealt at arm's length basis with our Company and are not detrimental of our minority shareholders.

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11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

The following tables summarise our financial statements based on the audited financial statements of our Company. The financial statements used in the preparation of the financial statements were prepared in accordance with approved accounting standards in Malaysia. The bases and accounting policies used for the purpose of preparing our financial statements below are consistent with those adopted in the preparation of the audited financial statements of our Company for the 9-month FPE 2007. You should read it in conjunction with the management discussion and analysis of financial conditions and results of operations and the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and the related notes as set out in Sections 11.2 and 12.3 of this Prospectus.

11.1.1 Income Statement

The following table is a summary of our proforma consolidated income statements since incorporation up to the FYE 2006 and the 9-month FPE 2006 and FPE 2007, prepared on the assumption that the Group has been in existence throughout the period under review:

	<-----Audited----->		Unaudited	Audited
	22.08.2005*	to FYE 31.12.2005 RM	FPE 2006# RM	FPE 2007 RM
Revenue	-	50,644,477	33,779,672	28,880,660
Cost of sales	-	(43,967,600)	(31,935,504)	(14,479,293)
Gross profit	-	6,676,877	1,844,168	14,401,367
Other income	-	270,475	-	7,200
Other expenses	(7,703,060)	(1,335,816)	(927,318)	(1,927,346)
(LBITDA)/EBITDA	(7,703,060)	5,611,536	916,850	12,481,221
Depreciation	-	(38,819)	(20,456)	(63,561)
Amortisation	(577,942)	-	-	-
Interest income	18,319	81,190	67,549	577,565
(LBT)/PBT	(8,262,683)	5,653,907	963,943	12,995,225
Taxation	(3,664)	(12,574)	(9,846)	(156,172)
(LAT)/PAT	(8,266,347)	5,641,333	954,097	12,839,053
Weighted average no. of ordinary shares in issue (000)	2	23,981,644	21,178,389	32,300,000
Gross EPS ⁽ⁱ⁾ (sen)	N/A	23.58	4.55	40.23
Net EPS ⁽ⁱ⁾ (sen)	N/A	23.52	4.51	39.75
Gross profit margin (%)	N/A	13.18	5.46	49.87
Net profit margin (%)	N/A	11.14	2.82	44.46

Notes:

* Date of incorporation

The income statement for the 9-month FPE 2006 has not been audited and has been prepared for comparison purposes only.

N/A Not applicable

(i) Computed based on the consolidated PBT/PAT divided by the weighted average number of ordinary shares in issue.

11. FINANCIAL INFORMATION (CONT'D)

The audited consolidated financial statement of our Company for the financial period under review has been reported without any qualification.

11.1.2 Consolidated Cashflow Statement of our Company for the FYE 2006 and the 9-month FPE 2007

Financial year ended 30 September	FYE 2006 RM	9-month FPE 2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
PBT	5,653,907	12,995,225
Adjustments for:		
Depreciation of property, plant and equipment	40,944	63,561
Interest income	(81,190)	(577,565)
Operating profit before working capital changes	5,613,661	12,481,221
Changes in working capital		
Increase in trade receivables	(7,109,068)	(7,160,583)
(Increase)/ Decrease in other receivables and prepaid expenses	9,121,354	(1,808,944)
Increase in trade payables	-	86,118
Increase/ (Decrease) in other payables and accrued expenses	(9,378,364)	666,074
Increase in amount owing to holding company	69,840	-
Increase in amount owing to related company	3,454,016	50,787
Cash generated from operating activities	1,771,519	4,314,673
Interest income received	81,190	577,565
Development costs incurred	(829,473)	(801,639)
Tax paid	-	(16,238)
Net cash generated from operating activities	1,023,236	4,074,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(755,484)	(455,787)
Purchase of intangible assets	-	(10,174,000)
Net cash used in investing activities	(755,484)	(10,629,787)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preference shares	19,000,000	-
Net cash from financing activities	19,000,000	-
Net increase /(decrease) in cash and cash equivalents	19,267,752	(6,555,426)
Cash and cash equivalents at beginning of the financial period	230,513	19,498,265
Cash and cash equivalents at end of the financial period	19,498,265	12,942,839
Cash and cash equivalents		
Cash and bank balances	6,190	4,401,977
Fixed deposits with licensed banks	19,492,075	8,540,862
	19,498,265	12,942,839

The audited consolidated financial statement of our Company for the financial period and year under review has been reported without any qualification.

11. FINANCIAL INFORMATION (CONT'D)

11.1.3 Proforma Consolidated Balance Sheet of our Company as at 30 September 2007

Our proforma balance sheets as at 30 September 2007 as set out below have been prepared for illustrative purposes only on the assumption that the Listing had been completed on 30 September 2007 after taking into consideration the Rights Issue, Share Split and Public Issue.

	Audited as at 30 September 2007 RM	I After Rights Issue RM	II After I and Share Split RM	III After II, Public Issue and Utilisation of Proceeds RM
NON-CURRENT ASSETS				
Property, plant and equipment	1,007,030	1,007,030	1,007,030	1,007,030
Intangible assets	36,029,031	36,029,031	36,029,031	36,029,031
CURRENT ASSETS				
Trade receivables	14,269,651	14,269,651	14,269,651	14,269,651
Other receivables and prepaid expenses	1,877,056	1,877,056	1,877,056	1,877,056
Fixed deposits with licensed banks	8,540,862	8,540,862	8,540,862	8,540,862
Cash and bank balances	4,401,977	13,401,977	13,401,977	90,901,977
	<u>29,089,546</u>	<u>38,089,546</u>	<u>38,089,546</u>	<u>115,589,546</u>
CURRENT LIABILITIES				
Trade payables	86,118	86,118	86,118	86,118
Other payables and accrued expenses	794,635	794,635	794,635	794,635
Amount owing to holding company	69,840	69,840	69,840	69,840
Amount owing to related company	3,504,803	3,504,803	3,504,803	3,504,803
Tax liabilities	156,172	156,172	156,172	156,172
	<u>4,611,568</u>	<u>4,611,568</u>	<u>4,611,568</u>	<u>4,611,568</u>
NET CURRENT ASSETS	<u>24,477,968</u>	<u>33,477,978</u>	<u>33,477,978</u>	<u>110,977,978</u>
	<u>61,514,039</u>	<u>70,514,039</u>	<u>70,514,039</u>	<u>148,014,039</u>
FINANCED BY:				
Issued capital	51,300,000	60,300,000	60,300,000	80,500,000
Share premium	-	-	-	57,300,000
Accumulated profit	10,214,039	10,214,039	10,214,039	10,214,039
Shareholders' equity	<u>61,514,039</u>	<u>70,514,039</u>	<u>70,514,039</u>	<u>148,014,039</u>
No. of ordinary shares assumed in issue	51,300,000	60,300,000	603,000,000	805,000,000
NTA (RM)	25,485,008	34,485,008	34,485,008	111,985,008
NTA per share (RM)	0.50	0.57	0.06	0.14

Note:

* After deducting an estimated expense for the Listing of RM3.3 million.

11. FINANCIAL INFORMATION (CONT'D)

The audited consolidated financial statements of our Company for the financial period under review have been reported without any qualification. For more details on the Proforma Consolidated Financial Information, please refer to Section 11.3 of this Prospectus.

11.2 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our Company's financial condition and results of operations since incorporation up to the FYE 2006 and the 9-month FPE 2007 should be read in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and the related notes as set out in Section 12.3 of this Prospectus. The financial data for the 9-month FPE 2006 has not been audited and has been prepared for illustration purposes only as a comparison to the financial data for the 9-month FPE 2007.

This discussion and analysis contains data derived from our audited consolidated financial statements which have been prepared in accordance with the approved accounting standards in Malaysia, and forward-looking statements that involves risks and uncertainties. Our Company's actual results may differ significantly from those projected in the forward-looking statements.

11.2.1 Overview

(i) Revenue

The breakdown of our Company's revenue by product is as follows:

Product	←-----Audited-----→ 22.08.2005 to 31.12.2005				←---Unaudited---→		←-----Audited-----→	
	RM	%	FYE 2006 RM	%	FPE 2006 RM	%	FPE 2007 RM	%
NRE - Service	-	-	50,644,477	100.0	33,779,672	100.0	28,790,010	99.7
RE - Production	-	-	-	-	-	-	90,650	0.3
	-	-	50,644,477	100.0	33,779,672	100.0	28,880,660	100.0

Notes:

NRE – Service Non-recurring engineering services

RE – Production Recurring engineering production

The breakdown of our Company's revenue by location is as follows:

Location	←-----Audited-----→ 22.08.2005 to 31.12.2005				←---Unaudited---→		←-----Audited-----→	
	RM	%	FYE 2006 RM	%	FPE 2006 RM	%	FPE 2007 RM	%
Local sales	-	-	44,224,677	87.3	33,228,672	98.4	25,059,745	86.8
Export sales	-	-	6,419,800	12.7	551,000	1.6	3,820,915	13.2
	-	-	50,644,477	100.0	33,779,672	100.0	28,880,660	100.0

11. FINANCIAL INFORMATION (CONT'D)

We commence our business activity in year 2006 and therefore, we have no revenue recorded for the financial period from 22 August 2005 to 31 December 2005 other than interest income derived from placement of fixed deposits. The entire revenue contributions for the FYE 2006 were NRE fees collected from our main ASIC/SoC design services. NRE charge is one time charges for the engineering effort in designing the chips or IPs.

We export our products mainly to Taiwan and our major customer in Taiwan is Global Grand Group Ltd for the FYE 2006 and MTEK Limited for the 9-months FPE 2007 whilst our local sales are mainly to Silterra.

Due to the nature of our business, we transact our businesses with our customers and direct suppliers in USD. The impact on the current strengthening of RM against USD has no major direct impact on the cash flow of our Company since payments to suppliers are in the same currency and moves in tandem with the collection from customers. However, any unfavorable movement of the USD exchange rate against RM will impact our profitability since we book our transactions in RM.

At the same time, we also licensed our IPs from overseas and outsource certain design works to Key ASIC Inc. for the FYE 2006 and 9-month FPE 2007. Our cost of sales is also derived from outsourcing of wafer fabrication services to KAL mainly in the FYE 2006. These costs of sales are also denominated in USD, which provides a natural hedge, ensuring that we are not adversely affected by unfavourable foreign currency movements.

(ii) Cost of sales

The breakdown of our Company's cost of sales by product is as follows:

Product	←-----Audited-----→ 22.08.2005 to 31.12.2005				←----Unaudited----→		←-----Audited-----→	
	RM	%	RM	%	RM	%	RM	%
NRE - Service	-	-	43,967,600	100.0	31,935,504	100.0	14,393,175	99.4
RE - Production	-	-	-	-	-	-	86,118	0.6
	-	-	43,967,600	100.0	31,935,504	100.0	14,479,293	100.0

Our cost of sales mainly comprised direct design costs to which we have outsourced some of our design work to our sister company, Key ASIC Inc. located in the USA. In the semiconductor industry, time-to-market, cost reduction, resource scarcity and the lack-of expertise are the key factors driving outsourcing.

11. FINANCIAL INFORMATION (CONT'D)

(iii) Gross profit margin

The breakdown of our Company's gross profit margin by product is as follows:

Product	←-----Audited----->		←---Unaudited--->		←-----Audited----->			
	22.08.2005 to 31.12.2005	FYE 2006	FPE 2006	FPE 2006	FPE 2007			
	RM	%	RM	%	RM	%		
NRE - Service	-	-	6,676,877	13.2	1,844,168	5.5	14,396,835	50.0
RE - Production	-	-	-	-	-	-	4,532	5.0

Our gross profit margin for the FYE 2006 was affected by the direct design cost that we outsourced during the year otherwise the gross profits will fully reflect our revenue generated. We recognised full gross profit margin on licensing of our existing completed IP.

(iv) Expenses

Our expenses can be broadly categorised as follows:-

- (a) administrative expenses which includes administration employee salaries and their relevant contributions to the Employee Provident Fund ("EPF"), Social Security Organisation of Malaysia ("SOCSO") and Human Resource Development Fund ("HRDF"), professional fees such as auditing, legal and others of similar nature, depreciation charges on assets used for general administrative purposes and insurance for administrative assets and personnel;
- (b) sales and marketing expenses, which include travel and exhibition expenses, sales and marketing employee salary and their relevant contribution to EPF, SOCSO and HRDF and other marketing expenditure;
- (c) R&D expenditure, which includes all expenses incurred in carrying out research activities, R&D employees salaries and their relevant contribution to EPF, SOCSO and HRDF, depreciation charges on assets used for R&D purposes and insurance for R&D assets and personnel; and
- (d) Finance and income tax expense.

11. FINANCIAL INFORMATION (CONT'D)

11.2.2 Review of Past Performance**(i) Financial period from 22 August 2005 to 31 December 2005****Revenue**

No revenue was recognised for the financial period under review as our Company was then at its initial stages of business operation of which our Company's effort was solely focused on R&D and securing contract from our customers.

Gross profit margin

Not applicable as no revenue was recognised during the financial period under review.

LBT

Our Company recorded a LBT of RM8.3 million for the financial period under review due to significant research costs incurred amounting to RM7.6 million pertaining to the purchase of design tools which does not qualify for capitalisation as development cost.

Effective tax rate

Provision for taxation amounting to RM3,664 have been made in respect of interest income earned during the financial period.

(ii) FYE 2006**Revenue**

For the FYE 2006, our Company recorded a revenue of RM50.64 million. The main contributor to the revenue was Silterra, contributing RM44.22 million, or about 87% of the total revenue. The revenue generated is in respect to the Design Service and License Agreements and Addendum signed between our Company and Silterra for the past 2 years.

The remaining contribution of approximately 13% was derived from the following customers:

	RM
Global Grand Group Ltd	5,840,000
Canvas Technology Pte Ltd	551,000
Alpha Imaging Technology Corporation	28,800
	<u>6,419,800</u>

11. FINANCIAL INFORMATION (CONT'D)

Gross profit margin

Our Company registered a gross profit margin of 13.18% for the FYE 2006. Our Company generated a 100% gross profit margin from the provision of licensing of software tools and IP, whilst profit from the design and licensing services is about 62.5%. Gross profit margin from our contract with Silterra is only about 3% due to limited resources available to our Company at its start-up stage and hence, we have to outsource the contract work which resulted in a lower margin.

PBT

The operating expenditure in the FYE 2006 was substantially lower than that achieved in 2005 mainly due to non-recurring research cost of RM7.6 million recorded in 2005. In addition, there was no amortisation of intangible assets being recorded in the FYE 2006 as compared to RM577,942 recorded in 2005 as a result of change in accounting policy upon the adoption of FRS 138: Intangible Assets. The current year's operating expenses mainly consist of advertisement and promotion expenses, meals and lodging, professional fee and travelling expenses, totalling about RM1 million, or contributing 73% of the total operating expenses in the FYE 2006.

Effective Tax Rate

We have been granted pioneer status under the Promotion of Investments (Amendments) Act, 1986 for a period of 5 years commencing on 14 April 2006. Hence, no provision for income taxation have been made in respect of our business income earned subsequent to 14 April 2006. Whilst provision for income taxation has been made, it was mainly due to interest income earned during the financial year.

(iii) 9-month FPE 2007***Revenue***

For the 9-month FPE 2007, our Company recorded total revenue of RM28.88 million. The main contributor to the revenue was mainly derived from NRE work related to IP design activities.

Gross profit margin

Our Company registered a gross profit margin of 49.87% for the 9-month FPE 2007 from a gross profit margin of 5.46% for the 9-month FPE 2006. The increase in gross profit margin is due to the sales of IP licensing during the year which generates a 100% profit margin and a lower outsourcing component during the year.

11. FINANCIAL INFORMATION (CONT'D)

PBT

The PBT in the 9-month FPE 2007 was substantially higher than that achieved in the 9-month FPE 2006 mainly due to the higher gross profit margin achieved as compared to the 9-month FPE 2006. The operating expenditure for the Group has also increased for the 9-month FPE 2007 as compared to the 9-month FPE 2006 but the ratio of the increase is much lower as compared to the ratio of increase of the gross profit margin for both periods. The current year's operating expenses mainly consist of professional fees, directors' remuneration, staff costs, travelling expenses and foreign exchange loss, totalling about RM1.56 million, or contributing 78.43% of the total operating expenses in the 9-month FPE 2007.

Effective tax rate

We have been granted pioneer status under the Promotion of Investments (Amendments) Act, 1986 for a period of 5 years commencing on 14 April 2006. Hence, no provision for income taxation have been made in respect of our business income earned subsequent to 14 April 2006. Whilst provision for income taxation has been made, it was mainly due to interest income earned during the financial year.

11.2.3 Trend Information

The need for design services is a growing trend in the industry due to several factors, namely, it is very costly to build and maintain design infrastructure for smaller start-ups as a result of the high capital expenditure involved, design tools are becoming prohibitively expensive and the pressure of time-to-market of the chips. In addition, design tools are becoming more sophisticated. Designers who are able to handle the complexity of the design tools effectively are getting fewer.

In recent years, there are more and more fabless SoC product companies who would rather focus their resources on their core competence such as the development, implementation and marketing of the product. As such, the product companies would rather outsource non-core areas such as the chips or IP designing to ASIC/SoC design service companies who are more specialised and experienced.

The semiconductor business will be fueled largely by the growth of consumer electronics and communication products such as DVD players, MP3, mobile phones, digital camera and PMP. The consumer electronic market is constantly changing due to new innovations in product designs and applications. The range of consumer electronic products increases every year with strong competition in pricing, product performance and shorter time to market. This is expected to continue as consumers are now demanding for either improved products in terms of designs, applications and usage. Hence, there will be strong demand for high volume of chips in this area. The growth of these market segments is expected to continue over the next few years and this will definitely benefit IC design houses like us.

11. FINANCIAL INFORMATION (CONT'D)

11.3 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)

TAN CHIN HUAT & CO.

AF 1395
Chartered Accountants (M)

No: 232 2nd Floor Block A Damansara Intan
No: 1 Jalan SS 20/27 47400 Petaling Jaya
Tel: 03-77268992
Fax: 03-77284992

REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA FINANCIAL INFORMATION
(Prepared for inclusion in this Prospectus)

Date : 07 JAN 2008

The Board of Directors
KEY ASIC BERHAD
Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

**KEY ASIC BERHAD ("Key ASIC") AND ITS SUBSIDIARY ("Key ASIC Group" or "Group")
PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the proforma consolidated financial information of Key ASIC, which consists of income statements for the financial period from 22 August 2005 (date of incorporation) to 31 December 2005, for the financial year ended 31 December 2006 and for the financial period from 1 January 2007 to 30 September 2007, proforma consolidated balance sheets as at 30 September 2007, proforma consolidated cash flow statement for the financial period from 1 January 2007 to 30 September 2007, proforma consolidated statement of assets and liabilities as at 30 September 2007, together with the accompanying notes thereto, for which the Directors of Key ASIC are solely responsible, as set out in the accompanying statements (initialled by us for purpose of identification only), prepared for illustrative purposes for inclusion in the Prospectus of Key ASIC to be dated 11 JAN 2008 in connection with the proposed listing of and quotation for the entire enlarged issued and fully paid-up share capital of RM80,500,000 comprising 805,000,000 ordinary shares of RM0.10 each in Key ASIC ("Key ASIC Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

It is solely the responsibility of the Board of Directors of Key ASIC to prepare the proforma consolidated financial information in accordance with the requirements of the Securities Commission's Prospectus Guidelines in respect of Public Offerings. Our responsibility is to form an opinion on the proforma consolidated financial information and to report our opinion to you based on our work. We do not accept responsibility for any reports previously given by us on any financial information used in the compilation of the proforma consolidated financial information beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Our work, which involved no independent examination of any of the underlying financial information consisted primarily of comparing the proforma consolidated financial information to the audited consolidated financial statements, considering the evidence supporting the adjustments and discussing the proforma consolidated financial information with the Directors of Key ASIC.

11. FINANCIAL INFORMATION (CONT'D)

As the proforma consolidated financial information is prepared for illustrative purposes only, such information, because of its nature, does not give a true picture of the effects of the Listing Scheme as mentioned in Section 2 of this Report on the financial position, results and cash flows of the Group. Furthermore, such information does not purport to predict the Group's future financial position, results and cash flows.

In our opinion,

- (a) the proforma consolidated financial information has been properly compiled on the bases set out in the accompanying notes to the proforma consolidated financial information and such bases are consistent with the accounting policies adopted by Key ASIC;
- (b) the proforma consolidated financial information has been properly prepared based on the audited consolidated financial statements of Key ASIC which have been prepared in accordance with the applicable approved accounting standards in Malaysia; and
- (c) the adjustments set out in the accompanying notes to the proforma consolidated financial information are appropriate.

Yours faithfully,



TAN CHIN HUAT & CO
Firm No : AF 1395
Chartered Accountants (M)



TAN CHIN HUAT
Approval No: 2037/6/08(J)
Proprietor

11. FINANCIAL INFORMATION (CONT'D)

**Key ASIC Group
PROFORMA CONSOLIDATED FINANCIAL INFORMATION**
1 INTRODUCTION

The proforma consolidated financial information, comprising the income statements for the financial period from 22 August 2005 (date of incorporation) to 31 December 2005, for the financial year ended 31 December 2006 and for the financial period from 1 January 2007 to 30 September 2007, proforma consolidated balance sheets as at 30 September 2007, proforma consolidated cash flow statement for the financial period from 1 January 2007 to 30 September 2007, proforma consolidated statement of assets and liabilities as at 30 September 2007 and the notes thereto, have been prepared for inclusion in the Prospectus of Key ASIC to be dated **11 JAN 2008** in connection with the listing of and quotation for the entire enlarged issued and paid-up share capital of Key ASIC on the MESDAQ Market of Bursa Securities. The proforma consolidated financial information shows the effects of the Listing Scheme referred to in Section 2 below and may not, because of its nature, give a true picture of the actual financial position, results and cash flows of Key ASIC. Furthermore, such information does not purport to predict the Group's future financial position, results and cash flows.

2 LISTING SCHEME

In conjunction with and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of Key ASIC Shares on the MESDAQ Market of Bursa Securities, Key ASIC will undertake the following:

(a) **Conversion of Series A irredeemable convertible preference shares of RM1.00 each ("ICPS")**

Conversion of 19,000,000 ICPS held by Atlantic Quantum Sdn. Bhd. and Commerce Technology Ventures Sdn. Bhd. into 19,000,000 new ordinary shares of RM1.00 each in Key ASIC on the basis of 1 new ordinary share of RM1.00 each in Key ASIC for every 1 existing ICPS held in Key ASIC ("Conversion"). The Conversion was completed on 4 October 2007;

(b) **Rights Issue**

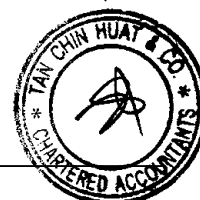
Renounceable rights issue of 9,000,000 new ordinary shares of RM1.00 each in Key ASIC at an issue price of RM1.00 per share on the basis of approximately 175 new ordinary shares of RM1.00 each in Key ASIC for every 1,000 existing ordinary shares of RM1.00 each in Key ASIC held after the Conversion ("Rights Issue"). The Rights Issue was completed on 19 November 2007;

(c) **Share Split**

Share split of every 1 existing ordinary share of RM1.00 each in Key ASIC into 10 Key ASIC Shares after the Rights Issue ("Share Split"). The Share Split was completed on 21 November 2007;

(d) **Proposed Public Issue**

Proposed public issue of 202,000,000 new Key ASIC Shares at an issue price of RM0.40 per Key ASIC Share to the Malaysian public, identified investors, eligible directors, employees and business associates of the Key ASIC Group ("Proposed Public Issue"); and



11. FINANCIAL INFORMATION (CONT'D)

(e) **Listing**

Proposed listing of and quotation for Key ASIC's entire enlarged issued and paid-up share capital of RM80,500,000 comprising 805,000,000 Key ASIC Shares upon completion of the Proposed Public Issue on the MESDAQ Market of Bursa Securities ("Proposed Listing").

There is only one (1) class of shares in Key ASIC, being ordinary shares of RM0.10 each.



11. FINANCIAL INFORMATION (CONT'D)

3 INCOME STATEMENTS

The income statements of Key ASIC for the financial period from 22 August 2005 (date of incorporation) to 31 December 2005, for the financial year ended 31 December 2006 and consolidated income statements of Key ASIC for the financial period from 1 January 2007 to 30 September 2007 are as follows:-

	<-----COMPANY----->		GROUP
	For the period 22 August 2005 (date of incorporation) to 31 December 2005 RM	For the year ended 31 December 2006 RM	For the period 1 January 2007 to 30 September 2007 RM
Revenue	-	50,644,477	28,880,660
Other operating income	18,319	351,665	584,765
Purchases and other direct costs	-	(43,967,600)	(14,479,293)
Depreciation of property, plant and equipment	-	(38,819)	(63,561)
Directors' remuneration	-	-	(196,225)
Staff costs	(285,272)	(29,158)	(699,785)
Other operating expenses	(7,995,730)	(1,306,658)	(1,031,336)
(Loss)/Profit before tax	<u>(8,262,683)</u>	<u>5,653,907</u>	<u>12,995,225</u>
Income tax expense	(3,664)	(12,574)	(156,172)
(Loss)/Profit after tax	<u><u>(8,266,347)</u></u>	<u><u>5,641,333</u></u>	<u><u>12,839,053</u></u>
Weighted average number of ordinary shares of RM1.00 each in issue	2	23,981,644	32,300,000
(Loss)/Earnings per share (RM)			
- Gross	(4,131,341.50)	0.24	0.40
- Net	(4,133,173.50)	0.24	0.40
Gross profit	N/A	6,676,877	14,401,367
Gross profit margin (%)	N/A	13.18	49.87
Net profit margin (%)	N/A	11.14	44.46

3.1 NOTES TO THE INCOME STATEMENTS OF KEY ASIC

- i) The income statements of Key ASIC for the financial period from 22 August 2005 (date of incorporation) to 31 December 2005, for the financial year ended 31 December 2006 and consolidated income statements of Key ASIC for the financial period from 1 January 2007 to 30 September 2007 are based on the audited financial statements of Key ASIC. The consolidated income statements have been prepared in accordance with the bases and approved accounting standards in Malaysia consistent with the accounting policies previously adopted in the preparation of the audited financial statements of Key ASIC.
- ii) The Group structure of Key ASIC exists for the financial period from 1 January 2007 to 30 September 2007 when the Company acquired 100% equity interest in Key Asic Semiconductor Sdn. Bhd., a company incorporated in Malaysia, on 7 June 2007.
- iii) There were no extraordinary or exceptional items for the financial periods/year under review.



11. FINANCIAL INFORMATION (CONT'D)

- iv) The gross (loss)/earnings per share has been calculated based on the (loss)/profit before tax divided by the weighted average number of ordinary shares of RM1.00 each in issue.

The net (loss)/earnings per share has been calculated based on the (loss)/profit after tax divided by the weighted average number of ordinary shares of RM1.00 each in issue.



11. FINANCIAL INFORMATION (CONT'D)

4 PROFORMA CONSOLIDATED BALANCE SHEETS

The following is a summary of the proforma consolidated balance sheets of Key ASIC as at 30 September 2007, prepared for illustration purposes only to show the effects of the Conversion, the Rights Issue, the Proposed Public Issue and utilisation of proceeds on the assumption that these transactions were completed on 30 September 2007:-

Audited as at 30 September 2007 RM	(i) After the Conversion RM	(ii) After (i) and the Rights Issue RM	(iii) After (ii) and the Share Split RM	(iv) After (iii) and the Proposed Public Issue RM	(v) After (iv) and the utilisation of proceeds RM
Property, plant and equipment	1,007,030	1,007,030	1,007,030	1,007,030	1,007,030
Intangible assets	36,029,031	36,029,031	36,029,031	36,029,031	36,029,031
Current Assets					
Trade receivables	14,269,651	14,269,651	14,269,651	14,269,651	14,269,651
Other receivables and prepaid expenses	1,877,056	1,877,056	1,877,056	1,877,056	1,877,056
Fixed deposits with licensed banks	8,540,862	8,540,862	8,540,862	8,540,862	8,540,862
Cash and bank balances	4,401,977	13,401,977	13,401,977	94,201,977	90,901,977
	29,089,546	29,089,546	38,089,546	118,889,546	115,589,546
Less: Current Liabilities					
Trade payable	86,118	86,118	86,118	86,118	86,118
Other payables and accrued expenses	794,635	794,635	794,635	794,635	794,635
Amount owing to holding company	69,840	69,840	69,840	69,840	69,840
Amount owing to related company	3,504,803	3,504,803	3,504,803	3,504,803	3,504,803
Tax liabilities	156,172	156,172	156,172	156,172	156,172
	4,611,568	4,611,568	4,611,568	4,611,568	4,611,568
Net Current Assets	24,477,978	24,477,978	33,477,978	114,277,978	110,977,978
	61,514,039	61,514,039	70,514,039	151,314,039	148,014,039



11. FINANCIAL INFORMATION (CONT'D)

4 PROFORMA BALANCE SHEETS (CON'T)

	Audited as at 30 September 2007 RM	(i) After the Conversion RM	(ii) After (i) and the Rights Issue RM	(iii) After (ii) and the Share Split RM	(iv) After (iii) and the Proposed Public Issue RM	(v) After (iv) and the utilisation of proceeds RM
Financed by:						
Issued share capital - Ordinary shares	32,300,000	51,300,000	60,300,000	60,300,000	80,500,000	80,500,000
- ICPS	19,000,000	-	-	-	-	-
Share premium	-	-	-	-	60,600,000	57,300,000
Unappropriated profit	10,214,039	10,214,039	10,214,039	10,214,039	10,214,039	10,214,039
	61,514,039	61,514,039	70,514,039	70,514,039	151,314,039	148,014,039
Net tangible assets (NTA)/ Proforma NTA	25,485,008	25,485,008	34,485,008	34,485,008	115,285,008	111,985,008
No. of ordinary shares of RM1.00 each assumed in issue	32,300,000	51,300,000	60,300,000	N/A	N/A	N/A
No. of ordinary shares of RM0.10 each assumed in issue	N/A	N/A	N/A	603,000,000	805,000,000	805,000,000
NTA/Proforma NTA per share (RM)	0.79	0.50	0.57	0.06	0.14	0.14



11. FINANCIAL INFORMATION (CONT'D)

4.1 NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

- 1 The Proforma Consolidated Balance Sheets are provided for illustrative purposes only and have been prepared based on the audited consolidated balance sheets of Key ASIC as at 30 September 2007 and on the assumption that the following transactions had been effected on 30 September 2007:-
- (i) Conversion of 19,000,000 ICPS held by Atlantic Quantum Sdn. Bhd. and Commerce Technology Ventures Sdn. Bhd. into 19,000,000 new ordinary shares of RM1.00 each in Key ASIC on the basis of 1 new ordinary share of RM1.00 each in Key ASIC for every 1 existing ICPS held in Key ASIC ("Conversion"). The Conversion was completed on 4 October 2007;
 - (ii) Renounceable rights issue of 9,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per share on the basis of approximately 175 new ordinary shares of RM1.00 each in Key ASIC for every 1,000 existing ordinary shares of RM1.00 each in Key ASIC held after the Conversion ("Rights Issue"). The Rights Issue was completed on 19 November 2007 ;
 - (iii) Share split of every 1 existing ordinary share of RM1.00 each in Key ASIC into 10 Key ASIC Shares after the Rights Issue ("Share Split"). The Share Split was completed on 21 November 2007;
 - (iv) Proposed public issue of 202,000,000 new Key ASIC Shares at an issue price of RM0.40 per Key ASIC Share to the Malaysian public, identified investors, eligible directors, employees and business associates of the Key ASIC Group ("Proposed Public Issue"); and
 - (v) The gross proceeds from the Proposed Public Issue, based on a retail price of RM0.40, amounting to RM80,800,000 will accrue entirely to the Group and will be utilised for the following purposes:

	RM'000
Research and Development ("R&D") - Capital expenditure [Note (i)]	36,000
R&D - Operating expenditure [Note (ii)]	8,200
Working capital expansion [Note (iii)]	33,300
Estimated listing expenses [Note (iv)]	3,300
	80,800

Note (i)

R&D - capital expenditure is expenditure incurred in licensing intellectual property ("IP") in the normal course of business and purchase of manufacturing tools, software for R&D productions, computer equipment, furniture and fittings, office equipment and renovation for R&D purposes that is expected to generate future economic benefits to the Group over period of time.

Note (ii)

R&D - operating expenditure includes the direct operating expenditure related to R&D purpose such as R&D employee related expenditure, general R&D maintenance expenditure, product prototyping, direct IP outsourcing and other R&D expenditure that would not qualify for recognition as assets under FRS116: Property, Plant and Equipment.



11. FINANCIAL INFORMATION (CONT'D)

Note (iii)

Working capital expansion includes general administrative expenses, rental of premises, general travelling and related expenses, financing of wafer, shipping charges and other marketing expenses.

Note (iv)

Estimated listing expenses comprise:

	RM'000
Professional fees	700
Underwriting/Placement commission @ 2.3%	1,707
Brokerage fee @ 1%	162
Issuing House fees and expenses	120
Printing of prospectus, application forms and envelopes	150
Advertisement of prospectus and publicity	150
Bursa Securities fees - initial and annual listing fees	40
SC processing fee	91
Registration and lodgement of prospectus	5
Sub-total	3,125
Contingencies	175
TOTAL	3,300

- (vi) Proposed listing of and quotation for Key ASIC's entire enlarged issued and paid-up share capital of RM80,500,000 comprising 805,000,000 Key ASIC Shares upon completion of the Proposed Public Issue on the MESDAQ Market of Bursa Securities ("Proposed Listing").
- 2 The Proforma Consolidated Balance Sheets are prepared on bases and accounting policies consistent with those normally adopted by Key ASIC.
- 3 The movement in the issued and paid-up share capital and share premium of Key ASIC is as follows:-

	<-----Issued Share Capital----->		Share Premium RM
	Ordinary Shares RM	ICPS RM	
As at 30 September 2007	32,300,000	19,000,000	-
Conversion	19,000,000	(19,000,000)	-
Rights Issue	9,000,000	-	-
Proposed Public Issue	20,200,000	-	60,600,000
Estimated listing expenses	-	-	(3,300,000)
<hr/>			
Balance as at 30 September 2007 after the Conversion, the Rights Issue, the Proposed Public Issue and utilisation of proceeds	80,500,000	-	57,300,000



11. FINANCIAL INFORMATION (CONT'D)

5 PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of Key ASIC for the financial period from 1 January 2007 to 30 September 2007 have been prepared, solely for illustrative purposes, to show the cash flows of the Group had the transactions described in Note 2 above been completed.

	Audited 1 January 2007 to 30 September 2007 RM	Proforma 1 January 2007 to 30 September 2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	12,995,225	12,995,225
Adjustments for:		
Depreciation of property, plant and equipment	63,561	63,561
Interest income	(577,565)	(577,565)
Operating profit before working capital changes	<u>12,481,221</u>	<u>12,481,221</u>
Changes in working capital:		
Increase in trade receivables	(7,160,583)	(7,160,583)
Increase in other receivables and prepaid expenses	(1,808,944)	(1,808,944)
Increase in trade payable	86,118	86,118
Increase in other payables and accrued expenses	666,074	666,074
Increase in amount owing to related company	50,787	50,787
Cash Generated From Operations	<u>4,314,673</u>	<u>4,314,673</u>
Interest income received	577,565	577,565
Development costs incurred	(801,639)	(801,639)
Tax paid	(16,238)	(16,238)
Net Cash From Operating Activities	<u>4,074,361</u>	<u>4,074,361</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(455,787)	(455,787)
Purchase of intangible assets	(10,174,000)	(10,174,000)
Net Cash Used In Investing Activities	<u>(10,629,787)</u>	<u>(10,629,787)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Rights Issue	-	9,000,000
Proposed Public Issue	-	80,800,000
Estimated Listing expenses	-	(3,300,000)
Net Cash From Financing Activities	<u>-</u>	<u>86,500,000</u>
NET (DECREASE)/INCREASE IN CASH AND CASH AND CASH EQUIVALENTS	<u>(6,555,426)</u>	<u>79,944,574</u>
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	<u>19,498,265</u>	<u>19,498,265</u>
CASH AND CASH EQUIVALENTS CARRIED FORWARD	<u>12,942,839</u>	<u>99,442,839</u>
Cash and cash equivalents carried forward consist of:		
Cash and bank balances	4,401,977	90,901,977
Fixed deposits with licensed banks	8,540,862	8,540,862
	<u>12,942,839</u>	<u>99,442,839</u>

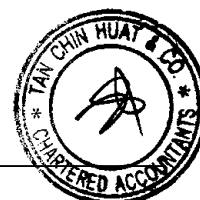


11. FINANCIAL INFORMATION (CONT'D)

6 PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF KEY ASIC

The proforma consolidated statement of assets and liabilities of Key ASIC, for which the Directors of Key ASIC are solely responsible, have been prepared for illustrative purposes, based on the audited financial statements of Key ASIC as at 30 September 2007, to show the effects of the transactions as set out in Note 2 on the assumptions that the transactions had been completed on 30 September 2007 and should be read in conjunction with the basis of preparation of proforma consolidated balance sheets and the notes thereto as set out in Note 4.1.

	Note	Audited As At 30 September 2007 RM	Proforma As At 30 September 2007 RM
Property, plant and equipment	(a)	1,007,030	1,007,030
Intangible assets	(b)	36,029,031	36,029,031
Current Assets			
Trade receivables	(c)	14,269,651	14,269,651
Other receivables and prepaid expenses	(c)	1,877,056	1,877,056
Fixed deposits with licensed banks		8,540,862	8,540,862
Cash and bank balances		4,401,977	90,901,977
		<u>29,089,546</u>	<u>115,589,546</u>
Less: Current Liabilities			
Trade payable	(d)	86,118	86,118
Other payables and accrued expenses	(d)	794,635	794,635
Amount owing to holding company	(e)	69,840	69,840
Amount owing to related company	(f)	3,504,803	3,504,803
Tax liabilities		156,172	156,172
		<u>4,611,568</u>	<u>4,611,568</u>
Net Current Assets		24,477,978	110,977,978
		<u>61,514,039</u>	<u>148,014,039</u>
Financed by:			
Issued share capital			
- Ordinary shares	(g)	32,300,000	80,500,000
- ICPS		19,000,000	-
Share premium	(h)	-	57,300,000
Unappropriated profit		10,214,039	10,214,039
		<u>61,514,039</u>	<u>148,014,039</u>
Net tangible assets (NTA)/ Proforma NTA		<u>25,485,008</u>	<u>111,985,008</u>
No. of ordinary shares of RM1.00 each assumed in issue		32,300,000	N/A
No. of ordinary shares of RM0.10 each assumed in issue		N/A	805,000,000
NTA/Proforma NTA per share (RM)		<u>0.79</u>	<u>0.14</u>



11. FINANCIAL INFORMATION (CONT'D)

6.1 NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 SEPTEMBER 2007

(a) PROPERTY, PLANT AND EQUIPMENT

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
Computers	865,873	(201,833)	664,040
Furniture and Fittings	5,246	(517)	4,729
Office Equipment	11,435	(1,291)	10,144
Renovation	328,717	(600)	328,117
	<u>1,211,271</u>	<u>(204,241)</u>	<u>1,007,030</u>

(b) INTANGIBLE ASSETS

	Intellectual Property and Licence Rights RM	Development Costs RM	Total RM
Cost	34,874,000	1,732,973	36,606,973
Accumulated amortisation	<u>(577,942)</u>	-	<u>(577,942)</u>
Net carrying amount	<u>34,296,058</u>	<u>1,732,973</u>	<u>36,029,031</u>

Included in development costs during the financial period from 1 January 2007 to 30 September 2007 is depreciation of property, plant and equipment of RM63,562.

(c) TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

Trade receivables comprise amounts receivable for services rendered. The normal credit period granted on services rendered ranges from 60 to 90 days. Other credit terms are assessed and approved on a case by case basis.

Other receivables and prepaid expenses consist of:-

	RM
Refundable deposits	104,012
Prepaid expenses	<u>1,773,044</u>
	<u>1,877,056</u>

(d) TRADE PAYABLE, OTHER PAYABLES AND ACCRUED EXPENSES

Trade and other payables comprise amounts outstanding for trade and ongoing costs. The average credit period granted to the Group and the Company for trade purchases is 60 days.

Other payables and accrued expenses consist of :-

	RM
Other payables	712,114
Accrued expenses	<u>82,521</u>
	<u>794,635</u>



11. FINANCIAL INFORMATION (CONT'D)

(e) AMOUNT OWING TO HOLDING COMPANY

The amount owing to holding company comprises principally trade transactions, which is unsecured, interest-free and bears no fixed terms of repayment.

(f) AMOUNT OWING TO RELATED COMPANY

The amount owing to related company comprises principally trade transactions, advances given and expenses paid on behalf which is unsecured, interest-free and bears no fixed terms of repayment.

(g) SHARE CAPITAL

	RM
Authorised:	
1,000,000,000 ordinary shares of RM0.10 each	<u>100,000,000</u>
Issued and fully paid:	
805,000,000 ordinary shares of RM0.10 each	<u>80,500,000</u>

(h) SHARE PREMIUM

	RM
Ordinary shares issued at a premium	60,600,000
Less:	
Estimated listing expenses	<u>(3,300,000)</u>
	<u>57,300,000</u>



11. FINANCIAL INFORMATION (CONT'D)

11.4 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE, POSITION AND OPERATIONS

As at 30 November 2007, being the latest practicable date prior to the printing of this Prospectus, the financial performance, position and operations of our Group are not affected by the following:

- (i) known trends, demands, commitments, events or uncertainties that have had or that our Group reasonably expects to have, a material favourable or unfavourable impact on our financial performance, position and operations;
- (ii) other material commitments for capital expenditure;
- (iii) unusual or infrequent events or transactions or any significant economic changes that have materially affected our Group's financial performance, position and operations; and
- (iv) known trends, demands, commitment, events or uncertainties that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

11.5 LIQUIDITY AND CAPITAL RESOURCES

11.5.1 Working Capital

The proforma consolidated cash flow statement of our Group for the FYE 2006 and the 9-month FPE 2007 are as follows:

	FYE 2006 RM 000	9-month FPE 2007 RM 000
Net cash generated from operating activities	1,023	4,074
Net cash used in investing activities	(755)	(10,629)
Net cash used in financing activities	19,000	*86,500
Net increase in cash and cash equivalents	19,268	79,945
Cash and cash equivalents at beginning of financial year	230	19,498
Cash and cash equivalents at end of financial year	19,498	99,443

Our Directors are of the opinion that after taking into consideration of our cash position and the gross proceeds raised/ to be raised from the Rights Issue and Public Issue, the working capital available to our Group will be sufficient for a period of 12 months from the date of issue of this Prospectus.

Note:

- * On the assumption that the Rights Issue and Public Issue were completed on 30 September 2007 and the proceeds from the Rights Issue and Public Issue were received in full.

11. FINANCIAL INFORMATION (CONT'D)

11.5.2 Borrowings

As at 30 November 2007 (being the latest practicable date prior to the printing of this Prospectus), we do not have any outstanding borrowing, any other loan capital outstanding or loan capital created but unissued mortgages or charges outstanding.

11.5.3 Material Commitments

As at 30 November 2007 (being the latest practicable date prior to the printing of this Prospectus), we do not have any material capital commitment.

11.5.4 Contingent Liabilities

As at 30 November 2007 (being the latest practicable date prior to the printing of this Prospectus), our Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on our profit or net assets.

11.5.5 Material Litigation

Neither we nor our subsidiary are engaged in any litigation or arbitration, either as plaintiff or defendant which will have a material effect on our financial position and our Directors do not know of any proceedings pending or threatened or any fact likely to give rise to any proceedings which might materially and adversely affect our position or business.

11.5.6 Financial Risk Management

We are exposed to risks of foreign exchange rate fluctuation as a result of transactions denominated in foreign currency arising from our normal business activities. Most of our sales are transacted in USD. At the same time, we also licensed our IPs from overseas and outsource certain design works to Key ASIC Inc.. These costs of sales are also denominated in USD, which provides a natural hedge, ensuring that our Group is not adversely affected by unfavourable foreign currency movements. We currently also maintain all our currency in RM at the moment whilst maintaining a USD foreign currency account for trade-related transactions in foreign currency.

11. FINANCIAL INFORMATION (CONT'D)

11.6 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT ESTIMATE AND FORECAST

(Prepared for inclusion in this Prospectus)

TAN CHIN HUAT & CO.

AF 1395
Chartered Accountants (M)

No: 232, 2nd Floor, Block A Damansara Intan
No: 1, Jalan SS 20/27 47400 Petaling Jaya
Tel: 03-77268992
Fax: 03-77284992

Date: **07 JAN 2008**

The Board of Directors
KEY ASIC BERHAD
Level 14, Uptown 1
No: 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

**KEY ASIC BERHAD ("Key ASIC") AND ITS SUBSIDIARY ("Key ASIC Group or "Group")
CONSOLIDATED PROFIT ESTIMATE AND FORECAST
FOR THE YEARS ENDING 31 DECEMBER 2007 AND 31 DECEMBER 2008 RESPECTIVELY**

We have reviewed the consolidated profit estimate and forecast of the Key ASIC Group for the years ending 31 December 2007 and 31 December 2008 respectively, as set out in the accompanying statement (which we have stamped for the purpose of identification) in accordance with the standard applicable to the review of estimate and forecasts. The estimate and forecast have been prepared for submission to the Securities Commission in connection with the proposed flotation of Key ASIC on the MESDAQ Market of Bursa Malaysia Securities Berhad and should not be relied on for any other purposes.

Our review has been undertaken to enable us to form an opinion as to whether the estimate and forecast, in all material respects, are properly prepared on the basis of the assumptions made by the Directors and are presented on a basis consistent with the accounting policies adopted and disclosed by the Group in its audited consolidated financial statements for the period 1 January 2007 to 30 September 2007. The Directors of Key ASIC are solely responsible for the preparation and presentation of the estimate and forecast and the assumptions on which the estimate and forecast are based.

Estimate and forecast, in this context, mean 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). While information may be available to support the assumptions on which estimate and forecast are based, such information is generally future oriented and therefore uncertain. Thus actual results are likely to be different from the estimate and forecast since anticipated events frequently do not occur as expected and the variation could be material.

Subject to the matters stated in the preceding paragraphs:-

- (i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the profit estimate and forecast; and

11. FINANCIAL INFORMATION (CONT'D)

- (ii) in our opinion, the profit estimate and forecast, so far as the calculations are concerned, are properly prepared on the basis of the assumptions made by the Directors and are presented on a basis consistent with accounting policies adopted and disclosed by the Group in its audited consolidated financial statements for the period 1 January 2007 to 30 September 2007.

Yours faithfully,



TAN CHIN HUAT & CO.
Firm No: AF 1395
Chartered Accountants (M)



TAN CHIN HUAT
Approval No: 2037/06/08(J)
Proprietor

11. FINANCIAL INFORMATION (CONT'D)**Key ASIC Group****CONSOLIDATED PROFIT ESTIMATE AND FORECAST FOR THE YEARS ENDING 31 DECEMBER 2007 AND 31 DECEMBER 2008 RESPECTIVELY TOGETHER WITH THE ASSUMPTIONS THEREON**

On the bases and assumptions set out below, the Board of Directors of Key ASIC estimates and forecasts that the consolidated profit before and after taxation for the years ending 31 December 2007 and 31 December 2008 are as follows:-

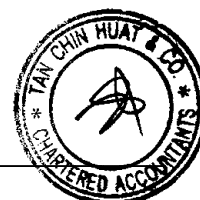
	31 December 2007	31 December 2008
Revenue (RM)	55,500,000	90,000,000
Consolidated profit before taxation (RM)	18,783,107	32,278,592
Consolidated profit after taxation (RM)	18,600,844	31,483,268
Number of ordinary shares of RM0.10 each in issue#	603,000,000	805,000,000
Gross earnings per share (Sen)	3.11	4.01
Net earnings per share (Sen)	3.08	3.91
Gross price earnings multiple (times)*	12.84	9.98
Net price earnings multiple (times)*	12.97	10.23

Assuming full conversion of the irredeemable convertible preference shares of RM1.00 each ("ICPS") of 19,000,000 into 19,000,000 ordinary shares of RM1.00 each in Key ASIC.

* Based on issue price of RM0.40 per share.

The principal bases and assumptions upon which the above consolidated profit estimate and forecast have been made are set out below:-

- 1) In conjunction with and as an integral part of the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market of Bursa Securities, Key ASIC undertook the following:
 - i) Conversion of 19,000,000 ICPS held by Atlantic Quantum Sdn. Bhd. and Commerce Technology Ventures Sdn. Bhd. into 19,000,000 new ordinary shares of RM1.00 each in Key ASIC on the basis of 1 new ordinary share of RM1.00 each in Key ASIC for every 1 existing ICPS held in Key ASIC ("Conversion"). The Conversion was completed on 4 October 2007;
 - ii) Renounceable rights issue of 9,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per ordinary share of RM1.00 each, on the basis of approximately 175 new ordinary shares of RM1.00 each in Key ASIC for every 1,000 existing ordinary shares of RM1.00 each in Key ASIC held after the Conversion ("Rights Issue"), The Rights Issue was completed on 19 November 2007;
 - iii) Share split of every 1 existing ordinary share of RM1.00 each in Key ASIC into 10 ordinary shares of RM0.10 each ("Share Split"). The Share Split was completed on 21 November 2007; and
 - iv) Proposed public issue of 202,000,000 new ordinary shares of RM0.10 each at an issue price of RM0.40 per share ("Proposed Public Issue"), will be available to Key ASIC on 31 January 2008, and the utilisation of the proceeds for settlement of listing expenses amounting to RM3,300,000 is assumed to be at the same time.



11. FINANCIAL INFORMATION (CONT'D)

- 2) The Group is expected to incurred direct design costs of fifty five percent (55%) of the revenue generated from Non Recurring Engineering Services for the financial year ending 31 December 2007 and 31 December 2008 largely due to Intellectual Property ("IP") arrangement with customers or purchasing of IP from the rightful owner of the original ASIC design before modification.
- 3) The Group is expected to maintain on average one and a half (1.5) months inventory for System-on-Chip ("SoC") and wafer products throughout the estimate and forecasted periods.
- 4) It is assumed that fifty percent (50%) of the operating expenses incurred for research and development activities are capitalised under the deferred development expenditure incurred for development of new intangible assets recognised in accordance to FRS138 : Intangible Assets.

All the research and development expenditures are assumed to be incurred evenly throughout the years unless specifically shown in the estimate and forecast.

The depreciation charges accrued and capitalised under the development costs category are computed based on the apportionment of number of employee except for the direct attributable depreciation of IP as reflected in the estimate and forecast. For the purpose of apportionment of the depreciation, the number of employee is excluding the member of board of directors.

- 5) Components of general administration expenses included in the estimate and forecast are staff salaries, welfare, bonus, recruitments, office maintenance, office rental, travelling, stationeries and etc. The general administration expenses are expected to increase by ten percent (10%) each year other than the travelling fares which is expected to increase by twenty percent (20%) each year in line with the expansion of the business growing worldwide. The travelling related expenses are calculated at thirty percent (30%) of the travelling fares in the estimate and forecast.
- 6) The changes of the work force and knowledge workers as per estimate and forecast with the assumptions that all employees are entitled to 13th month salaries and additional 1.5 months year end bonus payment based on average monthly gross salaries. The general administration expenses is assumed to accrued evenly throughout the estimate and forecast periods.
- 7) The sales and marketing expenditures are related to promotional activities, marketing work force salaries related expenses, travelling and etc. All the expenses under this category is estimated and forecasted to increase by ten percent (10%) each year and the expenses are assumed to accrued evenly throughout the estimate and forecast periods.
- 8) The Company obtained its MSC status on 14 April 2006 and subsequently submitted its first production invoice dated 2 May 2006 to mark the starting of its pioneer status with the Inland Revenue Board. The income tax chargeable during the pre-pioneer period from 1 January 2006 up to the first production invoice on the principal activity of the Company is nil other than the fixed deposits interest income earned.

The subsequent years income taxes was assumed to be nil for the approved activities except the interest income generated from the fixed deposits placement with license financial institutions is assumed to be taxable at twenty seven percent (27%) for basis year 2007 and twenty six percent (26%) for basis year 2008. No deferred tax is calculated on the interest earned from the placement of fixed deposits as it is assumed that interest accrued in the income statement is received in that financial year.

- 9) The prevailing economic and political environment in Malaysia and elsewhere will continue and will not have significant adverse effects on the Key ASIC Group's activities to be conducted at estimated and forecasted level.



11. FINANCIAL INFORMATION (CONT'D)

- 10) There will be no material changes in present legislation and government regulations, and guidelines of regulatory authorities, which will significantly affect the Key ASIC Group's activities or market in which it operates.
- 11) There will not be any material fluctuation in inflation rates and exchange rates of foreign currencies against the Ringgit Malaysia which would adversely affect the activities and operations of the Key ASIC Group.
- 12) There will be no major industrial disputes or any abnormal factors which will adversely affect the Key ASIC Group's activities and operations.
- 13) There will be no material acquisitions or disposals of property, plant and equipment, investments and the Group's depreciation policies other than those estimated and forecasted.
- 14) There will be no significant changes in the management structure and accounting policies adopted by the Key ASIC Group other than those estimated and forecasted.
- 15) There will be no material changes in the Key ASIC Group's present demand, market condition, selling prices and market growth of its products other than that estimated and forecasted by the Key ASIC Group.
- 16) There will be no significant changes in the present principal activities of the Key ASIC Group.
- 17) There will be no significant changes in purchase prices of products, wages and other related costs other than those forecasted which will have material impact on the Key ASIC Group's financial performance.
- 18) There will be no other significant changes in the income tax rate except for those mentioned in the profit estimate and forecast. Existing tax exemption enjoyed by the Key ASIC will remain for the entire estimated and forecasted period.
- 19) There will be no significant changes in the Key ASIC Group's estimated and forecasted future research & development, product development and marketing plans other than those estimated and forecasted that will have material impact on the financial performance of the Group.
- 20) The demand for the products and services of the Key ASIC Group will be in line with the estimated and forecasted revenue and the Group will be able to maintain the current profit margins on its products.
- 21) There will be no major changes in the senior management and existing key personnel of the Group that will have material impact on the level of activities of the Key ASIC Group.
- 22) There is no material litigation engaged by the Group nor is there any material legal proceeding against the Group which will adversely affect the performance of the Group or give rise to any contingent liabilities which will affect the position or business of the Group throughout the estimate and forecast.



11. FINANCIAL INFORMATION (CONT'D)

11.7 CONSOLIDATED PROFIT ESTIMATE AND FORECAST

Our Directors estimate and forecast that the consolidated profit estimate and forecast of our Group for the FYE 2007 and FYE 2008 will be as follows:

FYE	Estimate 2007 RM 000	Forecast 2008 RM 000
Revenue	55,500	90,000
Consolidated PBT	18,783	32,278
Taxation	(182)	(795)
Consolidated PAT attributable to shareholders	18,601	31,483
Number of Key ASIC Shares in issue (000)	603,000	⁽¹⁾ 805,000
Gross EPS ⁽ⁱⁱ⁾ (sen)	3.11	4.01
Net EPS ⁽ⁱⁱ⁾ (sen)	3.08	3.91
Gross PE Multiple ⁽ⁱⁱⁱ⁾ (times)	12.84	9.98
Net PE Multiple ⁽ⁱⁱⁱ⁾ (times)	12.97	10.23

Notes:

- (i) *Being the enlarged issued and paid-up share capital of Key ASIC Shares in issue on the assumption that the Listing will be completed by 31 January 2008.*
- (ii) *Computed based on the consolidated PBT/PAT divided by the number of Key ASIC Shares in issue.*
- (iii) *Based on the Retail Price of RM0.40 per Issue Share.*

Our consolidated profit estimate and forecast have been prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of our Group. The principal assumptions upon which the above consolidated profit estimate and forecast have been prepared are set out in the Reporting Accountants' Letter on the Consolidated Profit Estimate and Forecast set out in Section 11.6 of this Prospectus.

11. FINANCIAL INFORMATION (CONT'D)

11.8 DIRECTORS' ANALYSIS AND COMMENTARY ON THE CONSOLIDATED PROFIT ESTIMATE AND FORECAST

Our Directors have reviewed and analysed the bases and assumptions used in arriving at our profit estimate and forecast for the FYE 2007 and FYE 2008. Our Directors are of the opinion that the profit estimate and forecast is fair and reasonable in light of the future plans, strategies and prospects of our Company as set out in Section 5.7 of this Prospectus, the future prospects of our industry as set out in Section 6.6 of this Prospectus and after taking into consideration the expected level of gearing, liquidity, capital expenditure and working capital requirements of our Company.

Premised on the foregoing, our Directors believe that we will be able to achieve the profit estimate and forecast for the FYE 2007 and FYE 2008. The profit estimate and forecast has been prepared on bases and accounting principles consistent with those previously adopted in the preparation of our audited financial statements for the 9-month FPE 2007.

Nevertheless, these bases and assumptions cover future periods for which there are inherent risks, and therefore, should be treated with caution. These bases and assumptions are subject to significant uncertainties and contingencies, which are often outside our control. Therefore, certain assumptions used in the preparations of the profit estimate and forecast may differ significantly from actual situation after the date of this profit estimate and forecast.

11.9 SENSITIVITY ANALYSIS

The principal bases and assumptions upon which the sensitivity analysis on our consolidated profit estimate and forecast has been made are as follows:

- (i) the selected variable item will vary $\pm 5\%$ and $\pm 10\%$ from the base case;
- (ii) except for the selected variable items, the same assumptions for the other items as for the base case shall apply; and
- (iii) the changes in the variable items are constant throughout the financial year.

The following scenarios attempt to show the impact on our profit resulting from changes in selling prices and cost of sales.

(i) Variation in Selling Price

	<----- FYE ----->			
	<-----2007----->		<-----2008----->	
	PBT RM 000	%	PBT RM 000	%
Up 10%	20,983	11.71	35,778	10.84
Up 5%	19,883	5.86	34,029	5.42
Down 5%	17,683	(5.86)	30,529	(5.42)
Down 10%	16,583	(11.71)	28,779	(10.84)

11. FINANCIAL INFORMATION (CONT'D)

(ii) Variation in Cost of Sales

	←-----FYE-----→			
	←-----2007-----→		←-----2008-----→	
	PBT	%	PBT	%
	RM 000		RM 000	
Up 10%	15,461	(17.69)	26,829	(16.88)
Up 5%	17,122	(8.84)	29,554	(8.44)
Down 5%	20,444	8.84	35,004	8.44
Down 10%	22,106	17.69	37,728	16.88

Our Directors have assessed the sensitivity of our consolidated profit estimate and forecast taking into consideration the fluctuation in the major variables mentioned above. Based on our Directors' opinion and the analysis above, the results of our Group for the FYE 2007 and FYE 2008 are expected to be predominantly sensitive towards changes in selling prices and cost of sales.

11.10 DIVIDEND FORECAST

Our Board does not intend to recommend or declare any dividend payment for the FYE 2007 and FYE 2008.

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12. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

TAN CHIN HUAT & CO.

AF 1395
Chartered Accountants (M)

No: 232 2nd Floor Block A Damansara Intan
No: 1 Jalan SS 20/27 47400 Petaling Jaya
Tel: 03-77268992
Fax: 03-77284992

ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

Date: 07 JAN 2008

The Board of Directors
KEY ASIC BERHAD
Level 14, Uptown 1
No. 1, Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs;

ACCOUNTANTS' REPORT

KEY ASIC BERHAD ("Key ASIC") AND ITS SUBSIDIARY ("Key ASIC GROUP" OR "THE GROUP")

1 INTRODUCTION

This report has been prepared by Tan Chin Huat & Co, an approved company auditor, for inclusion in the Prospectus of Key ASIC to be dated 11 JAN 2008 in connection with the proposed public issue of 202,000,000 new ordinary shares of RM0.10 each in Key ASIC at an issue price of RM0.40 per ordinary share ("Proposed Public Issue") and the listing of and quotation for the entire enlarged issued and paid-up share capital of RM80,500,000 comprising 805,000,000 ordinary shares of RM0.10 each in Key ASIC ("Key ASIC Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

2 GENERAL INFORMATION

2.1 The Company - Key ASIC

Key ASIC was incorporated as a private limited company in Malaysia on 22 August 2005 under the name of Pearl Discovery Sdn. Bhd. On 3 October 2005, the Company changed its name to Key ASIC Sdn. Bhd. and on 13 June 2007, the Company was converted from a private limited company to a public limited company and changed its name to Key ASIC Berhad.

Key ASIC is principally engage in fabless high-end turnkey application-specific integrated circuit/system-on-chip ("SoC") design services and development of Intellectual Properties whilst the principal activities of its subsidiary is set out in Section 2.3 of this report.

The registered office of Key ASIC is located at Level 14, Uptown 1, No. 1, Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor Darul Ehsan.

On 14 April 2006, Key ASIC was granted Multimedia Super Corridor ("MSC") status by the Multimedia Development Corporation Sdn. Bhd. for the provision of turnkey application-specific integrated circuit/SoC design service and intellectual property development services via the SoC platforms for the consumer electronics products, provision of technical support and maintenance services in relations to the SoC platforms. With the MSC status, Key ASIC was granted pioneer status under the Promotion of Investments Act, 1986 for a period of 5 years commencing on 14 April 2006.



12. ACCOUNTANTS' REPORT (CONT'D)

Key ASIC does not have any associated company.

2.2 Share Capital

As at the date of incorporation, the Company's authorised share capital was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and on 5 April 2006, the authorised share capital of the Company was increased from RM100,000 to RM100,000,000 by the creation of additional 99,900,000 new ordinary shares of RM1.00 each.

On 14 July 2006, the authorised share capital of the Company of RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each was changed to RM100,000,000 comprising 81,000,000 ordinary shares of RM1.00 each and 19,000,000 Series A irredeemable convertible preference shares of RM1.00 each ("ICPS").

The salient features of the ICPS issued by the Company are as follows:-

- convertible to ordinary shares on the basis of one ordinary share of RM1.00 each at par for every one ICPS;
- are not redeemable;
- shall not have the right to receive notices of or to attend or vote at any general meeting except in certain circumstances;
- shall be entitled to receive non-cumulative dividends if declared by the Board of Directors;
- the return of paid-up share capital on winding-up in priority to the ordinary shares; and
- shall participate pari passu with ordinary shares for the residue of surplus assets and undeclared residual profits as shall remain after paying off the capital paid up in the event of liquidation.

The present issued and paid-up share capital of Key ASIC is RM60,300,000 comprising 603,000,000 Key ASIC Shares.

The changes in the Company's issued and fully paid-up share capital since its incorporation are as follows:-

Date of allotment	No of shares	Par value (RM)	Consideration	Resultant Issued and Paid-up Share Capital (cumulative) (RM)
22.08.05	2	1.00	Subscribers' shares	2
05.04.06	32,299,998	1.00	Capitalisation of amount owing to holding company	32,300,000
04.10.07	19,000,000	1.00	Conversion of ICPS	51,300,000
19.11.07	9,000,000	1.00	Rights Issue	60,300,000
21.11.07	603,000,000	0.10	Share Split	60,300,000

Upon completion of the Proposed Public Issue, the issued and paid-up share capital of Key ASIC will be increased to RM80,500,000 comprising 805,000,000 Key ASIC Shares.

2.3 The Subsidiary - Key ASIC Semiconductor Sdn. Bhd. ("KASSB")

KASSB was incorporated as a private limited company in Malaysia on 7 June 2007 under its present name. KASSB is principally involved in the provision of manufacturing services to fabless design companies, design-for-manufacturing and design-for-test consultation and sale of wafer and SoC products. KASSB commenced business operations in the current financial year.



12. ACCOUNTANTS' REPORT (CONT'D)

As at the date of incorporation, the authorised share capital of KASSB was RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The present issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1.00 each.

KASSB does not have any subsidiary or associated company.

3 INITIAL PUBLIC OFFERING ("IPO")

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of Key ASIC, the Company has undertaken/will undertake the following:-

- (a) Conversion of 19,000,000 ICPS held by Atlantic Quantum Sdn. Bhd. and Commerce Technology Ventures Sdn. Bhd. into 19,000,000 new ordinary shares of RM1.00 each in Key ASIC on the basis of 1 new ordinary share of RM1.00 each in Key ASIC for every 1 existing ICPS held in Key ASIC ("Conversion"). The Conversion was completed on 4 October 2007;
- (b) Renounceable rights issue of 9,000,000 new ordinary shares of RM1.00 each at an issue price of RM1.00 per share on the basis of approximately 175 new ordinary shares of RM1.00 each in Key ASIC for every 1,000 existing ordinary shares of RM1.00 each in Key ASIC held after the Conversion ("Rights Issue"). The Rights Issue was completed on 19 November 2007 ;
- (c) Share split of every 1 existing ordinary share of RM1.00 each in Key ASIC into 10 Key ASIC Shares after the Rights Issue ("Share Split"); The Share Split was completed on 21 November 2007 ;
- (d) Proposed public issue of 202,000,000 new Key ASIC Shares at an issue price of RM0.40 per Key ASIC Share to the Malaysian public, identified investors, eligible directors, employees and business associates of the Key ASIC Group ("Proposed Public Issue"); and
- (e) Proposed listing of and quotation for Key ASIC's entire enlarged issued and paid-up share capital of RM80,500,000 comprising 805,000,000 Key ASIC Shares upon completion of the Proposed Public Issue on the MESDAQ Market of Bursa Securities ("Proposed Listing").

The IPO was approved by the Securities Commission on 19 September 2007.

4 AUDITORS AND AUDITED FINANCIAL STATEMENTS

A. Key ASIC

The financial statements for the financial period from 22 August 2005 (date of incorporation) to 31 December 2005 were audited by Cheng & Co. The financial statements for the financial year ended 31 December 2006 and financial period from 1 January 2007 to 30 September 2007 were audited by us. All the financial statements were reported without any qualification.

B. KASSB

The financial statements for the financial period from 7 June 2007 (date of incorporation) to 30 September 2007 were audited by us and reported without any qualification.

5 ACCOUNTING POLICIES AND STANDARDS

The financial statements of the Key ASIC Group have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia for Entities Other Than Private Entities.



12. ACCOUNTANTS' REPORT (CONT'D)

In the financial year ended 31 December 2006, Key ASIC has adopted all the new and revised Financial Reporting Standards ("FRS") issued by the MASB which are relevant to its operations and effective for financial periods beginning on or after 1 January 2006. The applicable FRS are set out below:-

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

Key ASIC further adopted the following new and revised FRSs issued by the MASB that are effective for the Group for the financial year ending 31 December 2007:

FRS 117	Leases
FRS 124	Related Party Disclosures

The application of the revised FRS 101 has resulted in a change in the preparation of the income statements, balance sheets, statements of changes in equity and cash flow statements. The changes in the presentation have been applied retrospectively.

The adoption of the abovementioned revised FRSs did not result in substantial changes to Key ASIC Group's accounting policies and does not have any financial effect on the profit after taxation of Key ASIC Group other than as disclosed below:-

FRS 138	Intangible Assets
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Prior to 1 January 2006, all intangible assets were considered to have a finite useful life and were stated at cost less accumulated amortisation and impairment losses. Upon the adoption of FRS 138, the useful lives of the intangible assets are now assessed as having either a finite or infinite life. Accordingly, the intellectual property and licence rights are considered to have indefinite life. In accordance with the transitional provisions of FRS 138, the change in the useful life assessment from finite to infinite is made on a prospective basis. The net carrying amount of the intangible assets as at 1 January 2006 of RM24,122,058 ceased to be amortised. Because the revised accounting policy for intangible assets have been applied prospectively, the change has had no impact on amounts reported for 2005.



12. ACCOUNTANTS' REPORT (CONT'D)

6 HISTORICAL FINANCIAL INFORMATION

(a) Summarised income statements

Key ASIC Group

The following table sets out the summary of the financial results prepared based on the audited consolidated financial statements of Key ASIC Group for the financial period from 1 January 2007 to 30 September 2007.

	Period from 1 January 2007 to 30 September 2007 RM
Turnover	<u>28,880,660</u>
Gross profit	<u>14,401,367</u>
Earnings before interest, taxation, depreciation and amortisation	12,481,221
Add/(Less):	
Interest income	577,565
Depreciation	(63,561)
Amortisation	-
Profit before taxation	<u>12,995,225</u>
Less: Income tax expense	(156,172)
Profit after taxation	<u>12,839,053</u>
Gross profit margin (%)	49.87
Net profit margin (%)	44.46
Weighted average number of ordinary shares of RM1.00 each in issue	32,300,000
Gross earnings per share based on weighted average number of shares in issue (RM)	0.40
Net earnings per share based on weighted average number of shares in issue (RM)	0.40
Effective tax rate (%)	1.20
Dividend (%)	-



12. ACCOUNTANTS' REPORT (CONT'D)**Notes:**

The gross profit margin and net profit margin for the financial period under review have been calculated based on the gross profit and profit after taxation respectively, divided by the turnover for the financial period.

The gross earnings per share and the net earnings per share for the financial period under review have been calculated based on the profit before taxation and profit after taxation respectively, divided by the weighted average number of ordinary shares of RM1.00 each in issue for the financial period.

There were no extraordinary items or exceptional items in respect of the financial period under review.

The effective tax rate is lower than the statutory tax rate due to certain income of the Group is exempted from tax.

No comparative information is disclosed as the Group has yet to exist prior to financial period ended 30 September 2007.

The results of Key ASIC Group have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements.

Key ASIC

The following table sets out the summary of the financial results prepared based on the audited financial statements of Key ASIC from 22 August 2005 (date of incorporation) to 31 December 2005, for the financial year ended 31 December 2006 and for the financial period from 1 January 2007 to 30 September 2007.

	<-----Audited----->		Unaudited	Audited
	Period from 22 August 2005 to 31 December 2005 RM	Financial year ended 31 December 2006 RM	Period from 1 January 2006 to 30 September 2006 RM	Period from 1 January 2007 to 30 September 2007 RM
Turnover	-	50,644,477	33,779,672	28,790,010
Gross profit	-	6,676,877	1,844,168	14,396,835
(Loss)/Earnings before interest, taxation, depreciation and amortisation	(7,703,060)	5,611,536	916,850	12,480,075
Add/(Less):				
Interest income	18,319	81,190	67,549	577,565
Depreciation	-	(38,819)	(20,456)	(63,561)
Amortisation	(577,942)	-	-	-
(Loss)/Profit before taxation	(8,262,683)	5,653,907	963,943	12,994,079
Less: Income tax expense	(3,664)	(12,574)	(9,846)	(155,943)
(Loss)/Profit after taxation	(8,266,347)	5,641,333	954,097	12,838,136



12. ACCOUNTANTS' REPORT (CONT'D)

	<-----Audited----->		Unaudited	Audited
	Period from 22 August 2005 to 31 December 2005 RM	Financial year ended 31 December 2006 RM	Period from 1 January 2006 to 30 September 2006 RM	Period from 1 January 2007 to 30 September 2007 RM
Gross profit margin (%)	N/A	13.18	5.46	50.01
Net profit margin (%)	N/A	11.14	2.82	44.59
Weighted average number of ordinary shares of RM1.00 each in issue	2	23,981,644	21,178,389	32,300,000
Gross (loss)/earnings per share based on weighted average number of shares in issue (RM)	(4,131,341.50)	0.24	0.05	0.40
Net (loss)/earnings per share based on weighted average number of shares in issue (RM)	(4,133,173.50)	0.24	0.05	0.40
Effective tax rate (%)	(0.04)	0.22	1.02	1.20
Dividend (%)	-	-	-	-

Notes:

The gross profit margin and net profit margin for the respective financial periods/year under review have been calculated based on the gross profit and profit after taxation respectively, divided by the turnover for the respective financial periods/year.

The gross (loss)/earnings per share and the net (loss)/earnings per share for the respective financial periods/year under review have been calculated based on the (loss)/profit before taxation and (loss)/profit after taxation respectively, divided by the weighted average number of ordinary shares of RM1.00 each in issue for the respective financial periods/year.

Key ASIC has been granted pioneer status under the Promotion of Investments (Amendment) Act, 1986 for a period of 5 years commencing on 14 April 2006 and hence, no provision for income tax have been made in respect of its business income earned subsequent to 14 April 2006 whilst provision for income tax has been made mainly due to interest income earned during the financial periods/year.

There were no extraordinary items or exceptional items in respect of all the financial periods/year under review.

Save for the change in accounting policies as disclosed in Note 5, the results of Key ASIC have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements.

