

THE EYESHADE REPORT

October 12, 2001

<u>Company:</u> A.C.L.N. LIMITED	<u>Address and Phone:</u> Mechelse Steenweg 166 B-2018 Antwerp, Belgium (310) 551-0062
Ticker: ASW	Shares Out (basic): 14.2 M
Exchange: NYSE	Float: 6.4 M
Market Cap: \$ 534 M	Short Interest: 276,193
P/S: 2.2	Closing Price: (10/12/01): \$37.75
P/E: 10	52 Week Range: \$18.75 - \$50.00

Description of Business: A.C.L.N. Limited (the "Company" or "ASW") operates two primary business segments: (i) automobile logistics services between Europe and Africa, and (ii) a wholesale automobile distributions service in Africa.

Summary of Concerns

- Accounts receivable increasing faster than revenue (q/q and y/y).
- No apparent allowance for doubtful accounts.
- Cash flow from operations decline.
- Decline in gross profit margin.
- S, G & A expenses as a percentage of revenue increase.
- Extremely low effective tax rate.
- Related party transactions.
- Contradictory numbers re: new car sales.
- Company has not duplicated its first month's new car sales.
- New car cost may increase.
- Company may face increased competition.
- The Company appears to have two (2) CFO's simultaneously.
- The Company may not have had a CFO in the year 2000.
- One possible CFO paid only in stock options.
- One possible CFO may not have to devote all his time to the Company.
- Company, business, key personnel and auditor widely dispersed.
- Enforcement of U.S. securities judgment may be difficult.
- Voting control held by one individual.

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Financial Statement Review

Accounts receivable increasing faster than revenue (q/q and y/y) – For the most recently reported quarter ending June 30, 2001 (Q2 01), accounts receivable (“A/R”) increased 224% from the year ago quarter, while revenue increased 98% in that same time period. Sequentially (Q2 01 v. Q1 01), accounts receivable increased 70% while revenues increased 25%.

(000’s)	Q1 01	Q2 01	% change	Q2 00	Q2 01	% change
A/R	57,207	97,194	70%	29,994	97,194	224%
Revenue	63,185	78,895	25%	39,814	78,895	98%

No apparent allowance for doubtful accounts – The Company does not appear to make an allowance for doubtful accounts. The last allowance we found in the Company’s filings with the U.S. S.E.C. was the quarter ending September 1999 wherein the company made an allowance for doubtful accounts of \$262,429 on A/R of \$3,221,441.

Beginning with the quarter and year ending December 31, 1999 the Company showed “\$nil” on its balance sheet for doubtful accounts. The Company explained its allowance for doubtful accounts as follows:

In the normal course of business, the Company rarely has accounts receivable collectibility problems. The Company has established an allowance for bad debts against accounts receivable in connection with special automobile transport contracts entered into in 1995 and before for which the Company has not received payment. A substantial part of these amounts has been collected during 1999. The balance has been written-off as bad debts.

ASW, 1999 20-F, p. F-6.

It is certainly impressive that a company that does business in a part of the world with something of reputation for volatility does not see the need to make an allowance for doubtful accounts. We would opine, however, that a conservative approach would be to take at least some allowance for doubtful accounts receivable.

Cash flow from operations decline – For the most recent reported 6 month period ending June 30, 2001, cash flow from operations (“CFFO”) declined by 43.5% from the year ago period, despite an increase in net income (“NI”) of 62% from the year ago period. Sequentially, CFFO increased just 28%, while net income increased 130%.

(000’s)	3 mos. to 3/31/01	6 mos. to 6/30/01	% change	6 mos. to 6/30/00	6 mos. to 6/30/01	% change
NI	13,674	31,474	130%	19,458	31,474	62%
CFFO	20,062	25,749	28%	45,583	25,749	(43.5%)

Decline in gross profit margin – For the quarter ended June 30, 2001, gross profit margin declined to 27.31% from a gross profit margin of 30.29% in the year ago quarter. The most recent reported quarter was an improvement from the March 31, 2001 quarter wherein gross profit margin was 25.16%.

We would opine, however, that year-over-year comparisons are more meaningful as the Company does state in its S.E.C. filings that there is seasonality to its business. Specifically, the Company states:

Our business is subject to certain seasonal fluctuations. The busiest months of the year in our logistics business are typically from May until September and our least busy months are typically from October until April. This seasonality is directly related to the seasonal fluctuations in the used automobile markets near our ports of origination in Belgium, Germany and The Netherlands. Our wholesale new car business is affected by seasonal fluctuations to a less significant extent, as we ship approximately the same number of automobiles each month.

ASW, Form 6-K (qtr. ending 6/30/01) filed 8/30/01, pp. 11-12.

S, G & A expenses as a percentage of revenue increase – Sales, General and Administrative expenses (“S, G & A expenses”) as a percentage of revenue have increased in the most recent reported quarter to 3.6% from 2.7% in the year ago quarter.

	S, G & A expense	Revenue	S, G & A/Revenue
Q2 00	1,077,463	39,813,876	2.7%
Q2 01	2,839,070	78,895,026	3.6%

Generally, we consider a decline in gross profit margin a cause for concern (depending upon the reason for the decline). When a decline in gross profit margin is combined with an increase in S, G & A expenses, we become even more concerned (once again, depending upon the reason).

The Company attributed the decline in gross profit margin to lower margins derived from its logistics services both as a result of the discontinuation of its “freight collect” business, as well as the lower margins per car generated from its ports in West Africa, where a significant percentage of its revenues were generated.

The Company attributed the rise in S, G & A expenses to additional office expenses associated with the expansion of the Company’s business and depreciation charges on the Company’s vessel, which was purchased in May 2000. (The apparent implication being that Q2 00 only had 2 months of depreciation, while Q2 01 had the full 3 months of depreciation).

As to future costs of sales, please see the section entitled “New car cost may increase” *infra* regarding our concern over increased costs in the future.

As to the S, G & A expenses, in our opinion, ASW has an extremely low percentage of S, G & A to revenue. If it can be sustained, the Company is operating very efficiently. However, the company is scheduled to take delivery on two new vessels at a cost of \$25 million each. Delivery on the first vessel is estimated in March 2002 and for the second, June 2003. (2000 20-F, p. F-12). The depreciation charges on those vessels alone will increase S, G & A expenses in the future.

Extremely low effective tax rate – The Company reported an effective tax rate of 8.5% in the June 30, 2001 quarter. This is up from 5% in the June 30, 2000 quarter. Nonetheless, both figures are very low compared to a typical U.S. company.

Normally, a company with such a low effective tax rate it would be a cause for concern because, for most U.S. and Western European companies, such a low effective tax rate could not be sustained. Inevitably, the company would have to start recording higher tax rates due to applicable tax laws.

ASW may be somewhat different. Although based in Belgium, it states that it was incorporated in Cyprus on February 16, 1993 as Hemswell Holdings Co Limited. It later changed its name to ACLN Limited. It remained dormant until January 1, 1995, when it acquired Compagnie Labiad de Navigation S.A.M., a company incorporated in Monaco. Per its 20-F, it reports to be burdened with taxation only in Cyprus and Monaco.

The Company provided the following information regarding its taxes in its 2000 20-F:

Current income tax expense is comprised of the following:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Cyprus.....	\$861,361	\$1,362,548	\$2,369,911
Monaco.....	763	-	-
	<u>\$862,124</u>	<u>\$1,362,548</u>	<u>\$2,369,911</u>

The difference between the statutory tax rates and the effective tax rates resulted from the following:

YEAR ENDED DECEMBER 31,

	1998	1999	2000
Tax at statutory rate (Monaco 33%; Cyprus 4.25%)..	\$783,818	\$1,007,459	\$1,916,898
Penalties and other.....	78,306	355,089	453,013
	\$862,124	\$1,362,548	\$2,369,911
	\$862,124	\$1,362,548	\$2,369,911

ASW does seem to be avoiding tax in all the jurisdictions in which it does business (*i.e.*, predominately Europe and Africa). We do not have enough information to opine on whether this situation can continue indefinitely. Nevertheless, comparisons made between ASW and other companies in its business (if any can be found) need to take into account any possible differences in effective tax rates.

Related party transactions – Among the related party transactions listed by the Company in its 2000 20-F is the following:

The Company contracts for the use of dockworkers or similar port personnel in Antwerp from a local port company. The outstanding capital stock of this company is beneficially owned by the Chairman of the Board of Directors of the Company. This company also provides the Company with office space in Antwerp as part of the per vehicle fee paid by the Company. This company is also acting as the general agent responsible for collecting the freight from the various agents under the "pre-paid" system employed by the Company commencing in 2000. Notwithstanding this relationship, the Company believes that the terms of services provided by this company are at least as favorable as could be obtained from an unaffiliated third party. The total amount of fees paid to this company was \$4,563,148, \$5,402,328 and \$5,185,172 for the years ended December 31, 1998, 1999 and 2000, respectively.

Contradictory numbers re: new car sales – The Company issued a press release dated April 23, 2001 which stated that the Company sold and delivered 6,500 new cars in the quarter ending March 31, 2001. However, in its 6-K for the quarter ending March 31, 2001, the company stated that: “During the first three months of 2001, we sold approximately 5,523 cars...”. ASW, Form 6-K, filed 8/30/01, p. 11.

Company has not duplicated its first month’s new car sales - The Company is in two lines of business: (i) automobile logistics services between Europe and Africa (*i.e.*, the arrangement of shipping new and used cars for others), and (ii) a wholesale new

automobile distributions service in Africa (i.e., ASW buys new cars and ships them to various countries in Africa).

The Company's second business - the wholesale distribution (sale) of new cars – "... began operations in March 2000." (2000 20-F, Notes to Financial Statements, p. F-12). Since the Company stated that business segment "... began operations in March 2000" and not "began operations during the quarter ended March 2000" or words to that effect, it appears to us that the month of March 2000 was the first month of new car sales.

If this is correct, it appears that the Company has not matched that first month's performance in March 2000 in any subsequent quarter. Basing ASW's March 2000 revenue performance in new car sales of \$20 million and multiplying by three (3) for a full quarter's results would require \$60 million in quarterly new car sales revenue to match, on a pro rata basis, the March 2000 results. Thus far, ASW has not reported such a quarter in new car sales revenue.

Period	New car revenue
March 2000	20,400,000
3 mos. to 6/30/00	19,800,000
3 mos. to 9/30/00	22,670,000
3 mos. to 12/31/00	22,997,000
3 mos. to 3/31/01	33,142,000
3 mos. to 6/30/01	42,482,500

New car cost may increase – The Company appears to have new car costs of somewhere from \$3,626.80 (if the press release of April 23, 2001 is correct) to, in the most recent quarter, possibly as high as \$4,791.50.

The table below shows that new car costs appear to be increasing (with the aberration of the April 23, 2001 press release aside). Thus far, sales revenue has more or less also increased, with a notable increase in sales revenue in the June 2001 quarter from the prior and year ago quarters.

We have not been able to locate any information in ASW's S.E.C. filings or press releases regarding the manufacturer(s) from whom the Company is purchasing these new vehicles. However, as can be seen from the table below, if we assume that ASW is including shipping costs within its cost of new cars, it appears that ASW has purchased these new vehicles at very attractive prices. If shipping costs of \$500 per vehicle are assumed, it implies ASW has been purchasing these new vehicles for as little as approximately \$3,600.

Without researching the issuing, our "gut reaction" is that \$3,600 for a new vehicle may be an amount below the cost of many manufacturers in the U.S. or Western Europe to manufacture a vehicle. If the Company is purchasing the vehicles in Eastern Europe, additional shipping costs need to be added to the calculation to transport the

vehicles from Eastern Europe to the Company's ports in Germany, Belgium and The Netherlands.

Nevertheless, we do not know if the Company will be able to continue to obtain new vehicles at such a low price. We would note, however, that the company reported that in February 2001, it entered into an agreement to purchase 31,683 new cars from an automobile manufacturer at a significant discount to the retail value of such cars. The Company further stated that as of June 30, 2001, it had sold or received orders for all of the cars covered under this agreement. Form 6-K, Qtr. ended 6/30/01, filed 8/30/01, p. 11. We located no other details regarding the manufacturer of the terms of the purchase.

(PLEASE NOTE – There are two sets of figures below for the quarter ending March 31, 2001 for number of cars sold – the numbers are taken from two different Company sources. Additionally, please note that one line contains six (6) months worth of data – from July 1 to December 31, 2000 as we have not yet located quarterly information in that period for the number of cars sold).

	# of cars sold (and source of info)	New car revenue	New car cost	Revenue/new car	Cost/new car
March 2000	3,400 (per press release 4/23/01)	20,400,000	14,000,000	6,000	4,117.65
3 mos. 6/00	3,300 (per press release 6/29/01)	19,800,000	13,680,000	6,000	4,145.45
6 mos. 7/1/ - 12/31/00¹	7,300 (2000 Annual Report p. 10)	45,667,000	32,285,200	6,255.75	4,422.63
3 mos. 3/01	6,500 (per press release – 4/23/01)	33,142,000	23,574,200	5,098.77	3,626.80
3 mos. 3/01	5,523 (per 6-K filed 8/30/01)	33,142,000	23,574,200	6,000.72	4,268.37
3 mos. 6/01	6,025 (per 6-K filed 8/30/01)	42,482,500	28,868,800	7,051.04	4,791.50

¹ . As of today, we have not been able to locate quarterly information regarding the amount of cars sold in the third and fourth quarter of 2000. The Company stated in its 2000 20-F that ASW "...sold approximately 14,000 cars..." in 2000. ASW, 2000 20-F, p. 10. The six month figure in the table above for the July 1 to December 31, 2000 period was derived by subtracting the "new cars sold" number for the first two quarters of 2000 from 14,000.

Company may face increased competition – The Company is not only enjoying impressive revenue growth in its new car sales, but impressive gross margins (sales minus cost of sales) as well. For the six months ended June 30, 2001, ASW had gross margins on its “new car sales” business segment of 30.6%.

This compares favorably to the gross margins many car manufacturers realize. For example, for the six months ended June 30, 2001, General Motors reported gross margins of 10.8% on its “automotive, communications services, and other operations” division. For the six months ended June 30, 2001, Ford reported gross margins of 6.8%. For the year ended December 31, 2000, DaimlerChrysler reported gross margins of 17.8% on its “Industrial Business.”

Accordingly, it would appear to us that if manufacturers could enjoy the type of gross margins that ASW is currently reporting, some manufacturers (and/or car dealers) may consider entering into direct competition with ASW in the future.

Company appears to have two (2) CFO’s simultaneously – The Notes to the Company’s financial statements in its 20-F for 1999 and 2000 state that its CFO is Alex de Ridder. However, elsewhere in its Annual Report for 2000, the Company states that Christian Payne is its Chief Financial Officer as of January 2001 and that Mr. de Ridder resigned as CFO in January 2000.

The Company described the relationship with Mr. de Ridder in its Notes to Financial Statements as follows:

The Company has entered into an employment agreement with Alex de Ridder pursuant to which Mr. De Ridder has agreed to serve as Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer) of the Company, through December 31, 2002. The contract is cancellable by either party with three month's notice. The agreement provides for a base salary of \$130,000 per annum.

2000 20-F filed 6/28/01, Notes to Fin. Stmt., p. F-11; 1999 20-F filed 6/29/00, Notes to Fin. Stmt., p. F-10.

However, elsewhere in the 2000 Annual Report, the Company’s relationship with Alex de Ridder is described as follows:

Alex de Ridder has served as vice president of our company since January 1997. Until January 2000, he served as chief financial officer. Beginning in 2001, he became our chief operating officer. From 1983 to 1996, Mr. de Ridder served as an assistant to Mr. Bisschops at MFT, where he oversaw the geographic expansion of MFT and its affiliates and was responsible for the establishment of its internal controls and systems.

2000 20-F, p. 17.

The Company described its relationship with Mr. Payne in its Notes to Financial Statements as follows:

The Company has entered into an employment agreement with Christian Payne pursuant to which Mr. Payne has agreed to serve as Vice President of Finance and Investor Relations of the Company starting on April 20, 1999. The agreement provides for a base salary of \$100,000. Mr. Payne's services were terminated on January 31, 2000 and recommenced in January 2001. A contract for his current salary has not yet been agreed.

2000 20-F filed 6/28/01, Notes to Fin. Stmt., p. F-11

However, elsewhere in its 2000 Annual Report, the Company describes its relationship with Christian Payne as follows:

Christian L. Payne has served as our chief financial officer since January 2001. Prior to re-joining our company in January 2001, Mr. Payne was the co-founder of Catalyst Business Systems, Inc. a consulting firm providing outsourced infrastructure services to middle-market companies in the areas of accounting, human resources, recruiting, and information technology and telecommunications. Mr. Payne previously served as our vice president of finance from March 1999 until January 2000. From 1997 until 1998 Mr. Payne was employed by Cruttenden Roth, Inc. as an Associate of Corporate Finance. Prior to that, Mr. Payne worked in the corporate finance group of Arnold & S. Bleichroeder, Inc. and Citibank.

2000 20-F, p. 16.

In press releases dated April 23, 2001 and June 4, 2001, Christian Payne is listed as the Chief Financial Officer with a Los Angeles, California telephone number (310) 551-0062. A press release dated June 29, 2001 does not list any office or position for Christian Payne.

The 2000 financial statements were dated by the auditor (BDO International in Nicosia, Cyprus) as of April 30, 2001 and the 20-F was filed with the S.E.C. on June 28, 2001. In light of these dates, we cannot explain the discrepancy in the 2000 Annual Report regarding who is the CFO as the agreement allegedly making Mr. Payne the CFO was executed apparently on January 11, 2001 (see "One possible CFO paid only in stock options" *infra*) and Mr. de Ridder may have ceased being CFO in January 2000.

The Company may not have had a CFO in the year 2000 – As can be seen from the preceding section, it is possible the Company did not have a CFO in the year 2000, since at least one part of the Company's 2000 Annual Report states that Mr. de

Ridder served as CFO until January 2000 and Mr. Payne did not become CFO until January 2001.

One possible CFO paid only in stock options – Elsewhere within ASW’s 2000 Annual Report, ASW details its compensation agreement with Mr. Payne that seems to provide that Mr. Payne’s only compensation (other than \$1.00 in annual income) will come by way of stock options. This is quite a change from Mr. Payne’s prior agreement detailed in the 2000 20-F Notes to the Financial Statements wherein he was receiving \$100,000 per annum. The current relationship is described as follows:

In addition, we have an employment agreement with Mr. Payne pursuant to which he serves as our chief financial officer at an annual base salary of \$1.00, plus a grant of option, subject to a vesting schedule over a two-year period and to certain performance milestones, to purchase up to 150,000 shares of our ordinary shares at an exercise price of \$21.38, which represents the closing price per share of our ordinary shares on January 11, 2001. We also utilize office space in Los Angeles, California, which is leased by Catalyst Business Systems, Inc., of which Mr. Payne is a co-founder and principal. This space is provided to us as part of Mr. Payne’s employment arrangements. This agreement also provides for an incentive bonus equal to 1% of the total amount of any debt or equity financings in excess of \$10 million initiated or completed during the term of Mr. Payne’s employment. The term of Mr. Payne’s employment ends on January 12, 2003, unless terminated earlier. The agreement requires Mr. Payne to devote substantially all of his business time to the performance of his duties and responsibilities to us, except as mutually agreed by Mr. Payne and us from time to time, and restricts him from competing with us for a period of two years following the termination of his employment under the agreement.

ASW 2000 Annual Report, p. 18.

One possible CFO may not have to devote all his time to the Company - We would also note that Mr. Payne may not have to devote all his business time and attention to ASW as exemplified in the following language from the agreement description: “...The agreement requires Mr. Payne to devote substantially all of his business time to the performance of his duties and responsibilities to us, except as mutually agreed by Mr. Payne and us from time to time...” ASW, 2000 Annual Report, p. 18 (emphasis supplied).

Company, business, key personnel and auditor widely dispersed – The Company lists its principal executive offices on its filings with the S.E.C. as being in Antwerp, Belgium. Its business is shipping vehicles and selling new cars in 15 ports

located in 13 countries in North and West Africa (2000 Annual Report, Part I, Item 4 (B)). One possible CFO, Mr. Payne, is officed in Santa Monica, California. Its auditor, BDO International, is based in Nicosia, Cyprus.

Enforcement of U.S. securities judgment may be difficult – The Company is incorporated in Cyprus. All the Company's assets are located outside the United States. The Company states in its 2000 Annual Report that any judgment obtained in the United States against it may not be enforceable outside the United States. Its legal counsel in Cyprus, Economides, Patsalides & Co. Advocates, advised ASW that there is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended and the Exchange Act of 1934, as amended, in original actions instituted in Cyprus.

Voting control held by one individual – Joseph J.H. Bisshops, the Company chairman and managing director, beneficially owns approximately 49.6% of the outstanding ordinary shares as of December 31, 2000. Accordingly, he has the ability to control the election of directors and the outcome of all issues submitted to a vote of the Company's shareholders.

1-Year Stock Chart



12 Month Short Interest Data (as of the 15th of each month)*

Short Interest jumped significantly in the July 2001 reporting period from the previous month and reached a 52 week high with the September 2001 reporting period.

Settlement Date	Short Interest	Ave. Dly. Vol.	Days to Cover
September 2001	276,193	161,750	1.71
August 2001	185,775	133,961	1.39
July 2001	178,057	162,502	1.10
June 2001	27,849	126,781	1.00
April 2001	40,292	35,694	1.13
March 2001	34,654	20,691	1.67
February 2001	33,626	41,744	1.00
January 2001	26,023	23,735	1.10
December 2000	24,094	34,296	1.00
November 2000	14,527	28,086	1.00
October 2000	7,818	35,435	1.00

* Source: NASDAQ® website: www.nasdaqtrader.com and www.nasdaq.com. © Copyright 2001, The Nasdaq Stock Market, Inc. All Rights Reserved. Neither The Eyeshade Report nor Forensic Advisors, Inc. is associated with or sponsored by Nasdaq.

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