# 3. INTRODUCTION AND DETAILS OF THE PUBLIC ISSUE

## 3.1 Introduction

This Prospectus is dated 25 June 2003.

Approvals have been obtained from the SC on 24 February 2003 for the Issue and from the KLSE on 25 February 2003 for admission to the Official List of the MESDAQ Market, and for listing of and quotation of the entire issued and paid-up share capital of IFCA including the Issue Shares which are the subject of this Prospectus.

These Shares will be admitted to the Official List of the MESDAQ Market and official quotation will commence upon receipt of confirmation from MCD that all the CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all the successful applicants. KLSE and the SC assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the MESDAQ Market is not to be taken as an indication of the merits of the Company and its subsidiary companies or of its Shares.

Under KLSE's trading rules, effective from the date of listing, trading in all KLSE listed securities can only be executed through an ADA who is also a KLSE member.

A copy of this Prospectus has been lodged with the CEO of Companies Commission of Malaysia and registered with the SC who takes no responsibility for its contents.

Pursuant to section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the KLSE has prescribed the Shares of the Company as a prescribed security. In consequence thereof, the Issue Shares offered through this Prospectus will be deposited directly with the MCD and any dealings in these Shares will be carried out in accordance with the aforesaid Acts and the Rules of the MCD.

An applicant for the Issue Shares should state his CDS Account number in the space provided in the Application Form if he presently has such an account. Where an applicant does not presently have a CDS Account, he should state in the Application Form his preferred ADA Code.

The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Auditors, Solicitors, Principal Bankers, Registrars, Company Secretary, Valuers, Independent Market Researcher and Issuing House to the inclusion in this Prospectus of their names in the form and context in which their names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Reporting Accountants to the inclusion in this Prospectus of their name, Accountants' Report, and letter relating to the Proforma Consolidated Balance Sheets in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by IFCA. Neither the delivery of this Prospectus or any offer made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Group since the date hereof.

The distribution of this Prospectus and the sale of the Issue Shares in certain other jurisdictions may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Issue in any jurisdiction in which such invitation is not authorised or lawful, or to any person to whom it is unlawful to make such an invitation.

Acceptance of applications will be conditional upon permission being granted to deal in, and quotation for all of the Issued Shares. Monies paid in respect of any application accepted will be returned if the said permission is not granted.

**If you are unsure of any information contained in this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.**

### 3.2 Purpose of the Public Issue

The purposes of the Issue are as follows:-

(a) To raise funds for the Group's continued operations and expansion, details of which are elaborated in section 3.5 "Utilisation of Proceeds" below;

(b) To obtain the listing of and quotation for the entire issued and paid-up capital of IFCA on the MESDAQ Market, which is expected to enhance the business, profile and future prospects of the Group;

(c) To enable the Group to have access to the capital market for its future expansion and growth; and

(d) To provide an opportunity for the directors and employees of the Company and its subsidiary companies to participate in the equity growth of the Company.

### 3.3 Particulars of the Issue

| | RM |
|---|---|
| ***Issued and fully paid-up share capital:*** | |
| 203,770,000 ordinary shares of RM0.10 each | 20,377,000 |
| ***To be issued pursuant to the Public Issue:*** | |
| 72,430,000 ordinary shares of RM0.10 each | 7,243,000 |
| ***Enlarged Share Capital upon listing*** | |
| 276,200,000 ordinary shares of RM0.10 each | 27,620,000 |
| ***To be issued pursuant to full exercise of ESOS options*:*** | |
| 82,860,000 ordinary shares of RM0.10 each | 8,286,000 |
| ***Enlarged share capital upon full exercise of ESOS Options:*** | |
| 359,060,000 ordinary shares of RM0.10 each | 35,906,000 |

*Note:* IFCA has established an ESOS scheme of up to 30% of the issued and paid-up capital of IFCA in conjunction with its Listing.*

There is only one (1) class of shares in the Company, namely ordinary shares of RM0.10 each. The Issue Shares shall rank pari passu in all respects with the existing issued Shares of the Company, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of allotment thereof.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company, in accordance with the Company's Articles of Association.

Each shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote, and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each Share held. A proxy may but need not be a member of the Company.

The issue of a total of 72,430,000 Shares at an Issue Price of RM0.20 per Share shall be subject to the terms and conditions of this Prospectus and, upon acceptance, will be allocated in the following manner :-

(a) 42,810,000 Shares will be made available for application under private placement to selected investors;
(b) 2,000,000 Shares will be made available for application by the public; and
(c) 27,620,000 Shares will be made available for application by the eligible directors and employees of the Group.

The Issue Shares in respect of paragraph (a), (b) and (c) have been fully underwritten by the Underwriter listed in section 1. The Placement Agent has received irrevocable undertakings from selected investors to take up the Issue Shares under paragraph (a) above. In the event of an undersubscription by the public, the unsubscribed Shares may be made available for application under the private placement. Any Shares, which are made available for application by the eligible directors and employees of the Group, which are not subscribed for, will be made available for application under the public offer and/or private placement. Any further Shares not subscribed for will be made available for subscription by the Underwriter specified in the underwriting agreement dated 6 June 2003 ("Underwriting Agreement").

***Details of the Underwriting Agreement***

*(Note: Unless otherwise stated, all capitalised terms should bear the same meanings as prescribed in the Underwriting Agreement.)*

The obligations of the Underwriter are conditional upon:-
(i) the Prospectus having been registered with the SC and lodged with the CCM;
(ii) there not having been, on or prior to the Closing Date, any material adverse change in the condition (financial or otherwise) of the Company from that set forth in the Prospectus which is material in the context of the Public Issue, nor the occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representations or warranties contained hereof as though they had been given or made on such date;
(iii) the approvals and consents obtained in relation to the Public Issue as at the date of this Agreement not being withdrawn, revoked, suspended or terminated on or prior to the Closing Date;
(iv) the composite index of the KLSE not falling below the benchmark of 550 points on or prior to the Closing Date;
(v) as at the Closing Date, the Underwriter being reasonably satisfied that the Company can meet the public shareholding spread requirements under the Listing Requirements of the KLSE for the MESDAQ Market; and
(vi) the Closing Date being not more than 90 days from the date of this Agreement, or any extended date(s) as may be agreed to by the Underwriter.

If any of the conditions stated above are not satisfied, any party to this Agreement shall be entitled to terminate this Agreement by giving notice to the other party not later than the Closing Date and in that event (except for the liability of the Company for the payment of the expenses as provided in clause 7 of the Underwriting Agreement and any rights and liabilities of the Company and/or the Underwriter under clauses 4 or 5 of the Underwriting Agreement) the parties hereto shall be released and discharged from their respective obligations hereunder provided that any party in whose favour or benefit such condition or provision stated above is given or granted may at its discretion waive compliance with such condition or provision as stated above and any condition or provision so waived shall be deemed to have been satisfied in relation to it.

Notwithstanding anything contained in the Underwriting Agreement, if in the reasonable opinion of the Underwriter that there shall have occurred, happened or come into effect any of the following circumstances:-

(a) there shall have been such a change in law, regulation, directive, policy or ruling in Malaysia which would in its reasonable opinion prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares;

(b) there shall have been any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of terrorism, acts of God, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents), as would in its reasonable opinion prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares;

(c) there shall have been such a change in national monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in its reasonable opinion prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares; or

(d) there is any breach by the Company of any of its representations, warranties, undertakings or material obligations under this Agreement which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated in the notice given to the Company,

then, the Underwriter may terminate this Agreement by giving written notice to the Company before 5.00 p.m. on the Closing Date and thereupon the parties hereto shall (except for the liability of the Company in the payment of costs and expenses referred to in clause 7 of the Underwriting Agreement incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder without prejudice to their rights under this Agreement.

***Placement Agent Agreement***

A Placement Agent Agreement was entered into between the Placement Agent and the Company on 6 June 2003 for the placement of 42,810,000 of the Issue Shares for a placement fee of 1.5% of the Issue Price of RM0.20 per Share, and an arrangement fee is also payable by the Company at the rate of 0.35% of the Issue Price of RM0.20 per Share for 72,430,000 Shares pursuant to the Public Issue.

### 3.4 Pricing of the Issue

Prior to the offering, there has been no public market for the Shares of the Company. The Issue Price of RM0.20 per Share was negotiated between the Company and the Underwriter. Among the factors considered in determining the Issue Price, in addition to prevailing market conditions, were the demand from institutional and individual investors for the shares, the Group's technology enhancement, estimates of business growth potential and revenue prospects for the Group, an assessment of the Group's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

### 3.5 Utilisation of Proceeds

The Company expects the gross proceeds of the Public Issue to amount to approximately RM14.5 million. The proceeds shall accrue to the Company and the Company shall bear all expenses relating to the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market.

## 3. INTRODUCTION AND DETAILS OF THE PUBLIC ISSUE *(cont'd)*

The proceeds from the Public Issue of approximately RM14.5 million are expected to be utilised for the following:-

| **Purpose** | **Note** | **RM'000** |
|---|---|---|
| Overseas investments | (i) | 1,500 |
| R&D expenditure | (ii) | 7,000 |
| Renovation and upgrading of PCs and other office equipment | (iii) | 1,000 |
| Working capital | (iv) | 3,186 |
| Estimated listing expenses | | 1,800 |
| | | 14,486 |

***Notes:-***

*(i) The Group has incorporated a subsidiary in Shanghai, PRC. The allocation of RM1.5 million will be applied towards subscription of share capital in the new subsidiary, initial set up cost and operating expenses for the next 24 months.*

*(ii) As part of the Group's ongoing efforts to maintain technological advantage over its competitors, the Group has allocated RM7 million of the proceeds raised for the development of its browser-based solutions as well as continuing enhancement of existing range of products for the next 24 months. The allocation will cover the R&D team's salary cost, computer hardware and software and related overheads.*

*(iii) As part of its effort to enhance its image and branding, the Group has allocated RM1 million for renovation and upgrading of computer hardware and other office equipment more specifically the upgrading of user training facilities.*

*(iv) The allocation of approximately RM3.2 million as additional working capital for the Group is necessary to allow the Group to be more aggressive in sales and marketing efforts. A higher turnover would result in higher debtors as well as sales related expenditure. The Group also intends to beef up its marketing efforts by directing part of the working capital for purposes of participating in exhibitions and conducting market studies.*

It is intended that the above-mentioned proceeds of approximately RM14.5 million will be utilised within 24 months from the listing date.

### 3.6 Brokerage, Underwriting and Listing Expenses

The Underwriter mentioned herein has agreed to underwrite 72,430,000 Shares in IFCA (in section 3.3 (a), 3.3 (b) and 3.3 (c) above) pursuant to the Public Issue. Underwriting commission is payable by the Company at the rate of 2.5% of the Issue Price of RM0.20 per Share for 44,810,000 Shares under the Public Issue. For the remaining balance of 27,620,000 Shares under the pink form allocation, the Underwriter will only be paid the same rate of commission for any of the remaining Shares of 27,620,000 that is not taken up or duly applied for by the eligible directors and employees of IFCA Group.

Please refer to section 3.3 for details of the Underwriting Agreement.

## 3. INTRODUCTION AND DETAILS OF THE PUBLIC ISSUE *(cont'd)*

Listing expenses are estimated at approximately RM1.8 million, with the following estimated breakdown:-

| | RM |
|---|---|
| Professional fees | 850,000 |
| Regulatory authorities fees | 32,500 |
| Underwriting commission/placement and arrangement fee | 430,000 |
| Brokerage fee | 4,000 |
| Printing and advertising fees | 200,000 |
| Miscellaneous | 283,500 |
| **Total** | **1,800,000** |

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## 4. RISK FACTORS

***NOTWITHSTANDING THE PROSPECTS OF THE GROUP AS OUTLINED IN THIS PROSPECTUS, APPLICANTS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PREFORMANCE OF THE GROUP, IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE HEREIN, BEFORE PARTICIPATING IN THE NEW ISSUE.***

### 4.1 Operating Risks

IFCA which carries out the core revenue-generating business processes of the Group, has been profitable for the last five (5) financial years. The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. These include, amongst others, reliance on performance of other industries, competition, market acceptance of new products or services, and other business risks common to going concerns.

However, there is no assurance that IFCA will continue to be profitable in future years, or that it will achieve increasing or consistent levels of profitability.

Barring any unforeseen circumstances, the directors of IFCA believe that the Group should be able to maintain its record of profitability as the Group has been diversifying its product range by offering software solutions to five (5) main industries and venturing into overseas markets. Hence, the Group is not overly reliant on any one industry or market.

### 4.2 Competition

IFCA's future success will depend, to a large extent, on its ability to increase its market share in its target markets. The ICT industry is comprised of a large number of participants and is subject to rapid change and intense competition. IFCA currently competes for client assignments and experienced personnel with a number of firms. IFCA has to compete with its competitors' pricing strategies, technological advances, advertising campaigns, strategic partnerships and other initiatives. IFCA does not own any proprietary technologies that preclude or inhibit potential competitors from entering its industry. Competition is expected to intensify in the future and IFCA will face additional competition from new entrants into its markets.

There is no assurance that IFCA will be able to compete successfully against current or future competitors. Increased competition may result in loss of market share, reduced revenue, margins and price reductions, any one of which could materially and adversely affect the Group's business, operating results and financial condition.

The Company focuses on R&D activities to develop new products and services and upgrade its existing products to stay ahead of their competitors. Furthermore, the directors of IFCA believe that the Group will remain competitive in the future due to its sixteen (16) years of experience in the software application market which has enabled it to understand the clients' needs and the changing market demand.

### 4.3 Brand Awareness

An important element of IFCA's business strategy is to develop and maintain widespread awareness of its brandname in overseas markets. To promote its brandname "IFCA", IFCA plans to increase its marketing expenses, which may cause its operating margin to decline. If its initial efforts are not successful, it may not experience any increase in revenue to offset the increase in marketing expenses. If it fails to successfully promote and maintain its brandname or incur significant related expenses, its operating margins and growth may decline.

To mitigate this risk, the Company intends to carry on with continuous marketing efforts and promotion activities.

### 4.4 Rapid Technological/Product Change in the Software/ICT Services Market

The market for business application software is characterised by rapid technological advancements, changes in customer requirements, frequent new product introductions and enhancements and changing industry standards. IFCA has derived, and it expects to continue to derive, a substantial portion of its revenue from creating software solutions that are based upon today's leading technologies. As a result, its success will depend in part on its ability to offer commercially viable software solutions and services that keep pace with continuing changes in technology, evolving industry standards and changing client preferences. Failure to respond successfully to these technological developments, or to respond in a timely or cost-effective way, will result in serious damage to its business and operating results.

The software and ICT services industry is characterised by rapid technological changes, the frequent development and enhancement of services and products and new emerging industry standards. The life cycle of IFCA's software solutions is difficult to estimate and its current market position may be undermined by rapid technological changes and the introduction of new products and enhancements by new or existing competitors. The introduction of services or products embodying new technologies and the emergence of new industry standards and practices could also render its existing software solutions obsolete and unmarketable. Its future success will depend, in part, on its ability to:

(i) enhance its existing software solutions and services;
(ii) develop new software solutions and enhance its services to address the increasingly sophisticated and varied needs of prospective customers; and
(iii) respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

If it is unable to develop and introduce new or enhanced software solutions in a timely manner in response to changing market conditions or customer requirements, or if new software solutions do not achieve market acceptance, its business will be adversely affected. The enhancement of existing and the development of new software solutions entail significant technological risks and utilisation of resources. It cannot assure investors that it will be successful in effectively using new technologies, adapting its services and products to emerging industry standards, developing, introducing and marketing service and product enhancements, or new products and services, or that it will not experience difficulties that could delay or prevent the successful development or marketing of these services and products, or that any such new service and product enhancements will adequately meet the requirements of the market place and achieve market acceptance.

The Group with its experienced and skilled personnel, will constantly strive to develop new products and upgrade applications using the latest technology to ensure that it delivers marketable enterprise software solutions to its customers and to meet the changing market demand.

### 4.5 Product Risks

It is not uncommon for software products to contain undetected errors when first introduced or as new versions are released. This could result in:-

- Delayed or lost customer revenue;
- Adverse reaction from customers;
- Negative publicity about IFCA and its software solutions, which could adversely affect its ability to attract new customers or retain maintenance contracts with existing customers;
- Additional expenditures to correct the problem; and
- Claims for substantial damages against IFCA regardless of its responsibility for such failure, which may not be limited by the contractual terms of its licenses.

In order to mitigate the above risks, IFCA's sales order and sales and purchase agreement seek to limit its damages and other potential liabilities (including liabilities for consequential damages). However, these contractual provisions may be subject to challenge depending on the circumstances.

### 4.6 Dependence on Directors and Key Personnel

IFCA's success depends in large part on its ability to hire, train, motivate and retain qualified professionals with creative, IT, strategic and customer service skills. There is currently significant competition for professionals with the skills necessary to perform the services that IFCA Group offers to its customers. This competition has caused wages for such professionals to increase, which increases operating costs to ICT firms like IFCA. The need in the business to blend traditional IT skills with creative skills further exemplifies this challenge. Its ability to develop new software solutions and enhance its existing ones depend largely on its ability to hire, train and retain personnel with the required skills so as to keep pace with continuing changes in IT, evolving industry standards and changing client preferences. IFCA Group cannot be sure that it will be successful in attracting and retaining such professionals. In addition, it generally incurs substantial costs in recruiting, hiring and training these professionals before they become productive. For example, it needs to train newly hired professionals into its R&D teams. If it is unable to hire a sufficient number of qualified professionals or to successfully train, integrate and retain these professionals, its business, financial condition and results of operations could be affected.

Its continued success depends on the continued employment of its senior management team and key technical personnel. If one or more members of its senior management team or key technical personnel were unable or unwilling to continue their present positions, such persons may be very costly to replace. Accordingly, the loss of a few members of its senior management team could have a direct adverse impact on its future sales and performance. Furthermore, clients or other companies may hire away some of its key employees. This practice may result in the loss not only of key employees, but also adversely affects client relationships and new business opportunities.

The Company must continue to hire management personnel on a timely basis and in such a manner as is necessary to accommodate any increase in the number and size of client projects and any increase in the size of its operations. Its failure to hire and retain appropriate personnel to manage its operations would affect its business, operating results and financial condition.

The Group will be implementing an ESOS in conjunction with its listing on the MESDAQ Market to allow the employees of the Group to participate directly in the equity of the Company and upon becoming shareholders, to participate in the Group's prospects and future growth. The Company also strives to offer its employees competitive salary/remuneration and benefit packages.

### 4.7 Reliance on Other Industries

It relies and expects to continue to rely on sales to companies in the property, hospitality and finance and leasing industries for most of its revenue.

It derives substantially all of its revenue from companies in the property, hospitality and finance and leasing industries. In FYE 2002, turnover from the property and hospitality divisions accounted for approximately forty five (45%) and fifteen (15%) per cent respectively of the Group's total turnover. As such, its short-term growth is dependent on the growth of these industries as well as the continued demand for enterprise software solutions by the finance and leasing industry.

As a large part of its turnover is derived from software and services sold to property based company in Malaysia, it is dependent, to a large extent, on the property sector in Malaysia, which is in turn dependent on the general health of the Malaysian economy.

In order to mitigate the risk of over-dependence on the property sector in Malaysia, IFCA is actively diversifying its business geographically as well as promoting other IFCA software which caters for different industries, for example, its ERP products.

### 4.8 Protection of Group and Third Party Proprietary Technology/Intellectual Property Rights

Its intellectual property rights may be inadequately protected and there is a risk that it is unable to enforce such rights. This may adversely affect its business.

A substantial portion of its revenue is derived from its own proprietary software which takes time and resources to develop. In order to protect its intellectual property rights, it relies on a combination of trademark, copyright and trade secret protection. It has also executed confidentiality agreements with its employees and issued other contractual licenses to its customers, clients and strategic partners, so as to secure protection for its existing as well as new business solutions. These, however, only afford it with limited protection and there is no assurance that it is able to protect its proprietary rights against unauthorised third party copying or use of its software.

The protective steps which it has taken may however be insufficient to establish effective ownership of intellectual property rights in respect of all original and new creations in its software solutions. For example, it is possible that it may have previously inadvertently misplaced or omitted to execute certain assignments of intellectual property from co-authors, co-inventors and other collaborators in its favour. In such event, the non-execution of such agreements may put parties against its claim to intellectual property ownership. Third parties, including former employees, may attempt to claim that it does not own the intellectual property rights for substantial parts of its products. If it is unable to protect its intellectual property rights adequately, its reputation could be damaged and its competitive position could be harmed. It would experience a substantial loss of revenue if its software products were to be copied and sold by third parties in violation of its copyright.

IFCA has asserted copyright ownership, and has applied to register its trademarks in Malaysia. In the event it is unable to detect the unauthorised use of, or take appropriate steps to enforce such rights, its future business operations may be adversely affected. Effective trademark, copyright and trade secret protection may not be available in every country in which it offers or intend to offer its services. Effective protection for intellectual property also varies between countries, as do the procedures for enforcement of intellectual property rights. Such risks also hinder its chances at competing effectively, and hinder the marketing of its software solutions.

Defending against intellectual property infringement claims could be expensive and disruptive to IFCA's business. Whilst it is unaware of any claim that its software infringes the intellectual property rights of others, other parties may assert infringement claims against it or claim that it has violated a patent or infringed a trademark, copyright, or other proprietary (whether statutory or otherwise) right belonging to them. Even if such claims are without merit, they result in the expenditure of significant managerial and financial resources by IFCA in defending against such claims. This in turn could materially and adversely affect its business, as well as its operational and financial performance. Any final judicial determination against IFCA in respect of infringement of third party rights could result in its inability to continue to market some of its software solutions, adversely affecting its business operations and financial performance.

IFCA's employees may misappropriate its proprietary information and the proprietary information of its clients. IFCA enters into confidentiality agreements with its employees and attempts to limit access to and distribution of its proprietary information and the proprietary information of its clients. The steps it has taken in this regard may not be adequate to deter misappropriation of proprietary information and it may not be able to detect unauthorised use or take appropriate steps to enforce intellectual property rights.

IFCA's contracts provide that it will indemnify its clients for intellectual property infringement claims brought by third parties against its clients related to the projects that it undertakes for them. Although no third party has ever threatened litigation of a claim of infringement by one of its clients based on the work it has performed, it cannot be sure that claims will not be brought in the future. If an action were brought against IFCA, it would divert management attention and increase expenses, and may have an adverse effect on its business, operating results and financial position.

### 4.9 Delays in R&D

A strong R&D capability is important for the continued development of new products that meet the demands of its customers. However, there are inherent risks involved, given that R&D efforts may require long lead-times. Such risks include the uncertainties with regards to the outcome of its R&D efforts, delays in development of potential products and general uncertainties due to the rapid changes in technology know-how.

The delay in the completion of the development of its software solutions and the consequent delay in the launch of these products in the market place may adversely affect its competitive position. The introduction of a new competitive product may also affect its product's appeal to its prospective clients.

In addition, the ICT industry is faced with intense competition in the following areas:-

- developing software products for existing and new markets;
- obtaining and sustaining proprietary rights to technology; and
- marketing, selling and distributing these software products.

The enterprise software solutions market is characterised by rapid changes in technology and ensuing clients' expectations, new product and service introductions and evolving industry standards. If it is unable to innovate, develop and introduce new software products in a timely manner to meet these technological changes, it will not be in a position to compete effectively and successfully and this will have an adverse impact on its revenue growth.

The key management closely monitors its R&D activities. In addition, the R&D team also reports to the key management on its R&D progress on a regular basis.

### 4.10 Future Capital Injections

It is the management's opinion that the net proceeds of the Public Issue, together with cash flow from operations and other existing sources of funds will be sufficient to meet its projected working capital and other cash requirements. However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. The sale of additional equity or other convertible securities to non-shareholders will result in further dilution in the shareholdings held by the Company's existing shareholders.

### 4.11 No Prior Market for IFCA Shares and Possible Volatility of Share Price

There has been no prior public market for the Company's Shares. The Issue Price was determined through negotiation between the Group and the Underwriter based upon several factors and may not be an indication of the market price of the Shares after the Issue. See section 3.6 on "Underwriting" for a discussion of the factors considered in determining the Issue Price.

There can be no assurance that an active public market in the Shares will be developed or be sustained after this Issue or that the market price of the Shares will not decline below the Issue Price. The Group believes that a variety of factors could cause the price of the Shares to fluctuate, including sales of substantial amounts of Shares in the public market in the future; announcements of developments relating to the Group's business; fluctuations in the Group's operating results and sales levels; general industry conditions or the world-wide economy; announcements of new products or product enhancements by the Group or its competitors; and developments in patent, copyright or other intellectual property rights.

In addition, in recent years, the stock market in general, and the market for the shares of many high technology companies in particular, has experienced extreme price fluctuations which have often been unrelated to the operating performance of such companies. Such fluctuations may adversely affect the market price of the Company's Shares.

## 4.12 New Geographical Market

If IFCA is not successful in penetrating new geographical markets, it may suffer revenue shortfalls and an increase in operating costs. Substantial management resources will be devoted to launch its products and grow its operations in these new markets. It cannot guarantee that these new sales and marketing efforts will be successful or generate significant revenue. Any such failure could affect its business, financial condition and operating results. It will be subject to additional risks when it operates in foreign countries that could affect its financial condition and operating results. These risks include the following:

- Local regulatory requirements
- Costs and risks in localising software solutions for foreign markets
- Fluctuations in currency exchange rates
- Any imposition of currency exchange controls
- Unexpected changes in regulatory requirements
- Difficulties and costs of staffing and managing overseas operations
- Restrictions on the import and export of certain sensitive technologies, including data security and encryption technologies that it may use

In addition to the risks as highlighted above, the specific risks associated with IFCA's investment in PRC are as follows:-

- Software piracy
- Collection of debts
- Acceptance of IFCA products

IFCA's software can only be used with a unique activation code generated by IFCA and provided to the clients on a yearly basis. This helps to mitigate the risks of software piracy and collection of debts. However, this code is not hacker-proof and hence there is no assurance that if this code is hacked in the future, there will not be any negative implications to IFCA's software security and installations, leading to revenue and collection shortfall.

IFCA has set up a subsidiary in Shanghai and locals are hired as they have better business contacts and business relations with local companies. This will assist IFCA to penetrate into the local market and encourage the acceptance of IFCA's products in PRC.

## 4.13 Introduction of New Products and Market Reception

IFCA is cognizant that it is imperative for all software solutions to support new web and distributed-computing paradigms. The browser-based technology is used for connecting information, people, systems, and devices through the web. The web technology allows users to have remote access to current information. However, this in itself gives rise to risks as the web network is vulnerable to various factors. Security is a major concern, as the loss of confidential and sensitive information can adversely affect businesses.

In an enterprise-wide environment, the volume of data that needs to be shared across various entities, departments as well as personnel can become massive. There is also a concern as to whether the present infrastructure can support the volume of transactions needed to run an efficient business.

In order to mitigate this risk, the Group strives to monitor the market demand for browser-based solutions through feedback from its customers and market research to ensure the acceptance of these products.

### 4.14 Continued Control by Existing Shareholders

Upon completion of this Issue, the directors, executive officers and substantial shareholders of the Company will, in the aggregate, beneficially own approximately 70.1% of the issued and paid-up share capital of the Company. As a result, these shareholders, acting together, will possess voting control over the Company, giving them the ability to, amongst others, elect at least a majority of the Company's Board of Directors and to control the vote on significant corporate transactions.

Nonetheless, the Company has appointed two (2) independent directors as a step towards good corporate governance to ensure that any future transactions involving related parties, if any, are entered into on arms-length terms.

### 4.15 Foreign Exchange Risks

IFCA's sales revenue is denominated in RM and USD while its costs are denominated mainly in RM.

The Group is currently expanding overseas. As such, the Group is exposed to foreign exchange risk. The revenue from overseas (mainly royalty income) is denominated in USD and this provides a natural hedge against currency fluctuations. However, there can be no assurance that any future significant fluctuations in exchange rates and financial crises will not have any impact on the revenue and earnings of the Group.

### 4.16 Litigation Risks

The Group's sales orders typically contain provisions designed to limit the Group's exposure to potential product liability claims. The Group has not experienced any material product liability claims. It is possible, however, that the provisions relating to limitation of liability contained in the Group's sales orders may not be effective as a result of existing or future laws or unfavourable judicial decisions on such laws or the construction of such provisions. Furthermore, some of the Group's agreements with its customers may be governed by foreign laws, and there is no assurance that the provisions relating to limitation of liability as contained in the sales orders would be enforced under such foreign laws or in foreign jurisdictions.

The Group seeks legal advice from its solicitor in relation to any product liability provisions in its sales order forms and purchase agreement and will continue to do so in the future to mitigate the above risk.

### 4.17 Regulatory Risks

Currently, save for general company and contract laws, the business activities of the Group in Malaysia are not subject to any specific legislation or regulations. However, there can be no assurance that future legislative or regulatory policy changes will not affect the operations of the Group.

### 4.18 Change in MSC Status

IFCA was granted MSC status on 22 January 1998 by MDC. Presently, all MSC status companies are granted financial and non-financial incentives. Financial incentives include:-

- a five (5) year exemption from Malaysian income tax (only on income derived from MSC related activities) commencing from the date when the company starts generating income, renewable to ten (10) years, the renewal of which, will depend on the Group's performance in transferring technology or knowledge to Malaysia, or a 100% investment tax allowance on new investments made in MSC cybercities, commencing from the date on which the first qualifying capital expenditure is incurred. MDC had vide its letter dated 23 April 2003 informed IFCA that the extension of the tax exemption status has been approved for a further five (5) years, to 31 January 2008;
- duty-free importation of multimedia equipment, provided that the equipment is used by the company in the operation of its business, and not for direct sale and trading or use as components in manufactured items; and
- R&D grants for MSC small and medium enterprises that are at least 51% Malaysian owned.

Non-financial incentives include:-

- unrestricted employment of foreign knowledge workers;
- freedom of ownership; and
- freedom to source capital for MSC infrastructure globally, and the right to borrow funds globally. All MSC status companies will be given exemptions by the Controller of Foreign Exchange from exchange control requirements which will allow them to execute transactions in any currency in Malaysia or elsewhere, borrow any amount from financial institutions, associate companies or non-residents, hedge foreign exchange exposure, remit funds globally and open foreign currency accounts in Malaysia or abroad with no limits on balances.

The MDC is the body responsible for monitoring all MSC designated companies. MDC has the right to withdraw any company's MSC status at any time. Although IFCA believes that it has and will continue to be able to fulfill the conditions for MSC status and to ensure that it remains in the same line of business, there can be no assurance that IFCA will continue to retain its MSC status or that it will continue to enjoy or not experience delays in enjoying the MSC incentives outlined above, all of which could materially and adversely affect the Group's business, operating results and financial condition.

### 4.19 Uncertainty of Proposed 5-year Business Development Plan

The success of the Group's business development plan will be largely dependent upon market acceptance of its new products, successful penetration into the PRC market, as well as the Group's ability to successfully market its products and to further develop and commercialise further applications of its proprietary technology. In addition, the Group's proposed future plan and prospects will be dependent upon, among other things, the Group's ability to enter into strategic marketing and licensing or other arrangements on a timely basis and on favourable terms, establish satisfactory arrangements with sales representatives and marketing consultants, hire and retain skilled management as well as financial, technical, marketing and other personnel, successfully manage growth (including monitoring operations, controlling costs and maintaining effective quality, inventory and service controls) and obtain adequate financing as and when needed.

As a mitigating factor, the Group has been in operations since 1997 and the management team of IFCA is experienced in the industry. However, there can be no assurance that the Company will be successful in implementing its plans and strategies or that unanticipated expenses or technical difficulties or problems will not occur which would affect the implementation or even deviation from its original plan.

### 4.20 Forward-Looking Statements

This Prospectus includes forward-looking statements, which are statements other than statements of historical facts. Although the Group believes that, barring unforeseen circumstances, the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to have been correct.

Their inclusion in this Prospectus should not be regarded as a representation or warranty by the Company, the Adviser or any other advisers that the plans and objectives of the Group will be achieved.

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# 5. FINANCIAL INFORMATION

## 5.1 Proforma Historical Financial Record

The table below sets out a summary of the audited proforma consolidated results of the Group for the past five (5) financial years ended 31 December 2002 and is provided for illustrative purposes based on the audited accounts of IFCA and its subsidiary companies, prepared on the assumption that the current structure of the Group had been in existence throughout the period under review:-

| | ←FYE 31 December→ | | | | |
|---|---|---|---|---|---|
| | **1998 RM'000** | **1999 RM'000** | **2000 RM'000** | **2001 RM'000** | **2002 RM'000** |
| Turnover | 12,061 | 24,521 | 19,959 | 19,824 | 23,413 |
| Cost of sales | (3,767) | (8,118) | (5,143) | (4,618) | (5,723) |
| Gross profit | 8,294 | 16,403 | 14,816 | 15,206 | 17,690 |
| Profit before interest, depreciation, amortisation and taxation | 2,937 | 6,779 | 4,954 | 5,865 | 6,491 |
| Depreciation | (128) | (336) | (362) | (570) | (727) |
| Amortisation of deferred development costs | (390) | (696) | (1,537) | (2,352) | (3,096) |
| Interest expenses | (2) | (6) | (13) | (27) | (31) |
| Profit before taxation | 2,417 | 5,741 | 3,042 | 2,916 | 2,637 |
| Taxation | (44) | (2) | (165) | (61) | 12 |
| Profit after taxation | 2,373 | 5,739 | 2,877 | 2,855 | 2,649 |
| Minority interest | 16 | (207) | 17 | 154 | 221 |
| Profit for the year | 2,389 | 5,532 | 2,894 | 3,009 | 2,870 |
| Number of shares ('000) (shares assumed in issue after the Bonus Issue, Property Acquisitions and Share Split) | 203,770 | 203,770 | 203,770 | 203,770 | 203,770 |
| Net EPS (sen) [(a)] | 1.17 | 2.71 | 1.42 | 1.48 | 1.41 |
| Number of shares ('000) (based on enlarged share capital) | 276,200 | 276,200 | 276,200 | 276,200 | 276,200 |
| Net EPS (sen) [(b)] | 0.87 | 2.00 | 1.05 | 1.09 | 1.04 |

***Notes:-***

*(a) The net EPS has been calculated based on the profit for the year and the number of shares of RM0.10 each assumed in issue after the Bonus Issue, Property Acquisitions and Share Split.*

*(b) The net EPS has been calculated based on the profit for the year and the number of Shares after the Public Issue.*

*(c) In 1999, the Group recorded a significant growth in revenue, primarily contributed by the Y2K concerns prevalent amongst most businesses.*

*(d) However, the Group's revenue dipped by 19% in 2000 due to the slowdown in system upgrades as most businesses would have been Y2K compliant by end 1999.*

*(e) By 2001, the Group's revenue stabilised with a variance of 1%.*

*(f) The Group's revenue registered a growth of 18.1% as a result of higher revenue from overseas operations. Revenue from overseas operations grew from RM1.3 million to RM4.2 million during the FYE 2002. The higher amortisation of deferred development cost and the start-up cost for the Shanghai subsidiary, were the major causes of the 7% decline in profit for the year.*

*(g) The Group's PBT is largely driven by the revenue trend, as a major portion of the Group's operating expenses consist of staff related costs which represent the fixed cost of the Group.*

*(h) There were no extraordinary or exceptional items in the years under review.*

## 5.2 Proforma Consolidated Balance Sheets

The table below sets out the proforma consolidated balance sheets of the Group as at 31 December 2002 (which is to be read in conjunction with the Accountants' Report attached under section 11 of this Prospectus) and is provided for illustrative purposes based on the audited accounts of IFCA and its subsidiary companies and the listing scheme as stated in section 6.4 of this Prospectus:-

| | | ←Proforma Group | | | → |
|---|---|---|---|---|---|
| | | I | II | III | IV |
| | **Audited Group as at 31 December 2002 RM'000** | **After Bonus Issue RM'000** | **After (I) and Property Acquisitions RM'000** | **After (II) and Share Split RM'000** | **After (III) and Public Issue RM'000** |
| Property, plant and equipment | 2,664 | 2,664 | 8,441 | 8,441 | 8,441 |
| Deferred development costs | 7,410 | 7,410 | 7,410 | 7,410 | 7,410 |
| Other investments | 171 | 171 | 171 | 171 | 171 |
| Current Assets | 13,205 | 13,205 | 13,205 | 13,205 | 25,891 |
| Current Liabilities | 4,136 | 4,136 | 4,136 | 4,136 | 4,136 |
| Net Current Assets | 9,069 | 9,069 | 9,069 | 9,069 | 21,755 |
| | 19,314 | 19,314 | 25,091 | 25,091 | 37,777 |
| Financed by | | | | | |
| Share capital | 2,150 | 14,600 | 20,377 | 20,377 | 27,620 |
| Share premium | - | - | - | - | 5,443 |
| Retained profits | 16,967 | 4,517 | 4,517 | 4,517 | 4,517 |
| Exchange reserve | 1 | 1 | 1 | 1 | 1 |
| Shareholders' funds | 19,118 | 19,118 | 24,895 | 24,895 | 37,581 |
| Minority interest | 254 | 254 | 254 | 254 | 254 |
| Goodwill on consolidation | (112) | (112) | (112) | (112) | (112) |
| Long term liabilities | 54 | 54 | 54 | 54 | 54 |
| | 19,314 | 19,314 | 25,091 | 25,091 | 37,777 |
| **Number of ordinary shares in issue ('000)** | 2,150 | 14,600 | 20,377 | 203,770 | 276,200 |
| **NTA per share (RM)** | 5.39 | 0.79 | 0.85 | 0.09* | 0.11* |

*Note: * Upon implementation of the Share Split, the NTA per share is calculated based on the number of ordinary shares of RM0.10 each in issue.*

### 5.3 Consolidated Cash Flow Statement

The table below sets out the audited consolidated cash flow statement of the Group for the FYE 31 December 2002.

| | FYE 31 December 2002<br>RM'000 |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Profit before taxation | 2,917 |
| Adjustments for:- | |
| Depreciation of property, plant and equipment | 712 |
| Amortisation of deferred development costs | 3,096 |
| Hire purchase interest | 31 |
| Provision for doubtful debts | 402 |
| Interest on short term deposit | (4) |
| Provision for diminution in value of investment | 12 |
| Property, plant and equipment written off | 1 |
| Operating profit before working capital changes | 7,167 |
| Working capital changes: | |
| Receivables | (926) |
| Payables | (132) |
| Directors | (3) |
| Balance with holding company | 366 |
| Balances with related parties | 681 |
| Cash generated from operations | 7,154 |
| Taxation paid | (103) |
| Net cash generated from operating activities | 7,051 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received | 4 |
| Purchase of club memberships | (72) |
| Purchase of property, plant and equipment | (742) |
| Development costs | (3,722) |
| Acquisition of subsidiaries net of cash required | (1,020) |
| Net cash used in investing activities | (5,551) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Interest paid | (31) |
| Financing of computer laptops purchased by employees through hire purchase contracts | 37 |
| Payments to hire purchase creditors | (284) |
| Net cash used in financing activities | (278) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 1,221 |
| **CASH AND CASH EQUIVALENTS BROUGHT FORWARD** | 971 |
| **CASH AND CASH EQUIVALENTS CARRIED FORWARD** | 2,192 |

### 5.4 Key Financial Ratios

The table below sets out the key financial ratios which were prepared based on the audited accounts of IFCA Group and on the assumption that the structure of the Group had been in existence throughout the period under review.

| FYE 31 December | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 |
|---|---|---|---|---|---|
| Paid-up capital | 2,150 | 2,150 | 2,150 | 2,150 | 2,150 |
| Shareholders' funds | 4,742 | 10,274 | 13,168 | 16,178 | 19,118 |
| NTA | 3,179 | 7,362 | 8,622 | 9,393 | 11,596 |
| NTA per share (RM) | 1.48 | 3.42 | 4.01 | 4.37 | 5.39 |
| Turnover | 12,061 | 24,521 | 19,959 | 19,824 | 23,413 |
| PBT | 2,417 | 5,741 | 3,042 | 2,916 | 2,637 |
| PAT and minority interest | 2,389 | 5,532 | 2,894 | 3,009 | 2,870 |
| Net EPS (RM) | 1.11 | 2.57 | 1.35 | 1.40 | 1.33 |
| Effective tax rate (%) | 2 | -* | 5 | 2 | 1 |
| Gross profit margin (%) | 69 | 67 | 74 | 77 | 76 |
| Pre-tax profit margin (%) | 20 | 23 | 15 | 15 | 11 |
| Current ratio (times) | 1.97 | 2.75 | 2.89 | 2.59 | 3.19 |
| Total borrowings (all interest bearing) | 60 | 26 | 220 | 308 | 154 |
| Gearing (all interest-bearing debts over shareholders' funds) (times) | 0.01 | -* | 0.02 | 0.02 | -* |
| Interest expense | 1 | 6 | 13 | 26 | 31 |
| Interest cover (times) | 1,719 | 917 | 237 | 111 | 87 |
| Gross dividend ratio | - | - | - | - | - |

*Note: * Negligible*

## 5.5 Segmental Analysis of IFCA Group's Turnover

The following tables provide the breakdown of the Group's turnover by products and services and geographical segments.

| | 1998 | | 1999 | | 2000 | | 2001 | | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Software application | 3,320 | 28 | 9,053 | 37 | 7,205 | 36 | 7,988 | 40 | 10,087 | 43 |
| Hardware, networking and operating systems | 5,286 | 44 | 10,592 | 43 | 7,490 | 38 | 6,010 | 30 | 6,641 | 28 |
| Training and implementation services | 715 | 6 | 2,699 | 11 | 1,775 | 9 | 1,611 | 8 | 1,532 | 7 |
| Maintenance and support services | 2,740 | 22 | 2,177 | 9 | 3,489 | 17 | 4,215 | 22 | 5,153 | 22 |
| **GROUP TURNOVER** | 12,061 | 100 | 24,521 | 100 | 19,959 | 100 | 19,824 | 100 | 23,413 | 100 |

| | 1998 | | 1999 | | 2000 | | 2001 | | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Local | 11,831 | 98 | 22,945 | 94 | 19,821 | 99 | 18,479 | 93 | 19,229 | 82 |
| Overseas | 230 | 2 | 1,576 | 6 | 138 | 1 | 1,345 | 7 | 4,184 | 18 |
| **GROUP TURNOVER** | 12,061 | 100 | 24,521 | 100 | 19,959 | 100 | 19,824 | 100 | 23,413 | 100 |

## 5.6 Working Capital, Borrowings and Contingent Liabilities

The directors of the Company are of the opinion that after taking into consideration the cash flow forecast including the proceeds of the Public Issue and banking facilities available, the Group will have adequate working capital for its present and foreseeable future requirements.

As at 16 June 2003 (being the last practicable date prior to the printing of this Prospectus), the Group's total borrowings amounted to approximately RM126,000, which comprises of hire purchase creditors.

Save as disclosed above, the Group does not have any other loan capital outstanding or created but unissued, mortgages or charges outstanding on that date.

As at 16 June 2003 (being the last practicable date prior to the printing of this Prospectus), the Group does not have any material capital commitments or contingent liabilities.

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