

4. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF THE ISB GROUP 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 PERFORMANCE OF THE ISB GROUP, IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE HEREIN, BEFORE APPLYING FOR THE ISSUE SHARES.

Investors should rely on their own evaluation to assess the merits and risks of the investment. Investors who are in any doubt as to the information contained in this Section should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

4.1 NO PRIOR MARKET FOR ISB SHARES

There has been no prior public market for ISB shares. The Issue Price was determined through negotiation between ISB and CIMB, as the Adviser, Sponsor, Underwriter and Placement Agent based upon several factors and may not be an indication of the market price of ISB shares after the Public Issue and Listing. See Section 3.6 of this Prospectus on the basis for the determination of the Issue Price.

There can be no assurance that an active public market in ISB shares will be developed or be sustained after this Public Issue and Listing, or that the market price of ISB shares will not decline below the Issue Price.

A variety of factors may cause the price of ISB shares to fluctuate, including (without limitation) sales of substantial amounts of ISB shares in the public market in the immediate future; announcements of developments relating to the ISB Group's business; fluctuations in the ISB Group's operating results and sales levels; general industry conditions or the world-wide economy; announcements of new products or product enhancements by the ISB Group and/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 securities 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 ISB shares.

4.2 OPERATING RISKS

IMSB, which carries out the core revenue-generating business of the ISB Group, has been profitable for the last 3 financial years. However, there is no assurance that the ISB Group will continue to be profitable in future years, or that it will achieve increasing or consistent levels of profitability.

The ISB Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. These may include, amongst others, lengthy sales cycles, debt collection problems, customer order deferrals, the ability of the ISB Group to control unforeseen costs, unforeseen changes to the ISB Group's operating expenses, reliance on performance of other industries, competition, the ability of the ISB Group to develop and market, on a timely basis, new products, market acceptance of new products or services, and other business risks common to going concerns.

Apart from the revenue generated from the ISB Group's core products and services, the ISB Group continuously procures and is in the process of procuring sales leads which the Directors of ISB believe are promising and which, if successfully completed, will contribute positively to the ISB Group's revenue.

Moreover, the ISB Group has been able to operate its business through the challenging economic conditions since 2000 in spite of limited resources and market penetration then, and continues to focus on cash flow management, effective and result-oriented market penetration efforts, developing long-term relationships with its customers and controlling costs.

4. RISK FACTORS (CONT'D)

The ISB Group is also exposed to the risks of fire breakouts and electricity blackouts at its premises, which may disrupt or otherwise adversely affect the operations of the ISB Group. In this regard, the ISB Group has basic fire-fighting systems at its premises, and also has back-up electricity generator sets capable of generating back-up power supply for a short period of time, in order to mitigate against such risks.

The ISB Group also has all-risks insurance coverage, which includes fire insurance, for all of its office equipment and premises. Although it has not taken insurance coverage against disruptions in electricity supply, the ISB Group believes that its operations should not be significantly affected by temporary electricity supply disruptions.

However, it should also be noted that in the context of the ISB Group's insurance coverage, though the assets located at the ISB Group's premises are covered by the said insurance to the amount of its book value, there is a risk that any damage or destruction to such assets may still result in a materially adverse disruption to the ISB Group's operations, the financial costs of which may exceed the book value of the ISB Group, despite any claim which the ISB Group may have for insurance compensation to the amount of the book value of the said assets.

4.3 COMPETITION

The sector in which the ISB Group operates is competitive and rapidly changing. The ISB Group has experienced and expects to continue to experience competition from current and future competitors. The ISB Group believes that its ability to compete depends on many factors within and outside its control, such as (but not limited to) timing and market acceptances of new products, services, and enhancements developed by the ISB Group and its competitors, product functionality, ease of use, performance and reliability, pricing, value for money, customer service and support, sales and marketing efforts, product distribution channels and the resources of competitors.

However, the ISB Group believes that it has a competitive advantage in the nature, quality and cost of its products and services, coupled with the efficiency of its product and service delivery and deployment. The ISB Group believes that it has a strong domain knowledge of Malaysian customer and market requirements, and is able to develop its products and services to meet their demands and budgets. In addition, the ISB Group believes that it is in a position to develop significant industry-oriented knowledge and expertise, in the travel, leisure and hospitality, and automotive sales, industries and this may help enhance the ISB Group's competitiveness as compared with other software solutions providers in these industries.

Generally, the barriers to entry for the software industry is relatively low, and the number of new entrants can be relatively high. However, the ISB Group also believes that, as (in respect of the products of the type offered by the ISB Group) customer requirements can be selective and specialised, and as the ISB Group's products can be substantially differentiated from competitors', barriers to entry can become higher as the demand for specific core competence becomes critical to the delivery of solutions that meet customer requirements that are more complex.

Notwithstanding the foregoing, there is no assurance that the ISB Group will be able to compete successfully against current and future competitors, or that competitive pressures will not materially and adversely affect the ISB Group's business, operations, results and/or financial conditions.

4.4 BRAND AWARENESS

Some of the ISB Group's products have yet to be commercialised on a major scale, while other products have yet to be marketed extensively, locally and abroad, primarily due to resource limitations for marketing and promotion as a private company. Brand awareness of the ISB Group's products is also dependent upon the ISB Group being able to successfully market and create brand recognition and acceptance of the ISB Group's products. While the ISB Group will make all reasonable efforts to do so, through comprehensive marketing strategies, there is no assurance that such recognition and acceptance will be successfully achieved.

4. RISK FACTORS (CONT'D)

However, the ISB Group's products have to date been well-received by its customers, and the ISB Group plans to further enhance market recognition and acceptance of its products by increasing marketing and promotional efforts, continued good customer service and improving its products and services.

4.5 RAPID TECHNOLOGICAL CHANGE IN THE ICT INDUSTRY

The market for the ISB Group's products and services involves rapid technological changes, evolving industry standards, swift changes in customer requirements, computer operating environments, software and hardware applications and frequent new product introductions and enhancements. The ISB Group's products may become obsolete due to changes in technology used in ICT and in developing the software. The ISB Group's future depends substantially upon its ability to address the increasingly sophisticated needs of its customers. The ISB Group's business, operating results and financial position can be affected by competing products and services which better address customer requirements or for any reason is preferred by customers and the market over the ISB Group's.

In this regard, the ISB Group constantly endeavours to develop its products using the latest appropriate technology in order to deliver new products or enhancements which adequately meet the requirements of customers and the market.

The ISB Group has also constituted a Research and Development Advisory Panel comprising members from the ISB Group and industry and technical experts, whose technical and industry know-how contributions to the ISB Group may assist in positively adapting to the rapid technological changes in the software industry.

The ISB Group is also actively continuing its on-going research and development programme, and in connection with these efforts, IMSB was awarded a MSC research and development grant of approximately RM2.5 million on 30 August 2002.

4.6 DEPENDENCE ON DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL

The ISB Group's future performance depends to a significant extent on the continued efforts and abilities as well as the networking of its directors, key management and technical personnel, and sales personnel. The loss of the services of any of these individuals may have a material and adverse effect on the ISB Group. The ISB Group also depends on its ability to attract and retain sufficient skilled employees.

The ISB Group currently enjoys cordial relationships with its employees, and these employees do not belong to any trade union. The employees are also sent to various courses from time to time to further upgrade their knowledge and skills. In addition, the ISB Group's middle management team is constantly exposed to various aspects of its business in order to ensure that they understand the Group's businesses and are adequately equipped with the knowledge necessary for them to assume senior management positions. However, there can be no assurance that these measures will always be successful in retaining key personnel or ensuring a smooth transition should changes occur.

4.7 TECHNOLOGICAL RISKS

The ISB Group operates in an environment where its operations are exposed to risks of computer viruses, industrial espionage, hacking and fraud.

In response to this, the ISB Group makes all reasonable efforts to minimise potential security breaches by the use of appropriate security systems. As of 27 January 2004, being the last practicable date prior to the printing of this Prospectus, there has not been any material disruption or damage to the ISB Group's computer systems.

4. RISK FACTORS (CONT'D)

4.8 PROTECTION OF THE ISB GROUP'S AND THIRD PARTY PROPRIETARY TECHNOLOGY AND INTELLECTUAL PROPERTY RIGHTS

The ISB Group's success is dependent upon its ability to protect its intellectual property rights. Accordingly, there can be no assurance that the ISB Group will be able to continue to protect its proprietary rights against infringement, unauthorised third-party copying, use or exploitation, any of which may have a material and adverse impact on the ISB Group's business, operating results and financial condition.

However, the ISB Group's products typically require a level of proprietary customisation and industry know-how input, and has a certain degree of uniqueness in the final product that is supplied to a customer per the customer's requirements, and thus the ISB Group's products may be less affected by risks of widespread unauthorised use, copying and exploitation.

The ISB Group's employees have also entered into agreements with the ISB Group to limit the possibility of unauthorised copying and exploitation by employees who leave the ISB Group's employ. The brand name "INGENUITY[®]" was registered on 16 April 2001 with the Registrar of Trademarks as a trademark to prevent any unlawful use of the same. Registration of this trademark is valid for a period of ten years from 16 April 2001.

4.9 DELAYS IN RESEARCH AND DEVELOPMENT

The ISB Group has on-going research and development programmes with the purpose of developing products that are on the front edge of the market, and meet the dynamic requirements and expectations of the market. There can be no assurance that these research and development programmes can be successfully completed on time so as to enable the roll-out of new or enhanced products on a timely basis vis-à-vis market requirements and expectations.

However, the ISB Group believes that its current range of products and services are stable and have been well-accepted by its customers, and as such the effects of any material delay in the roll-out of new or enhanced products is mitigated by continued availability of the ISB Group's existing range of products.

4.10 FUTURE CAPITAL INJECTIONS

The Directors of ISB believe that the net proceeds from the Public Issue, together with cash flow generated from the ISB Group's operations and other existing sources of funds, will be sufficient to meet the projected working capital and other cash requirements.

However, there is no assurance that future events may not cause the ISB 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 or favourable to the ISB Group. The issue of additional equity or other convertible securities by ISB may result in the dilution of the interests of the then shareholders of ISB.

4.11 INVESTMENT RISKS

If appropriate opportunities present themselves, whether in Malaysia or elsewhere, the ISB Group may decide to acquire businesses, products or technologies, or enter into joint ventures, alliances or partnerships with third parties, or to expand into other geographical markets.

There can be no assurance that the ISB Group will be able to successfully identify, negotiate, finance or implement these ventures or investments, to successfully integrate these ventures or investments with its current business and operations, or to benefit from the same. These ventures and investments may also require additional capital, which may or may not be available on terms satisfactory to the ISB Group. However, any venture or investment of such nature will be carefully considered by the Directors of ISB and its subsidiaries with due care.

4. RISK FACTORS (CONT'D)

The ISB Group may also from time to time invest in new ventures and products. These investments may not be successful, or may have a delayed gestation period. In this event, the ISB Group may not be able, or may be slow, to recover its investments and/or achieve satisfactory returns. However, any venture or investment of such nature will be carefully considered by the Directors of ISB and its subsidiaries with due care.

4.12 PARADIGM SHIFTS IN THE MARKET

The awareness, and level of use, of ICT by businesses and industries depend to a certain extent on the degree of acceptance by these businesses and industries of new knowledge and technology, and their willingness and ability to adapt to changes in the technological environments in which they operate. The successful marketing of the ISB Group's products depends to a certain extent on the level of awareness and acceptance of the market of and for products of the nature developed and supplied by the ISB Group, and the technology which they embody.

4.13 CONTINUED CONTROL BY EXISTING SHAREHOLDERS

Upon the completion of the Public Issue, the Directors, executive officers and substantial shareholders of ISB will, in the aggregate, beneficially own approximately 74.69% of the issued and paid-up share capital of ISB. As a result, these shareholders, if acting together, will possess voting control over ISB, giving them the ability, amongst others, to elect at least a majority of ISB's Directors and to control the vote on significant corporate transactions.

Nonetheless, ISB has appointed 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.

4.14 FOREIGN EXCHANGE RISKS

The ISB Groups' revenue is currently mainly generated from within Malaysia. However, the ISB Group intends to expand its business regionally as well as internationally. As such, the ISB Group may be potentially exposed to foreign exchange risks in the future.

However, the ISB Group intends to use various hedging techniques, such as currency exchange rate swaps, to mitigate this risk. It must however be noted that there can be no assurance that any future significant exchange rate fluctuations or changes in foreign exchange control regulations will not have a material and adverse impact on the ISB Group's revenue and financial position.

4.15 LITIGATION RISKS

The ISB Group's agreements with customers typically contain provisions designed to limit the ISB Group's exposure to potential product or other liability claims. The ISB Group has not, to date, experienced any material product or other liability claims. However, it is possible that the limitation and/or exclusion of liability provisions in the ISB Groups agreements with customers may not be effective as a result of existing or future laws, or unfavourable judicial decisions.

4.16 REGULATORY RISKS

Currently, save for general company, contract and commercial laws, the business of the ISB Group is not subject to any specific regulations. However, there can be no assurance that future regulatory policy changes will not affect the operations of the ISB Group.

4. RISK FACTORS (CONT'D)

4.17 CHANGE IN MSC STATUS

IMSB was granted MSC status on 25 May 2000 by MDC. Presently, all MSC status companies are granted financial and non-financial incentives. These incentives include:

- (i) a 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 for up to 10 years (renewal will depend on IMSB's performance in transferring technology or knowledge to Malaysia), or a 100% investment tax allowance on new investments made in designated MSC cybercities, commencing from the date on which the first qualifying capital expenditure is incurred;
- (ii) 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;
- (iii) research and development grants for MSC small and medium enterprises that are at least 51% Malaysian-owned; and
- (iv) non-financial incentives such as:
 - (a) unrestricted employment of foreign knowledge workers;
 - (b) freedom of ownership; and
 - (c) freedom to source capital for MSC infrastructure globally, and the right to borrow funds globally, in which regard 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.

MDC is the body responsible for monitoring all MSC status companies. MDC has the right to withdraw any company's MSC status at any time. There can be no assurance that IMSB will continue to retain its MSC status or that it will continue to enjoy, or it will not experience delays in enjoying, the incentives granted to MSC status companies, all of which could materially and adversely affect the ISB Group's business, operating results and financial condition.

4.18 UNCERTAINTY OF THE PROPOSED 5-YEAR BUSINESS DEVELOPMENT PLAN

The success of the ISB Group's business development plan will be largely dependent upon continuous market acceptance of its range of products and services, as well as the ISB Group's ability to successfully market its services and products and to further develop and commercialise further applications of its proprietary technology.

In addition, the ISB Group's proposed future plan and prospects will be dependent upon, among other things, the ISB 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.

There can be no assurance that the ISB Group will be able to successfully implement its future business development plans, or that unanticipated expenses or problems will not occur which would result in a material deviation from its plans.

4. RISK FACTORS (CONT'D)

4.19 CHANGES TO GENERAL ECONOMIC, POLITICAL, LEGISLATIVE, BUSINESS AND/OR CREDIT CONDITIONS

As with any other business, the ISB Group's business is subject to the overall economic, socio-economic, political, legislative, business and/or credit condition both domestically and internationally. Adverse developments in economic, socio-economic, political, legislative, business and/or credit conditions in Malaysia and/or elsewhere may materially and adversely affect the business, operations, results and financial conditions of the ISB Group. There can be no assurance that the ISB Group's performance or financial condition will not be affected by any change in any such condition.

4.20 FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are based on historical data which may not be reflective of the future results, and other are forward-looking in nature which are subject to uncertainties and contingencies. All forward-looking statements are based on estimates and assumptions made by the Directors of ISB, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Although the ISB Group believes that, 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.

4.21 DELAY IN OR FAILURE OF THE LISTING

The Listing exercise is exposed to the risk that it may be delayed or failed should the following events occur:

- (i) identified investors fail to subscribe for the portion of the Issue Shares to be placed to them despite having given irrevocable undertakings to subscribe; or
- (ii) ISB being unable to meet the public spread requirement, that is, at least 25% but not more than 49% of the entire enlarged issued and paid-up share capital of ISB must be held by a minimum number of 200 public shareholders upon the admission of ISB to the Official List of the MESDAQ Market.

Although the Directors of ISB will endeavour to ensure compliance by ISB of the Listing Requirements and the applicable regulations for the Listing, including (inter alia) the public spread requirement imposed by MSEB for a successful Listing, no assurance can be given that these events will not occur and cause a delay in or abortion of the Listing.

4.22 BORROWINGS

The ISB Group may from time to time obtain credit facilities from banks and financiers to finance its operations and business activities. Interest may be charged on these credit facilities by the banks and financiers. Fluctuations of these interest rates may have a material effect on the ISB Group's profitability. These credit facilities may also be subject to terms and conditions which may limit the ISB Group's operating and financial flexibility. Any act or omission by the ISB Group that breaches such terms and conditions may give rise to rights by the banks or financiers to terminate the relevant credit facilities and/or enforce any security granted, in relation to those credit facilities, and which may also cause cross-defaults of other facilities. There can be no assurance that the aforesaid breaches will not have any adverse impact on the ISB Group's operational and financial results.

The ISB Group is not presently in breach of any such term or condition of any credit facility, and will at all times take all reasonable efforts to observe such terms and conditions.