3. INTRODUCTION AND DETAILS OF THE PUBLIC ISSUE

3.1 Introduction

This Prospectus is dated 30 June 2004.

Approval has been obtained from the SC for the Public Issue on 1 June 2004. Approval has also been obtained from Bursa Malaysia on 2 June 2004 for admission to the Official List of Bursa Malaysia, permission to deal in and quotation of the entire issued and paid-up share capital of Viztel including the Issue Shares which are the subject of this Prospectus.

These Shares will be admitted to the Official List of Bursa Malaysia and official quotation will commence upon receipt of confirmation from the BMD 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. Bursa Malaysia 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 Bursa Malaysia's trading rules, effective from the date of listing, trading in all Bursa Malaysia listed securities can only be executed through an ADA who is also a Bursa Malaysia member.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the form of application has also been lodged with the ROC who takes no responsibility for its contents.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, Bursa Malaysia 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 BMD and any dealings in these Shares will be carried out in accordance with the aforesaid Acts and the Rules of the BMD.

Applicants of the Issue Shares should have a CDS account, and state his/her CDS account number in the space provided in the Application Form. In the case of an application by way of Electronic Share Application ("ESA"), the applicant shall furnish his/her CDS account number to the participating financial institution in the ESA by keying in his/her CDS account number if the instruction on the ATM screen at which he/she enters his/her ESA requires him/her to do so. A corporation or institution cannot apply for the Issue Shares by way of ESA.

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 Viztel. 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.

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

3.2 Indicative Timetable

The indicative timing of events leading up to the listing of and quotation for the Company's entire enlarged issued and paid-up share capital on the MESDAQ Market of Bursa Malaysia is set out below:

Event	Tentative Date
Opening of Application for the Public Issue	10.00 a.m. on 30 June 2004
Closing of Application for the Public Issue	5.00 p.m. on 12 July 2004*
Target date for balloting of Applications	14 July 2004
Target date of despatch of notices of allotment of shares	21 July 2004
Target date for listing of the Company's entire enlarged issued and paid-up share capital on the MESDAQ Market	22 July 2004

* *The Directors of Viztel and the Underwriters may mutually decide to extend the closing date of the Application to a further date or dates. Should the closing date of the Application be extended, the dates for the allotment and listing of Viztel's entire enlarged issued and paid-up share capital on the MESDAQ Market would be extended accordingly. Where the closing date of Application for the Public Issue is extended from the original closing date, the notice of such extension(s) will be published in a widely circulated daily English newspaper within Malaysia.*

3.3 Purposes of the Public Issue

The purposes of the Issue are as follows:

(i) To raise funds for the Group's continued operation and expansion, details of which are elaborated in Section 3.6 below;

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

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

(iv) To provide an opportunity for the eligible Directors, employees and business associates of the Company and its subsidiary companies to participate in the equity growth of the Company.

3.4 Particulars of the Issue

Authorised Share Capital	**RM**
100,000,000 ordinary shares of RM0.10 each	10,000,000
Issued and fully paid-up share capital:	
40,000,000 ordinary shares of RM0.10 each	4,000,000
To be issued pursuant to the Public Issue:	
15,000,000 new ordinary shares of RM0.10 each	1,500,000
Enlarged share capital	5,500,000
Assuming all ESOS are granted and exercised*	1,375,000
	6,875,000

* *Please refer to Section 14 for further information on the ESOS.*

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

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, such surplus to be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, 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 Shares shall be allocated in the following manner:

(i) Eligible Directors, Employees and Business Associates

2,000,000 new Shares have been reserved for eligible Directors, employees and business associates of the Viztel Group. The allocation of the 2,000,000 new Shares as approved by the Board of Directors of Viztel are as follows:

(a) Eligible Directors

Save as disclosed below, none of the Directors of Viztel have been allocated Shares in respect of the Public Issue:

Name	**Designation**	**Number of new Viztel Shares allocated**
David Kim	Independent Non-Executive Director	300,000

(b) Eligible Employees

A total of 100,000 new Viztel Shares will be allocated to 9 eligible employees.

Eligible employees must be at least 18 years of age and must be confirmed in service, with a serving period of at least three (3) months on the date of allocation.

(c) Business associates

A total of 1,600,000 new Viztel Shares will be allocated to 47 business associates.

Business associates of the Viztel Group are determined based on the length of relationship (at least three (3) months) and value of transaction of such business associates with the Viztel Group as at 22 June 2004 (excluding persons connected to Directors of Viztel and its subsidiary companies).

(ii) Private Placement

11,500,000 new Shares will be placed with institutional and/or individual investors by the Placement Agent; and

(iii) Malaysian Public

1,500,000 new Shares are available for application by Malaysian citizens, companies, co-operatives, societies and institutions.

The minimum level of subscription in respect of the Public Issue shall be the entire 15,000,000 Issue Shares.

All the 1,500,000 new shares under paragraph (iii) have been fully underwritten at an underwriting commission of 3% of the Issue Price of the said shares. In the event that any of the Issue Shares under paragraph (i) above are not taken up by the eligible Directors, employees and business associates of the Viztel Group, such Issue Shares will be made available for application by members of the Malaysian investing public. The 11,500,000 new Shares under the Private Placement will not be underwritten as the said Shares will be placed with institutional and/or individual investors by the Placement Agent.

In the event of an under-subscription by the public pursuant to the Public Issue, all Shares not applied for will be made available for subscription by the Underwriter.

3.5 Pricing of the Issue

Prior to the offering, there has been no public market for the Shares of the Company. The Issue Price of RM0.35 per Share was negotiated between the Company and Alliance as the Adviser and Underwriter. Amongst the factors considered in determining the Issue Price, in addition to prevailing market conditions, were demand from institutional and individual investors for the shares, the Group's technological capabilities, estimates of earnings growth potential and revenue prospects for the Group, an assessment of the Group's management and the consideration of the aforementioned factors in relation to current market valuation of companies in related businesses.

3.6 Utilisation of Proceeds

The Company expects the gross proceeds from the Public Issue to amount to approximately RM5,250,000. 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.

The proceeds from the Public Issue of approximately RM5,250,000 are expected to be utilised for the following:

Purpose	RM	Estimated timeframe for utilisation
Proposed overseas investments	540,190	By June 2006
R&D expenditure	762,575	By June 2006
Investments in telecommunications equipment	403,000	By September 2004
Working capital	2,244,235	By June 2006
Estimated listing expenses	1,300,000	By September 2004
	5,250,000	

(i) Proposed overseas investment

Viztel intends to penetrate the China market and will be working closely with its distributors and resellers to aggressively promote the Viztel range of products in their respective territories. RM540,190 will be utilised for staff, overheads and marketing.

(ii) R&D expenditure

The utilisation of proceeds for R&D expenditure will include the payment of salaries and training for R&D staff and the purchase of testing and development equipment such as telephone cards, third party software, servers, etc.

(iii) Investments in telecommunication equipment

RM403,000 will be utilised for the purchase of telecommunication equipment, i.e. five (5) units of T-Cube 4E1 (telephony gateway) that can support 120 lines each, costing approximately RM80,000 each.

(iv) Working capital

The utilisation of the proceeds from the Issue for working capital purposes is consistent with the requirements of the Group's operations and business expansion plan. The Group intends to conduct marketing exercises and to increase its product range to penetrate the vertical market. The additional working capital is required to support the expansion of the Company's product range.

(v) The estimated listing expenses incidental to the listing of and quotation for the entire enlarged issued and paid-up share capital of Viztel on the MESDAQ Market, to be borne by the Company, are as follows:

	RM
Professional fees	650,000
Bursa Malaysia processing and listing fee	32,500
Lodgment of Prospectus with ROC	500
Registration of Prospectus with SC	5,000
Advertisement and printing	200,000
Underwriting commission, placement fee and brokerage	134,750
Issuing house	100,000
Contingencies*	177,250
Total estimated listing expenses	1,300,000

Note
* *Unutilised amounts will be used for working capital purposes*

3.7 Brokerage and Underwriting

Brokerage relating to the 1,500,000 new Shares made available for application by the Malaysian public is payable by the Company at the rate of 1% of the value of the shares based on the issue price of RM0.35 per Share in respect of successful applications bearing the stamp of Alliance, member companies of Bursa Malaysia, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS. No brokerage is payable by the Company on the 2,000,000 new Shares made available for application by eligible Directors, employees and business associates.

The Underwriter mentioned herein has agreed to underwrite the 1,500,000 new Shares in Viztel to be offered to the Malaysian public. In the event any of the 2,000,000 new Shares which are made available for application by the eligible Directors, employees and business associates are not subscribed by them, such Shares will be made available for application by the Malaysian Public and underwritten by the Underwriter. Underwriting commission is payable by the Company at the rate of 3% of the value of the shares based on the issue price of RM0.35 per Share.

The salient terms of the Underwriting Agreement stating the events that may affect the underwriting of the Issue Shares are provided in Section 3.8 of this Prospectus.

3.8 Salient Terms of the Underwriting Agreement

The Underwriting Agreement contain certain clauses as set out below which may allow the Underwriter to withdraw from their obligations under the Underwriting Agreement:

Clause 3 – Conditions Precedent

3.1 The obligations of the Underwriter under this Agreement are conditional upon:

3.1.1 the Company obtaining SC's final approval to the Prospectus;

3.1.2 the delivery to the SC of the Prospectus for registration in accordance with the requirement under section 41 of the SC Act together with copies of all documents required for submission under section 42 of the SC Act;

3.1.3 the lodgement with the ROC of the Prospectus in accordance with section 36A(4) of the Act;

3.1.4 the Company obtaining Bursa Malaysia's approval in principle to the listing and quotation for all the Paid-up Shares on the MESDAQ Market of Bursa Malaysia;

3.1.5 prior to the Closing Date, there not being any adverse and material change or development reasonably and likely to involve a prospective adverse and material change in the condition (financial or otherwise) of the Company or any of its subsidiaries from that set out in the Prospectus which is material in the context of the Proposed Listing or any occurrence of any event rendering untrue or incorrect or not complied with to an extent which is material, any of the warranties and representations in clause 8 below as though given or made on such date; and

3.1.6 all necessary approvals and consents required in relation to the Public Issue as at the date of this Agreement have been obtained and are not being withdrawn, revoked, suspended or terminated and are in full force and effect on or prior to the Closing Date; and

3.1.7 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 Bursa Malaysia for the MESDAQ Market.

3.2 If any of the conditions in clauses 3.1.1 to 3.1.8 is not satisfied on or before the Closing Date, the Underwriter is entitled to:

3.2.1 terminate this Agreement to the extent of its obligations contained in it; and

3.2.2 cease performance of its obligations under this Agreement.

3.3 In the event this Agreement is terminated pursuant to clause 3.2, the parties to this Agreement will be released and discharged from their obligations under this Agreement (except for the liability of the Company for payments of costs and expenses as provided in clause 16.3 below incurred prior to or in connection with such termination).

3.4 The Underwriter may at its discretion waive compliance with any of the provisions of this clause.

Clause 12 – Rights and Remedies

12.1 Upon any material misrepresentation or material breach of such warranties contained in clause 8 or failure to perform the said undertakings in any material respects contained in clause 9 coming to the notice of the Underwriter, the Underwriter shall be entitled (but not bound), without prejudice to any other right or remedy which it may have (including under this clause 12), by notice to the Company following prior consultation with the Company to elect to treat such material misrepresentation or material breach or material failure as releasing and discharging it from its obligations under this Agreement PROVIDED THAT (1) the exercise of the aforesaid rights pursuant to this Clause 12, upon or following the occurrence of any such breach shall not prejudice or nullify any right or claims for damages (including the right to payment of the expenses referred to in Clause 16.3) or any other remedy which the Underwriter may have against the Company for or arising from any such breach; and (2) the non-exercise thereof before the final allotment of the Issue Shares shall not prejudice or nullify the Underwriter's rights to rescind this Agreement upon or following the occurrence of any further or other breach thereof.

Clause 14 - Termination

14.1 Notwithstanding anything contained in this Agreement, if in the reasonable opinion of the Underwriter there shall have been such a change in national monetary, financial, political or economic conditions or exchange control or currency exchange rates and any event or series of events beyond the reasonable control of the Underwriter (including without limitation acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, sabotage, act of God or accidents) as would in their reasonable opinion prejudice materially the issue and offering of the Issue Shares and their distribution or sale then the Underwriter may give written notice to the Company to terminate this Agreement before 5.00 p.m. on the Closing Date and thereupon the parties shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 16.3 below incurred prior to or in connection with such termination) be released and discharged from their respective obligations under this Agreement.

14.2 In the event that the Closing Date does not occur within ninety (90) days from the date of this Agreement (or any other date as may be extended by the Underwriter), this Agreement will lapse and the Underwriter will be released and discharged from all of its obligations under this Agreement. For the avoidance of doubt, the Company will not be released from its liability to pay all costs, charges and expenses referred to in clause 16.3 which are incurred prior to or in connection to the negotiation, preparation, execution and stamping of this Agreement.

14.3 In the event of any breach by the Company 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 5.00pm on the Closing Date and thereupon the parties shall (except for the liability of the Company in the payment of costs and expenses referred to in clause 16.3) be released and discharged from their respective obligations under this Agreement without prejudice to their rights under this Agreement.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4. RISK FACTORS

IF YOU ARE UNSURE ABOUT ANY OF THE INFORMATION CONTAINED IN THIS SECTION ON "RISK FACTORS", YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

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 performance of the Group, in addition to other information contained elsewhere herein, before participating in the new issue.

4.1 Operating Risks

The Group was profitable in the financial year ended 31 December 2003. However, there is no assurance that the Group will continue to be profitable in the future, or that it will achieve increasing or consistent levels of profitability. The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors, amongst others, reliance on the performance of other industries, the Group's ability to develop and market new products and services, market acceptance of new products or services, competition and other business risks common to going concerns.

Recurrent business is expected to contribute 15% to the Group's business, while the securing of new contracts will contribute to the remaining 85%. In addition, the Company has established or acquired offshore subsidiary companies, viz. VS HK, VS S'pore and Picktips, in cognizance of the need to consistently meet its clients' business and technical support requirements. The Group also practices sound cash flow management which includes, inter alia, regular monitoring of its debtors position, operating expenditure and careful consideration of capital expenditure.

4.2 Competition

The telecommunications sector is a large and diversified industry that has seen continuous high growth and strong demand, as evidenced by the growth in the number of telephone users. Viztel's future success will depend, to a large extent, on its ability to increase its market share in its target markets. The telecommunications industry is generally comprised of a large number of participants and is subject to rapid change and intense competition. If Viztel fails to compete successfully against current or future competitors, its business, financial condition and operating results will be affected. The Group believes that its ability to compete depends upon factors that are within and outside of its control.

The Company has taken the following steps to maintain its competitiveness in the industry:

(i) Unique Product Positioning

The Company positions itself as a unique solutions provider providing speech and wireless software solutions. The Directors of Viztel are of the view that this particular area of the telecommunications sector is not as competitive as the more generic telecommunications sector that many other players are involved in. The Directors of Viztel believe that by focusing on speech and wireless software solutions, Viztel has positioned itself in a niche market where there is less competition.

(ii) Specialised Engineering Skills

The other sectors of the telecommunication industry such as the provision of hardware items have a low barrier of entry. The speech and wireless solutions sector has a high barrier of entry as a company involved in this sector would require specialised software engineering skills. This highly specialised sector would be difficult for other players to penetrate, as the software engineering expertise is not easily acquired.

(iii) Technological innovation

Viztel has a flat organisational structure which reduces the time-to-market of its new products and upgrades of existing products.

The Company also continuously conducts R&D in order to come up with new products and to introduce new features in its products and technology to the market.

(iv) Competitive pricing of its products

Viztel is able to price its products competitively as the Company endeavours to maintain low production costs and overhead costs. Viztel utilises the reusable software modularisation approach in the production of its products. This approach produces software in various modules with general features which are then customised by Viztel's engineers in accordance to the specifications of each customer. This approach lowers the production costs of Viztel's products and allows the Company to maintain its price advantage against its competitors.

4.3 Brand Awareness

Viztel plans to increase its marketing expenses to promote its brandname. This may cause its operating margin to decline. As such, the Group may not experience any increase in its future revenue to offset the anticipated increase in marketing expenses, thus adversely affecting the Group's earnings growth potential.

To mitigate the risk associated with brand building, the Group intends to utilise part of the listing proceeds pursuant to the Public Issue to ensure that adequate resources will be allocated to the Group's existing businesses while promoting its brandname. As mentioned in Section 4.1 of this Prospectus, the Group will constantly monitor its operating expenditure in the practice of sound cash flow management.

4.4 Rapid Technological Change in the Software/ICT Market

The software/ICT market is characterised by rapid technological advancements and constant changes in the industry. Failure to respond successfully to technological developments, evolving industry standards and changing client preferences may result in adverse effects to its business and operating results. The major advancements/evolutions in the industry which impact the Company are as follows:

(i) Changing industry standards

The major industry players utilise the emerging industry standard of markup languages for voice application, Speech Application Language Tag (SALT). SALT specifies the procedures, specifications, development, etc that a developer of computer telephony systems has to adopt. Most components of Viztel's platform have been developed according to industry standards. SALT is a constantly evolving standard and there is always a risk that SALT could be replaced by other new standards.

(ii) Compliance with major hardware platform

Viztel develops its computer telephony systems to be compatible with all the open telephony hardware platforms in the market developed by the major players in the computer telephony industry. The collapse of any of the major players in the computer telephony industry would pose a risk to a company which is developing computer telephony systems. However, this is highly unlikely as these platforms are well established products that have been very successful over the last decade or so.

(iii) Keeping up with changes in the market

In the mobile telephony sector, WAP has not taken off in many countries and 3G is still unproven. The sector is highly volatile and Viztel faces the risk that some of its products developed in anticipation of new technology may not be well received by the market.

In order to maintain its position, Viztel needs to keep abreast with the latest developments in the market and in technology. Although there is a risk that SALT can be replaced, it has been designed as a generic framework whereby the constantly evolving standards can be easily adapted. Hence, there would be minimal effort required in adopting the new standards. Viztel will also continue to monitor emerging industry standards and support any new standards that are accepted by the governing body overseeing industry standards such as the International Telecommunication Union (ITU). In order to minimize any adverse impact in the event of the collapse of any of the organisations as mentioned in (ii) above, Viztel adopts the latest industry standard such as H.100 which is platform-independent whenever possible to minimise platform risk.

In order to keep abreast of changes in the market, the management of Viztel endeavours to foster close relationships with its customers, actively participating in industry-related events and keeping up with technology development in other regions in order to ensure that the Company is kept up to date with market demands.

Viztel constantly endeavours to develop commercially viable applications and systems using the latest technology through ongoing R&D efforts in order to address this risk. In the development of products that require technology from other parties, the Company will co-develop these products with its technology partners. In addition, Viztel will also consider acquisitions of businesses that possess relevant new technologies.

4.5 Product Risks

The life cycle of Viztel's communication software and systems is difficult to estimate due to the characteristics of the software and ICT services industry as stated in Section 4.4 of this Prospectus. The introduction of services and products embodying new technologies and the emergence of new industry standards and practices may render the existing software products of the Company obsolete and unmarketable should Viztel fail to respond to new technological developments and changing market conditions.

The enhancement of existing products and services as well as the development of new communication software and systems entail significant risks in the utilisation of resources. There can be no assurance that Viztel will be successful in responding in a timely and cost-effective manner to these challenges.

Further, it is not uncommon for software products to contain undetected errors when first introduced or as new versions are released. Product impairment may have a negative impact on Viztel's reputation and consequently, its revenue. Furthermore, there may be resultant claims for damages against Viztel, regardless of its responsibility for product impairment, which may not be limited by the contractual terms of its licences.

Viztel's sales order and sale and purchase agreements 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 prevailing circumstances.

4.6 Dependence on Directors and Key Personnel

The performance of Viztel depends to a significant degree on its ability to hire, train, motivate and retain qualified professionals with the requisite skills in order to develop new software products and services, enhance its existing offerings and keep abreast with technological change, evolving industry standards and client preferences. There is no assurance that Viztel will continue to be successful in attracting and retaining such professionals.

The continued success of the Group also 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 become 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. Should employee turnover increase in the future, client relationships and new business opportunities for Viztel may be adversely affected.

As at 22 June 2004, the Viztel Group has a total of twenty (20) employees. By 2008, the Group estimates to have thirty-five (35) employees. This growth will result in new and increased responsibilities for management personnel and thus, may place a significant strain on its management. Nevertheless, the Company recognises that it must continue to hire personnel at management level on a timely basis and in such a manner as is necessary to accommodate 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 presently enjoys a cordial relationship with its employees and the employees are not represented by a labour union. Viztel also funds employee training programmes to ensure that its employees obtain timely and relevant skill upgrades. In addition, the Group has implemented an employee's share allocation scheme and has established an ESOS in conjunction with the IPO to adequately reward and retain employees who have contributed to the success of the Group.

4.7 Reliance on Contracts and Limited Customer Base

Viztel's business activities are largely dependent on contracts with its customers which are mostly short-term in nature. In the event that Viztel fails to secure contracts with customers on a continuous basis, the future financial performance of Viztel will be adversely affected. In addition, most of Viztel's current customers are Telcos, resulting in a limited customer base. In order to ensure that it is able to continue to secure future contracts and widen its customer base, the Group has taken or will be undertaking the following measures:

(i) Secure long term revenue-sharing contract

To-date, Viztel has managed to secure three (3) revenue-sharing contracts with Telcos and ITSPs whereby Viztel provides technical services to the Telcos and ITSPs and in return shares a portion of the revenue generated by its customers. These contracts are of a longer tenure, ie, 3 to 5 years, than most of Viztel's contracts.

(ii) Expansion of its customer base

Many of Viztel's products could be applied in other industries such as call centres and the financial services industry, amongst others. Viztel intends to target these industries in the medium term in order to expand its customer base.

To-date, the number of first-tier Telcos in the South East Asian region is small. However, due to the deregulation in the telecommunication industry, there have been a number of second-tier Telcos that have flourished in the South East Asian region thereby increasing the number of potential customers for Viztel.

(iii) Extending the value chain

Viztel constantly seeks to extend its position in the telecommunication value chain, be it further downstream or upstream. This allows Viztel to cover a wider scope of business activities and hence present a more complete value proposition to its customers.

(iv) Establishment of strategic partnerships/liaisons

Viztel will seek to work with technology players from other industries to offer joint products or services. The Directors of Viztel believe that this will enable Viztel to penetrate other industries and allow Viztel's products to be offered with complementing technologies.

Viztel will also position itself not only as a system provider, but as a strategic technology partner to Telcos, providing other value-added services such as network management in addition to its current role as a provider of technological platforms.

Viztel plans to team up with system integration firms that would be given rights to resell Viztel's products. These system integration firms would also be trained to deploy and manage Viztel's products. The Directors of Viztel believe that these partnerships are expected to extend the reach of Viztel's products in markets where Viztel has limited resources and coverage.

(v) Continuous growth potential of the computer telephony market

The computer telephony market is a relatively new technology area that has tremendous growth potential. The demand for computer telephony applications and solutions in the banking, call centers, small and medium companies have started to pick up in the last few years. The Viztel Group will be able to take advantage of the growth of the computer telephony market to grow its business.

(vi) Roll-out of new products and enhancement of existing product lines

The Viztel Group plans to continuously roll-out new products for new markets. Viztel continuously undertakes R&D initiatives for the enhancement of its existing product lines and the development of new products. This is expected to expand the customer base of the Group and assist the Group to move into new markets.

(vii) Expansion into new technology areas

Some of the future products could propel the Group into new business areas. For example, the new C-Cube product range could allow the Group to manoeuvre into the market for call-conferencing products. This expansion into new business areas is expected to allow the Group to diversify its products and services and broaden its customer base.

4.8 Reliance on Other Industries

The Viztel Group relies and expects to continue to rely on sales to companies in telecommunications, financial services, media, travel industries and higher learning institutions for most of its revenue. As a large part of its turnover is derived from the ICT industry in the region, it is dependent, to a large extent, on the aforementioned industries in the region, which is in turn dependent on the general health of the regional economies.

The Group has been successful in maintaining its existing client relationships while seeking to introduce its range of products and services to clients in new industries by establishing sales offices in key geographic markets and providing good customer service.

4.9 Intellectual Property Rights

Viztel's commercial success is dependent to a degree on its ability to protect its intellectual property. There can be no assurance that Viztel's intellectual property is adequately protected or that the Company is able to enforce such rights. Accordingly, failure to protect or enforce its intellectual property rights may result in an adverse impact on Viztel's business.

A substantial portion of the Group's revenue is derived from its proprietary communication software and systems. The management of Viztel estimates that it has a lead-time of twelve (12) to eighteen (18) months, after which the products will be upgraded and the existing versions in the market will be replaced. This practice lowers the risk of Viztel's products being replicated in a timely manner by competitors. For added security, the Company executes confidentiality agreements with its employees and issues contractual licences to its customers, clients and strategic partners for its existing as well as new communication software and systems. However, these measures will only provide Viztel with limited protection and there is no assurance that the Company will be able to protect all of its proprietary rights against unauthorised third party copying or use of its communication software and systems.

The Group may be unable to detect the unauthorised use of or infringement of its intellectual property rights. Effective trademark, copyright and trade secret protection may not be available in every country in which it offers or intends to offer its services. Failure to adequately protect its intellectual property rights could damage its brand, devalue its proprietary content and affect its ability to compete effectively. Defending its intellectual property rights could result in expenditure of significant financial and managerial resources on its part, which could materially and adversely affect its business, results of operations and financial condition.

Even though Viztel is planning to take other protective measures to protect its intellectual property such as registering patents for its products, the measures undertaken may be insufficient to establish effective ownership of intellectual property rights in respect of all original and new creations using the Company's software or to prevent its creations from being illegally replicated.

Viztel's contracts provide that it will indemnify its clients for intellectual property infringement claims brought by third parties against its clients in relation to projects that the Group undertakes. Although no third party has ever threatened litigation in view of a claim of infringement by the Viztel Group's client(s) based on the work the Group has performed, there is no assurance that such claims will not be brought in the future. In the event such incident occurs, management attention may be diverted and expenses increased, leading to a potentially adverse impact on the Group's business, operating results and financial position.

Although the management of the Group is not aware of any claims that its proprietary rights infringe the intellectual property rights of others, other parties may nevertheless bring an intellectual property infringement action or other such action against the Viztel Group on the basis that the Group has infringed or violated the intellectual property rights of others.

4.10 R&D-related Risks

In order to stay competitive and adapt to rapidly changing market conditions, a strong R&D capability is important. However, the risks related to the R&D effort include, inter alia, extended lead times, uncertainty with regard to the outcome of the R&D effort, unscheduled delays in the development of potential products and uncertainty resulting from rapid technological changes. Delays in product development may, in turn, delay the launch of new products and consequently affect the Company's competitive position adversely.

Viztel has identified part of the proceeds to be raised from the IPO to be utilised for investment in R&D to ensure that it is able to innovate, develop and introduce new software products in a timely manner so as to remain in a position to compete effectively and successfully in the future.

4.11 Future Capital Injections

The management of the Viztel Group is of the 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 the Group's 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 than currently anticipated. In the event additional capital is required, there can be no assurance that the required funds will be available or, if available, that the Group will be able to source funds on satisfactory terms. The sale of additional equity or convertible securities to new investors will result in a dilution in the shareholdings held by the Company's existing shareholders.

The Group will endeavour to generate sufficient cash flow from its operations to meet its future funding requirements by maintaining the long-term commercial viability of its products and services.

4.12 No Prior Market for Viztel Shares and Possible Volatility of Share Price

There has been no prior public market for the Company's Shares. The Issue Price was based upon several factors and may not be an indication of the market price of the Shares after their listing and quotation on the MESDAQ market. Please refer to Section 3.5 of this Prospectus 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 sustained after their listing and quotation on the MESDAQ market 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 immediate 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 global 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 recent years, the shares of many technology companies on Bursa Malaysia have experienced extreme price fluctuations that may have been unrelated to the operating performance of such companies. Such fluctuations may similarly affect the market price of the Company's shares.

4.13 New Geographical Market

A portion of Viztel's future revenue is expected to be generated from new geographical markets such as China. It is expected that 8.25% of Viztel's revenue will be generated from China for FYE 2004. If Viztel is not successful in penetrating new markets, it may suffer revenue shortfalls and an increase in operating costs as substantial management resources will be devoted to oversee these new markets. Should the marketing efforts fail, the business, financial condition and operating results of the Group may be adversely affected. The Group's business and financial position will be subject to additional risks, some of which are listed below, when it operates in foreign countries:

(i) Adverse local regulatory requirements;
(ii) Unexpected changes in regulatory requirements;
(iii) Fluctuations in currency exchange rates;
(iv) Imposition of currency exchange controls;
(v) Intricacies and costs involved in staffing and managing overseas operations; and
(vi) Restrictions on the import and export of certain sensitive technologies, including data security and encryption technologies.

To mitigate the risks associated with new geographical markets, the management of the Viztel Group exercises due diligence in evaluating such markets before embarking on geographical expansion plans.

4.14 Control by Substantial Shareholders

Viztel is controlled by the Promoters, namely MVCC, PFSB, SJAM, Techpacific, Abdul Farish bin Abd Rashid, Lau Kin Wai, Pang Hao Chen and Chong Kam Hoe, who together control approximately 58.64% of the Company's issued and paid up capital after the Public Issue. Consequently, the aforesaid shareholders, if acting in concert, may be able to influence the outcome of certain matters such as the election of directors and the approval of business ventures requiring the vote of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

The introduction of corporate governance that requires the formation of an Audit Committee, which includes two (2) independent non-executive directors, may effectively help to promote transparency in all material transactions and the Viztel Group's accountability, thereby representing the interest of the minority and general public at large. The Promoters would also be required to abstain from voting if there is any related-party transaction, which may pose as a conflict to the interests of the Company.

4.15 Foreign Currency Exchange Risks

Viztel Group's sales revenue is denominated in RM, Rmb, Thai Baht and USD while its costs are mainly denominated in RM. Thus, the Group is exposed to foreign currency fluctuations. However, the Group has no material exposure to foreign currency fluctuations as the majority of the Group's transactions are denominated in RM.

The Group employs a number of risk management practices to ensure that the Group's foreign currency exchange exposure is within acceptable limits.

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.

4.17 Regulatory Risks

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

Viztel was granted MSC status on 24 April 2000 by MDC. Viztel's MSC status is due for review in 2005. Presently, all MSC status companies are granted financial and non-financial incentives. The financial incentives include:

(i) 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 - renewal 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;

(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; and

(iii) R&D grants for MSC small and medium enterprises that are at least 51% Malaysian-owned.

Non-financial incentives include:

(i) unrestricted employment of foreign knowledge workers;

(ii) freedom of ownership; and

(iii) 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. There can be no assurance that Viztel 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 Five (5)-Year Business Development Plan

The success of the Group's proposed five (5)-year business development plan will be largely dependent upon market acceptance of its products, successful penetration into the China market as well as the Group's ability to further develop and commercialise further applications of its proprietary communications technology. In addition, the Group's proposed future plan and prospects will be dependent upon, inter alia, 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 and obtain adequate financing as and when needed. As a mitigating factor, the management of the Group possess extensive industry experience and are anticipated to be well-equipped in managing the future development of Viztel Group.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

4.20 Acquisitions and Joint Ventures

Should appropriate opportunities present themselves, the Group intends to make acquisitions of or investment in businesses that possess new technology or R&D initiatives that the management believes to be complementary to the businesses of the Group and in the best interest of its shareholders. There can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions or joint ventures, or to integrate such acquisitions and joint ventures with its current businesses. Acquisitions and joint ventures may cause the Group to seek additional capital, which may or may not be available to the Group on satisfactory terms. As a mitigating factor, the management of the Group will exercise due diligence prior to undertaking such investments.

4.21 Forward-Looking Statements

This prospectus includes forward-looking statements, which are statements other than statements of historical facts that are based on assumptions that are subject to uncertainties and contingencies. The words "anticipates", "believes", "intends", "plans", "expects", "forecasts" and similar expressions as they relate to the Viztel Group or its business are intended to identify such forward-looking statements. The Viztel Group believes that, barring any unforeseen circumstances, the expectations reflected in such forward-looking statements are reasonable at this point in time. There can be no assurance that such expectations will prove to be correct. Any deviation from the expectations may have adverse effect on the Viztel Group's financial and business performance.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK