## 2. PARTICULARS OF THE IPO

This Prospectus is dated 30 June 2004.

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

Approvals have been obtained from SC and Bursa Malaysia on the listing of Datascan. Approval has also been obtained from the Bursa Malaysia for the admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Datascan on the MESDAQ of the Bursa Malaysia. These Shares will be admitted to the Official List on the MESDAQ of the Bursa Malaysia and official quotation will commence upon receipt of confirmation from BMD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

**The approvals of the SC and Bursa Malaysia obtained vide its letter dated 9 June 2004 shall not be taken to indicate that the SC recommends the IPO and that investors should rely on their own evaluation to assess the merits and risks of the IPO.**

**Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the Bursa Malaysia has prescribed Datascan Shares as a prescribed security. In consequence thereof, the 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 Act and the Rules of BMD**

Applicants of the IPO Shares must have a CDS account. In the case of an applicant by way of Application Form, an applicant should 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, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his/her CDS account number to the Participating Financial Institution by way of keying his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her Electronic Share Applicant requires him/her to do so. A corporation or institution cannot apply for the IPO Shares by way of Electronic Shares Application.

The SC and Bursa Malaysia assume no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the MESDAQ of the Bursa Malaysia is not to be taken as an indication of the merits of the Company or of its shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the IPO and if given or made, such information or representation must not be relied upon as having been authorised by Datascan. Neither the delivery of this Prospectus nor any IPO 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 Datascan since the date hereof.

The distribution of this Prospectus and the making of the IPO in certain other jurisdictions outside Malaysia 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 IPO Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

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

### 2.1 SHARE CAPITAL

| | Number of Shares | Share capital (RM) |
|---|---|---|
| **Authorised share capital** | 250,000,000 | 25,000,000 |
| ***Issued and fully paid-up share capital:*** | | |
| 112,000,000 Shares | 112,000,000 | 11,200,000 |
| ***To be issued pursuant to the Public Issue:*** | | |
| 40,000,000 Shares | 40,000,000 | 4,000,000 |
| ***Enlarged capital upon listing*** | | |
| 152,000,000 Shares | 152,000,000 | 15,200,000 |
| ***To be issued pursuant to full exercise of ESOS Options*** | | |
| 15,200,000 Shares | 15,200,000 | 1,520,000 |
| **Enlarged share capital** | 167,200,000 | 16,720,000 |

The IPO Price is RM0.28 per ordinary share payable in full upon application, subject to the terms and conditions of this Prospectus.

There is only one class of shares in the Company, namely, ordinary shares of RM0.10 each, all of which rank pari passu with one another. The IPO Shares will rank pari passu in all respects with the other existing issued ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared 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 ordinary shares in the Company shall, in proportion to the amount paid-up on the ordinary 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 the liquidation of the Company, in accordance with its Articles of Association.

Each ordinary 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 vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each ordinary share held.

## 2. PARTICULARS OF THE IPO *(Cont'd)*

### 2.2 OPENING AND CLOSING OF APPLICATION LISTS

The Application List for the IPO will open at 10.00 a.m. on 30 June 2004 and will close at 5.00 pm. on 7 July 2004 or for such further period or periods as the Directors and/or Promoters of Datascan together with the Managing Underwriter in their absolute discretion may decide. Late applications will not be accepted.

### 2.3 CRITICAL DATES OF THE IPO

| Events | Tentative Date |
|---|---|
| Opening Date of the IPO | 30 June 2004 |
| Closing Date of the IPO * | 7 July 2004 |
| Tentative Balloting Date | 9 July 2004 |
| Tentative Listing Date | 19 July 2004 |

* The Closing Date of the IPO may be extended for further period or periods as the Directors and/or Promoters together with the Managing Underwriter in their absolute discretion may decide, subject to the Bursa Malaysia approval.

Should the closing date of the aforesaid application be extended, the dates for the balloting and listing of Datascan's entire issued and paid up capital on the Mesdaq Market of Bursa Malaysia might be extended accordingly. Any changes to the application period for the Public Issue will be notified to the public via an advertisement in a daily Bahasa Malaysia and English newspaper.

### 2.4 PRICING OF THE IPO

Prior to the offering, there has been no public market for the Shares. The IPO Price of RM0.28 per Share was agreed between the Company and the Underwriters. Among the factors considered in determining the IPO Price, in addition to prevailing market conditions, were the Group's technology, estimates of business growth potential and revenue prospects for the Group, and an assessment of the Group's management.

The IPO Price of RM0.28 per Share represents a premium of RM0.14 or 100% over the proforma NTA per share upon completion of Public Issue and full exercise of ESOS.

### 2.5 DETAILS OF THE IPO

**Public Issue**

The Public Issue of 40,000,000 new ordinary shares at an IPO price of RM0.28 are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner: -

**(i) Malaysian Public**

4,000,000 Public Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

**(ii) Eligible Employees, Directors and/or Business Associates of the Group**

7,600,000 Public Issue Shares will be reserved for the eligible employees and Directors of the Group, business associates (which include the suppliers, sales agents and customers) of the Group as well as other persons who have contributed to the success of the Group.

The shares have been allocated to 138 eligible employees and Directors of the Group based on the following criteria as approved by the Company's Board of Directors: -

(a) At least eighteen (18) years old;
(b) Job position; and
(c) Length of service.

Details of the Directors' pink form allocation are as follows: -

| Name of Directors | Designation | Pink Form Allocation |
|---|---|---|
| Rosman bin Abdullah | Non-Executive Chairman | 200,000 |
| Ang Chin Joo | Chief Executive Officer | 200,000 |
| Koay Teng Heng | Executive Director | 200,000 |
| Dr. Ravindranath a/l P.D. Nayer | Independent Non-Executive Director | 30,000 |
| Tai Keat Chai | Independent Non-Executive Director | 30,000 |
| **Total** | | **660,000** |

**(iii) Placees**

28,400,000 Public Issue Shares are reserved for private placement to investors, which have been identified.

In summary, the IPO Shares will be allocated in the following manner: -

| | Public Issue Shares |
|---|---|
| Malaysian public | 4,000,000 |
| Eligible Employees, Directors and/or Business Associates of the Group | 7,600,000 |
| Placees | 28,400,000 |
| **Total** | **40,000,000** |

All the IPO Shares available for application by the Malaysian public and the eligible employees, Directors and/or business associates of the Group have been fully underwritten. The IPO Shares available for application by identified placees are not underwritten. The Placement Agent has received irrevocable undertakings from the identified placees to take up the IPO Shares available for application under the private placement.

Any IPO Shares which are not taken up by eligible employees, Directors and/or the business associates of the Group will be made available for application by Malaysian Public and/or identified placees via private placement. Any IPO Shares by Malaysian Public which are not taken up will be made available to identified placees via private placement if the private placement is oversubscribed and vice versa. Any further IPO Shares not subscribed for will be made available for subscription by the underwriters in the proportion specified in the Underwriting Agreement dated 23 June 2004.

### 2.6 PURPOSES OF THE IPO

The purposes of the IPO are as follows: -

(a) To raise funds for the Group's continued operation and expansion, details of which are elaborated in Section 2.7 "Utilisation of Proceeds" below;

(b) To facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Malaysia;

(c) To enable the Group to gain recognition and certain stature through its listing status and further enhance its corporate reputation and assist the Group in expanding its customer base;

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

(e) To provide the opportunity for the eligible employees and Directors of the Group and/or the business associates of the Group and the Malaysian investing public and institutions to participate in the equity and continuing growth of the Group.

### 2.7 UTILISATION OF PROCEEDS

The Public Issue is expected to raise gross proceeds of approximately RM11,200,000 respectively which shall accrue to the Company.

The Company intends to utilise the proceeds raised in the following manner: -

| Utilisation | Amount (RM'000) |
|---|---|
| (i) R & D Expenditure | 4,000 |
| (ii) Regional expansion of operations | 2,000 |
| (iii) Upgrading of network infrastructure and office equipment | 800 |
| (iv) Working capital | 3,100 |
| (v) Finance estimated listing expenses | 1,300 |
| **Total proceeds** | **11,200** |

Save for the estimated listing expenses which will be fully utilised upon the completion of the Public Issue, the timeframe for utilisation of the remaining proceeds is expected to be up to two (2) years from the listing date of Datascan.

The Company will bear all expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of Datascan on the MESDAQ Market of the Bursa Malaysia, which include underwriting commission, placement fees, brokerage, professional fees, authorities fees, advertising and other fees. The aggregate is estimated to be RM1.3 million.

## 2. PARTICULARS OF THE IPO *(Cont'd)*

There is no minimum subscription to be raised from the IPO as the IPO Shares are fully underwritten or placed out.

Notes: -

**(i) R & D expenditure**

As part of the Group's ongoing efforts to maintain technological advantage over its competitors, the Group has allocated RM4 million of the proceeds raised for the development and migration of the existing TSSS software products to the Microsoft.Net and Linux platforms over the next 24 months. The allocation will cover the R&D team's salary cost, computer hardware and software and related overheads.

**(ii) Regional expansion of operations**

The allocation of RM2 million will be applied towards subscription of the share capital in the new subsidiary companies to be established in the region, initial set up cost and operating expenses for the next 24 months.

**(iii) Upgrading of network infrastructure and office equipment**

Approximately RM0.8 million of the gross proceeds from the Public Issue will be used to finance the upgrading of the Group's network infrastructure and office equipment to meet the existing and future capacity.

**(iv) Working Capital**

The allocation of approximately RM3.1 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 payment for goods and related sales expenditure. The Group also plans to intensify its marketing efforts by directing part of the working capital for purposes of enhancing its image and branding and participating in exhibitions and conducting market studies.

Pending receipt of proceeds from the Public Issue, Datascan has on 4 June 2004 drawndown RM489,000 and is expected to further drawdown the overdraft facility to finance its immediate working capital requirements. Datascan has earmarked up to RM1.5 million from the proceeds to be raised from the Public Issue of RM3.1 million which was allocated for working capital towards the full repayment of the said overdraft.

**(v) Finance estimated listing expenses**

The estimated listing expenses for the listing of and quotation for the enlarged share capital of 152,000,000 Shares in Datascan on the MESDAQ Market of the Bursa Malaysia are as follows: -

| **Estimated listing expenses** | **Amount (RM)** |
|---|---|
| Fees to authorities | 40,500 |
| Professional fees # | 774,000 |
| Underwriting and brokerage fees | 146,720 |
| Printing, advertising and other miscellaneous expenses @ | 338,780 |
| Total | **1,300,000** |

*Notes: -*

| | |
|---|---|
| # | *Include fees for the Adviser, Reporting Accountants, Solicitors and other professional fees* |
| @ | *Any unutilised amount shall be used for working capital purposes of the Group.* |

## 2.8 UNDERWRITING COMMISSION AND BROKERAGE

The Underwriters as mentioned in Corporate Directory of this Prospectus, have agreed to underwrite the 11,600,000 IPO Shares to be issued to the Malaysian public, the eligible employees, Directors and/or business associates of the Group. Underwriting commission is payable by the Company to the Underwriters based on the IPO Price of RM0.28 per Share at the rate of 1.5% and 1.0% for the 4,000,000 new Shares available for application by the Malaysian Public and 7,600,000 Public Issue Shares reserve for eligible employees, Director and/or business associates of the Group respectively.

Brokerage is payable by the Company in respect of the Public Issue made available for application by the Malaysian public at the rate of 1.0% of the IPO Price of RM0.28 per share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of the Bursa Malaysia, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

## 2.9 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

Note: Unless stated, all capitalised terms shall bear the same meanings as prescribed in the Underwriting Agreement.

*The following are some of the Clauses of the Underwriting Agreement dated 23 June 2004 ("Agreement"), including escape clauses, which may allow the underwriters to withdraw from obligations under the agreement after the opening of the offer: -*

*<u>Clause 6.1</u>*

*The obligations of the Underwriters to underwrite the Underwritten Shares under this Agreement are conditional on the performance by the Company of its obligations under this Agreement and on:*

*6.1.1 The Managing Underwriter receiving the reports or confirmation, stating and confirming that:*

*6.1.1:1 there has been no adverse change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group taken as a whole from that provided in the Prospectus to the satisfaction of the Managing Underwriter at the Closing Date; or*

*6.1.1:2 there has not occurred any event or the discovery of any facts or circumstances which would render any representation, warranty or undertaking in Clause 11 (Representations, Warranties and Undertakings) materially untrue or inaccurate or result in a material breach of this Agreement by the Company to the satisfaction of the Managing Underwriter at the Closing Date;*

*6.1.2 The Managing Underwriter receiving a certificate in the form contained in Schedule 3 (Certificate) of this Agreement dated the Issue Date signed by all the Directors stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as referred to in Clause 11 (Representations, Warranties and Undertakings) of this Agreement;*

*6.1.3 The issue of the Prospectus not later than 1 month from the date of this Agreement or such later date as the Managing Underwriter and the Company may from time to time agree;*

*6.1.4 The registration of the Prospectus and such other documents as may be required in accordance with the SCA in relation to the Public Issue with the SC and its lodgement with the ROC by the Issue Date;*

*6.1.5 The approval of SC and Bursa Malaysia referred to in Clause 2.2 (Approvals) to the admission of the Company to the Official List and the listing of and quotation for its entire issued and paid up share capital being obtained on terms acceptable to the Managing Underwriter remaining in full force and effect and that all conditions precedent to the approvals (except for any which can only be complied with after the Public Issue has been completed) have been complied with;*

*6.1.6 The Managing Underwriter being satisfied that the Company will, following completion of the Public Issue be admitted to the Official List and its share capital be listed and quoted on the MESDAQ Market within three (3) months from the date of the Prospectus or such other longer period as may be specified by the Bursa Malaysia;*

*6.1.7 The Managing Underwriter receiving a copy certified by a Director or secretary of the Company to be a true and accurate copy and in full force and effect of a resolution of the Directors in form and substance acceptable to the Managing Underwriter:*

*6.1.7:1 approving the Issue Documents, this Agreement and the transactions contemplated by it;*

*6.1.7:2 authorising a person to sign and deliver this Agreement on behalf of the Company;*

*6.1.7:3 authorising the issuance of the Issue Documents;*

*6.1.8 This Agreement being signed by all parties and stamped;*

*6.1.9 The Public Issue not being prohibited or impeded by any statute, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority of Malaysia or any condition imposed by the regulators in approving the Public Issue and all consents, approvals, authorisations or other orders required by the Company under such laws for or in connection with the Public Issue and/or listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market have been obtained and are in force on the Closing Date or the Managing Underwriter being reasonably satisfied that the same will be in force on the Closing Date; and*

*6.1.10 The Company has complied with and that the Public Issue is in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto; and*

*6.1.11 The Public Issue being approved by the shareholders of the Company in an extraordinary general meeting.*

*Clause 10.2*

*The Underwriting Commission shall be payable to the Underwriters whether or not any allotment is made to the Underwriters or their respective nominees and whether or not the Underwriters become obliged to apply for any Underwritten Shares pursuant to Clause 9 (Underwriting Obligations). For the avoidance of doubt, any service tax chargeable in respect of the Underwriting Commission shall be borne by the Company.*

*Clause 10.3*

*Subject to Clause 9 (Underwriting Obligations), the Underwriting Commission (or the balance of any such commission which remains payable notwithstanding the deduction pursuant to Clause 9.2 (Underwriting Obligations)) shall be paid by the Company to the Managing Underwriter or the Underwriters (as the case may be) within 3 Market Days after the listing of the entire share capital of the Company on the MESDAQ Market provided always that so long as any moneys which are due from any of the Underwriters under Clause 9 (Underwriting Obligations) in respect of any Underwritten Shares shall remain unpaid that Underwriter shall not be entitled to receive payment of the Underwriting Commission.*

*Clause 14.1*

*14.1 Notwithstanding anything contained in this Agreement, the Underwriters and/or the Managing Underwriter (as the case may be) may by notice in writing to the Company given at any time before the Closing Date, terminate, cancel and withdraw their Underwriting Commitment if:*

*14.1.1 there is any breach by the Company of any of the representations, warranties or undertakings contained in Clause 11 (Representations, Warranties and Undertakings), which is not capable of remedy or, if capable of remedy, is not remedied within 14 days from the date of the notice of such breach given to the Company or within such number of days as may be specified in the notice of such breach which in any event, shall not be less than 3 Market Days; or*

*14.1.2 there is failure on the part of the Company to perform any of its obligations contained in this Agreement which failure is not capable of remedy or, if capable of remedy, is not remedied within 14 days from the date of the notice of such failure given to the Company or within such number of days as may be specified in the notice of such breach which in any event, shall not be less than 3 Market Days; or*

*14.1.3 there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Shares issued under the Public Issue; or*

*14.1.4 there shall have occurred, or happened any of the following circumstances:*

*14.1.4.1 any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or*

*14.1.4.2 any change in law, regulation, directive, policy or ruling in any jurisdiction; or*

*14.1.4.3 any event or series of events beyond the reasonable control of the Managing Underwriter and Underwriters including (without limitation) acts of government, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents which has or is likely to have the effect of making any material part of this Agreement incapable of performance with its terms or which prevents the processing of applications and/or payments pursuant to the Public Issue or pursuant to the underwriting of the Underwritten Shares;*

*which, in the reasonable opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on, and/or materially prejudice the business or the operations of the Company or the Group as a whole, the success of the Public Issue, or the listing of the Company on the MESDAQ Market or market conditions generally or which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms.*

*Clause 14.2*

*Upon any such notice(s) being given pursuant to Clause 14.1 (Termination), the Underwriters shall be released and discharged of their obligations without prejudice to their rights under this Agreement, and where the Underwriters have terminated or withdrawn their Underwriting Commitments pursuant to Clause 14.1 (Termination), this Agreement shall be of no further force or effect and no party shall be under any liability to any other parties in respect of this Agreement, save and except that the Company shall remain liable in respect of its obligations and liabilities under Clause 12 (Costs and Expenses) for the payment of costs and expenses already incurred up to the date of or in connection with such termination and under Clause 8.3.2 (Prospectus and Listing) for the payment of any taxes, duties or levies, and for any antecedent breach.*

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## 3. RISK FACTORS

In evaluating an investment in the IPO Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations: -

### (a) Operating Risks

Compared to the good profit record achieved by the Group for 13 years between 1988 and 2000 when the Group was aggressively marketing the MICROS range of products from MICROS, Inc of the USA, the Group is actually now in an even better position as it now has its own developed software intellectual property, and is aggressively marketing this product rather than the imported software solution from MICROS. The Group's own developed software presents a higher gross profit margin opportunity to the Group. Nonetheless, the Group's revenue and profitability could be adversely affected by many factors. These include, amongst others, the general economic situation, performance of the Hospitality (F&B) and Retail Industries, intensity of competition, market acceptance of new products and services, ability to attract and retain knowledge workers, and other common business risks. Thus, there is no assurance that the Group will be profitable in future years, or that it will achieve increasing levels of good financial performance.

However, barring any unforeseen circumstances, the Group believes that it should achieve its revenue and profitability targets, as it places greater emphasis on new product development, expanding into new synergistic businesses, and venturing into overseas markets with its own developed products.

### (b) Intensity of Competition

The Group's success will depend largely on its ability to increase its market share for existing businesses, and in overcoming entrenched players in overseas markets and new synergistic businesses that the Group intends to venture into. The POS and ICT industry is subject to intense competition and very rapid technological changes, and there is every indication that this competition and rapid changes will intensify even further in future. Datascan will be subject to this intensifying level of competition. While it has very successfully overcome such competition in the past to become one of the market leaders in Malaysia, there is no guarantee that it will continue to overcome such competition in the future. There is no assurance that Datascan will be able to compete successfully against current or future competitors, or against entrenched competitors in new markets. Increased competition may result in reduced revenue and margins that could adversely affect the Group's business and operating results.

Competitors from overseas with their own software solutions, and the new synergistic businesses that the Group intends to venture into are among the risks associated with the highly competitive market for POS and ICT in the F&B and retail industry. Given the intense competition and the dynamics of the industry wherein technology changes rapidly, the Group's focus on R&D to enhance existing software and develop new products that maximize the price and operational acceptance of new technologies, and its focus on building a strong sales force will help to ensure that risks from competition is minimised.

Nonetheless, the Group's focus on R&D to develop new products that maximise the price and operational acceptance of new technologies, and its focus on building a strong and intensely passionate sales force will help ensure that risks from competition is minimised. The Group also intends to leverage on the competitive advantage of its deep industry insights and 25 years of experience to stay ahead of its competitors.

**(c) Brand Awareness**

Over the past 25 years, the Datascan brand, with its distinct bold red "dts" logo, has become a very recognised brand among hoteliers, restaurateurs, and those in the F&B, entertainment and retail industries. To build up brand awareness even further, the Group has extended the logo into a navy blue "datascan" logo while retaining the bold red "dts" logo as part of a phased intensification of brand building.

This logo extension is part of the plan to increase marketing and public relations activities that commenced in the middle of 2003, and will be continuously focused on in the years ahead. While all these efforts may help the brand building effort in Malaysia, it still remains a challenge for the "datascan" brand to remain just as prominent if not more so in the years ahead in Malaysia, or to increase brand awareness in the overseas markets and in the new synergistic businesses that the Group plans to penetrate. If initial efforts are not successful, these activities may not contribute to any increase in revenue and profitability and may not even offset the additional marketing investments that the Group intends to make.

To minimise the risk of such downside impact, the Group intends to implement the marketing, public relations and promotional activities as planned, to continuously monitor the success of these efforts, and take corrective actions as early as possible.

**(d) Rapid Technological Changes in ICT Industry**

The ICT industry is characterised by rapid technological changes that make obsolescence, both in terms of the technology deployed in products as well as in the skills and knowledge of the application designers and developers deploying it, a much bigger inherent risk than it was many years ago. Datascan is deriving, and expects to continue to derive, a substantial portion of its profits from the software solutions that are based on today's leading technologies. Its success in the years ahead thus depends on its ability to offer products based on commercially viable software solutions and services that keep pace with these technological and platform changes, and changes in the skill sets of the designers and developers that bring the solutions and services into the market for the Group.

The Group intends to overcome the challenges by:-

a. keeping close monitor of the latest development in technology and platform,
b. keeping its product designers and developers in constant update of these core technology and platform developments,
c. keeping close monitor of the market's changing needs,
d. relating the observed technological and platform developments with the changes in customers' and industry's requirements, and
e. continuously enhancing its products and services based on the latest cost and operationally accepted technological platform changes to fulfill the requirements in a timely and most cost effective manner.

**(e) Delays in Product Development**

Developing new products inherently does not meet target deadlines due to a variety of causes such as changes to design specifications, quality related fixes, human resource constraints, new technology announcements, extended test time requirements, additional feature and function requirements, changing customer needs, unanticipated operational impact which necessitates software changes, new hardware announcements which require changes in software, and a variety of other causes. Such delays are not uncommon, and the bigger the development project, the longer the potential delay.

The Group intends to minimise such delays by stringent control of the entire product development life cycle of each and every product it develops and supports, by focusing on regular training of its development management and staff, by having focus groups with key users who will act as the domain experts to help ensure that the product specifications meet customer needs, by insisting on regular milestone checkpoint reviews, and by clear and precise documentation to enable effective project resumption in case of human resource interruptions.

**(f) Dependence on Directors and Key Personnel**

Datascan has always prided itself in its ability to hire, develop, motivate and retain qualified ICT professionals with the right skill sets, career focus and work attitude. These ICT professionals have, over the years, brought about the success which the Group has achieved in the areas of sales, customer service, product development, new business development, and strategic business planning, leading to Datascan's current strong reputation for product and customer service excellence. This has resulted in not only a strong set of loyal customers, it has in turn motivated an environment of loyalty among the Group's key personnel, many of whom have been with the Group for many years. Among the 12 members of the Group's senior management team - directors and vice presidents - the average length of service is 10.9 years, a clear sign that the Company is in good hands. At the Company level, the average length of service is 4.9 years for the 138 total permanent workforce as at 31 May 2004, an excellent record in the ICT industry.

The Group continues to have to compete for the best human resources in the ICT job market with the many ICT competitors, among which are large and well diversified multinational firms. With rapidly changing lifestyles of young ICT professionals, the challenge gets even more intense in not only attracting the best, but also in developing, training, motivating, and retaining key personnel and instilling in them the right career focus, work attitude and loyalty that are so vital for the continued success of the Group. Such people, once secured, are costly to replace, and losing them could have a direct adverse impact on future sales and financial success of the Group. Furthermore, clients or other companies may hire away some of the Group's key employees. This not only results in loss of key personnel, but also adversely affects service and product development continuity, client relationship, and new business opportunities.

With an aggressive growth plan ahead, the Group must get even more focused on attracting, developing, motivating and retaining its key personnel. The Group will be implementing an ESOS in conjunction with its listing on the MESDAQ market to allow employees of the Group to participate in the Group's future growth and success. By becoming shareholders, employees will hopefully have a different view of the Group and work with the Group and its activities with even more vigor and passion in the years ahead. The Group continues to have to offer competitive salary/remuneration and benefits package.

**(g) Reliance on the Hospitality and Retail industries**

The Group's business is focused on providing ICT solution for the Hospitality and Retail industries. It has, over the years, secured and cultivated a very prominent set of loyal customers, many of whose businesses have also grown significantly over the years that the Group has serviced them. It derives a very high percentage of its revenue from establishments in this sector. The Group's continued success is therefore very dependent on the continuous growth of its set of customers in these industries, and in the continuous growth of new businesses in a thriving economy.

The Hospitality (F&B) and Retail Industries are very susceptible to the economic health and well being of the country. For example, during the recent SARS epidemic which affected tourism badly, many establishments in the Hospitality (F&B) and Retail Industries, especially hotels and fine dining restaurants, were affected by a downturn in business. The Group, in turn, encountered some temporary difficulties in the collection of maintenance receivables, and had to put in additional effort to manage, collect and defer some income until the situation improved. While this brought about positive response from many affected customers for the Group's support of their difficult situation, it nonetheless puts pressure on the timely attainment of the Group's financial goals.

The Group, however, intends to maintain its focus on the Hospitality and Retail industries where it has built its core industry and product strengths. It plans to mitigate the over-dependence on these industries in Malaysia by diversifying its business geographically within the region as well as exploring new synergistic growth areas like networking, business intelligence systems, and loyalty program applications.

**(h) Protection of intellectual property rights**

Any entity whose business is dependent on adequate protection of its intellectual property is exposed to potential infringements of such intellectual property rights, and this may severely affect its business. The Group is no different.

A substantial portion of its revenue will be derived from its own developed proprietary software which takes time and resources to develop. In order to protect its intellectual property rights, the Group relies on a combination of trademark, copyright and trade secret protection. It has also put in place confidentiality agreements with its employees and issued other contracted agreements and licences to its customers and strategic alliances so as to protect its existing and future business solutions. However, these can allow only limited protection and there is no guarantee that it will protect its proprietary rights against unauthorised third party copying or using its products.

The protective steps which the Group has taken may be insufficient to establish effective ownership of intellectual property rights of all original and new creations of its software solutions. It is possible that it may have inadvertently misplaced or omitted to execute certain assignments of intellectual property in its favour. In such event, the non-execution of such agreements may put parties against its claims to intellectual property ownership. Third parties, former employees included, may attempt to claim that the Group does not own such intellectual property rights. Former employees may also misappropriate the Group's proprietary information and the proprietary information of its customers that are made available to the Group on a confidential basis. If it is unable to protect its intellectual property rights adequately, the Group's business, competitive position, and reputation may be affected.

Defending the Group against any infringements of intellectual property rights may be a costly, unproductive and painful process that can be very disruptive to the Group's business. Furthermore, the Group is currently not aware of any claim that its own developed software is an infringement of the trademarks, copyrights or trade secrets of others. Even if such claims are unwarranted, it will nonetheless require significant management and financial resources to counter such claims.

The Group, to mitigate such risks, has asserted and will continue to assert copyright ownership and registered trademarks in Malaysia. It will also seek trademark, copyright and trade secret protection in every country it operates in. However, there can be no guarantee that such protection can be at an adequate level as effective protection of intellectual property rights vary between countries. It will also ensure that the designs and development output by its R&D management and teams are as a result of in-house effort, and not to avail itself of the source codes of others even in the rare event that such source codes are available to it R&D teams.

**(i) Future capital injections**

The Group currently considers that the net proceeds from the Public Issue and the cash flow from operations and from other available sources of funds are sufficient to meet the foreseeable needs of the Group. However, there is no assurance that there will not be events or situations that demand more funds to be required in future that may cause the Group to seek additional capital sooner. If there is such a need for additional capital, there can also be no assurance that such capital is available, or is available at a cost or at terms acceptable to the Group. In the event that such funds are made available by the sale of additional equity or other convertible securities to non-shareholders, this may result in further dilution of shareholdings held by the Group's current shareholders.

**(j) New geographical market**

A significant growth strategy of the Group is to expand into new geographical markets. If this is unsuccessful, it may affect the Group's revenue growth plan. Thus it is anticipated that significant resources must be placed on introducing the Group's products into these new markets, and to grow its market share there. Such expansion into new territories comes with new risks, such as local regulatory requirements or unexpected changes in regulatory requirements, the costs and risks of customising software solutions for foreign markets, currency rate fluctuations or capital controls, difficulty in staffing and managing overseas operations, import or export regulations and restrictions, rule of law challenges, intellectual capital protection, software piracy or reverse-engineering challenges, collection of debts, and effective management of business partners overseas to name just a few.

The Group's software is protected via a unique activation code generated by Datascan and provided to customers on a yearly basis. This helps to mitigate risk of copyright infringements or software piracy. However, this code is not hacker-proof and hence there is no assurance that if this code is hacked, there will be no negative impact on the Group's software security, leading to a revenue and profit shortfall.

**(k) Market acceptance of new products**

The markets for the Group's products and services are characterised by rapid technological developments, evolving industry standards, swift changes in customer requirements, computer operating environments and software applications, and frequent new product introductions and enhancements. The Group's future prospects depend substantially on its ability to address the increasingly sophisticated needs of its customers by supporting existing and emerging hardware, software, database and networking platforms.

The timely development of new or enhanced products and services is a complex and uncertain process. Although the Group believes that it will have the funding to implement its business plan, there can be no assurance that the Group will continue to have sufficient resources to successfully and accurately anticipate technological and market trends, or to successfully manage long development cycles. The Group may also experience design, marketing and other difficulties that could delay or prevent the development, introduction or marketing of its products and services, as well as new products and services and enhancements. The Group may also be required to collaborate with third parties to develop products and services and may not be able to do so on a timely and cost-effective basis, or at all.

If the Group is not able to develop new products and services or enhancements to its existing products and services on a timely and cost-effective basis, or if the Group's new products and services or enhancements fail to achieve market acceptance, or if one or more of the Group's competitors introduce products and services that better address customer needs or for any reason gain market share, the Group's business, operating results and financial condition may be affected.

However, with the continuous emphasis placed by the Group on R&D activities with the proceeds from the IPO which have been allocated for the same, the Company is confident to mitigate the abovementioned risk factors.

**(l) Foreign exchange risks**

The Group's supplies of hardware equipment are from overseas, and some transactions are conducted in US dollars and the supplier's home currency. The Group further plans to expand in overseas markets, with the export of software to these markets being nominated in the US dollar or in foreign currencies. This exposes the Group to foreign currency risks. Any fluctuation in these currencies against the Ringgit due to timing differences of these settlements could have material effect on the Group's financial results.

Currently, the pegging of the Ringgit to the US dollar has allowed the Group to minimise foreign currency risks. Nonetheless, the Group has adopted a more prudent approach by tightening the control procedures for foreign currency transactions such as ensuring that approvals are obtained from the Executive Director and/or the CEO prior to entering into any foreign currencies contracts, regardless of the amount involved. However, no assurance can be given that any adverse movement in the foreign currency rate(s) will not have an adverse impact on the Group's business.

**(m) Litigation risks**

Save as disclosed in Section 14.6, as at 31 May 2004, the Group is not engaged either as plaintiff or defendant in any legal action, proceeding, arbitration or prosecution for any criminal offence or civil suits involving claims in relation to product and service liabilities which has a material effect on the financial position of the Group.

As the Group has not purchased any product liability insurance, there is a risk that the Group's interests may not be adequately protected in the event of litigation. However, the Group, as a POS solution provider, only provides software solutions and the POS hardware to its customers, and accordingly the Group's liability is limited by the terms and conditions of the agreements between the Group and its customers.

**(n) Regulatory risks**

Currently, save for the general company and contract laws, the business activities of the Group in Malaysia are not subject to any specific legislation or regulation. However, any adverse development in political, economical, regulatory and environmental conditions in Malaysia and other countries where the Group plans to operate in may materially and adversely affect the financial prospects and growth of the Group.

## 3. RISK FACTORS *(Cont'd)*

### (o) Change in MSC Status

A subsidiary, TTSB, was granted MSC status on 23 January 2003 by the Multimedia Development Corporation ("MDC"). MDC is the body responsible for assessing and monitoring all MSC status companies. As an MSC status company, TTSB enjoys certain financial and non-financial incentives, which are guaranteed under the Malaysian Government's Bill of Guarantees for MSC status companies.

The financial incentives include, amongst others, the following: -

i. A five (5) year exemption from Malaysian income tax (only on income derived from MSC related activities) commencing from the date 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 100% investment tax allowance on new investments made in the MSC cyber cities, 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. Research and development grants for MSC small and medium enterprises that are at least 51% Malaysian owned.

The non-financial incentives include: -

- Unrestricted employment of foreign knowledge workers;

- Freedom of ownership; and

- Freedom to source capital for MSC infrastructure 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.

MDC is the body responsible for monitoring all MSC designated companies. MDC has the right to revoke any company's MSC status at any time. Thus, there can be no assurance that TTSB will continue to retain its MSC status, or that it will continue to enjoy the MSC incentives outlined above, all of which could affect the Group's business, operating results and financial condition.

Details of the conditions imposed by MDC in granting the MSC status to TTSB are set out in Section 6.3 of this Prospectus.

### (p) Uncertainty of Proposed 5-year Business Development Plan

The success of the Group's business plan will largely depend on market acceptance of its products, the continuation as exclusive distributorship, dealership or distributorship for certain hardware products as well as the Group's ability to further develop and commercialise future applications. In addition, the Group's proposed future plan and prospects will depend on, among other things, the Group's ability to enter into strategic marketing and licensing arrangements on a timely basis, and on favourable terms, hire and retain skilled personnel in all areas of financial, technical, and marketing. The Group also has the challenge of successfully managing growth (including monitoring operations and controlling costs) and obtaining adequate financing as and when needed.

**(q) Disclosure Regarding Forward-Looking Statements**

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Any forward-looking statements are subject to uncertainties and contingencies. The Group believes such statements to be reasonable, but is subject to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the expressed results, performance or achievements, expressed or implied in such forward-looking statements. Such factors include, inter-alia, general economic and business conditions, competition and the impact of new laws and regulations affecting the Group. In the light of these and other uncertainties, the inclusion of any forward-looking statements in this Prospectus should not be regarded as a representation of the Company or its adviser that the plans and objectives of the Group will be achieved.

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