1. CORPORATE DIRECTORY

BOARD OF DIRECTORS

Name/Designation	Address	Occupation	Nationality
Dr Sureswaran Ramadass *(Chairman/Non-Independent Non-Executive Director)*	41, Jalan Mas Island Park 11600 Penang	Associate Professor	Malaysian
Vena A/P Jaganathan *(Managing Director)*	41, Jalan Mas Island Park 11600 Penang	Company Director	Malaysian
Lim Soon Seng *(Executive Director)*	62, Aboo Sittee Lane 10400 Penang	Company Director	Malaysian
Tan Sri Musa Bin Mohamad *(Independent Non-Executive Director)*	15, Jalan PJU 3/12C Damansara Indah Resort Homes 47410 Petaling Jaya Selangor	Company Director	Malaysian
Zaidi Bin Shamsuddin *(Independent Non-Executive Director)*	7, Lintang Bukit Kecil 3 Taman Sri Nibong 11900 Bayan Lepas Penang	Company Director	Malaysian

AUDIT COMMITTEE

Name	Designation	Directorship
Tan Sri Musa Bin Mohamad	Chairman	Independent Non-Executive Director
Zaidi Bin Shamsuddin	Member	Independent Non-Executive Director
Lim Soon Seng	Member	Executive Director

COMPANY SECRETARIES : Teh Lay Gnoh *(MIA 4357)*
70, Lorong Seremban
10150 Penang

Ooi Teik Huat *(MIA 21851)*
98-2F, Mewah Court
Jalan Tan Sri Teh Ewe Lim
11600 Penang

REGISTERED OFFICE : Suites 704 and 705
7th Floor
11, Lorong Kinta
10400 Penang
Tel. No.: 04-2270363

1. CORPORATE DIRECTORY *(Cont'd)*

ADMINISTRATION OFFICE	:	No. 59B-01-05 Jalan Sungai Dua 11700 Batu Uban Penang Tel. No.: 04-6593590 Fax No.: 04-6593591 E-mail address: admin@mlabs.com.my Website: www.mlabs.com.my
R&D OFFICE	:	Lot G-3A, Incubator 1 Technology Park Malaysia Bukit Jalil 57000 Kuala Lumpur Tel. No.: 03-89961759 Fax No.: 03-89961754 E-mail address: research@mlabs.com.my Network Research Group School of Computer Sciences Universiti Sains Malaysia 11800 Penang
AUDITORS AND REPORTING ACCOUNTANTS	:	KPMG *(AF 0758)* Chartered Accountants 1st Floor, Wisma Penang Garden 42, Jalan Sultan Ahmad Shah 10050 Penang Tel. No.: 04-2272288
SOLICITORS FOR THE LISTING EXERCISE	:	Salina, Lim Kim Chuan & Co. Advocates & Solicitors (Corporate Division) 51-15-C2, Menara BHL Jalan Sultan Ahmad Shah 10050 Penang Tel. No.: 04-2282785
SHARE REGISTRAR	:	Agriteum Share Registration Services Sdn Bhd *(578473-T)* 2nd Floor, Wisma Penang Garden 42, Jalan Sultan Ahmad Shah 10050 Penang Tel. No.: 04-2282321
PRINCIPAL BANKERS	:	Bumiputra Commerce Bank Berhad *(13491-P)* Block 32, Minden Campus Universiti Sains Malaysia 11800 Penang Tel. No.: 04-6581382 Bank Industri & Teknologi Malaysia Berhad *(49572-H)* Aras 28, Bangunan Bank Industri Bandar Wawasan No. 1016, Jalan Sultan Ismail 50724 Kuala Lumpur Tel. No.: 03-26929088

1. CORPORATE DIRECTORY *(Cont'd)*

INDEPENDENT MARKET RESEARCHER	:	Infocredit D&B (Malaysia) Sdn Bhd *(527570-M)* Level 9-3A, Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur Tel. No.: 03-27181000
ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT	:	Alliance Merchant Bank Berhad *(21605-D)* Level 29, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel. No.: 03-26927788
ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd *(258345-X)* 27th Floor, Menara Multi-Purpose Capital Square No. 8, Jalan Munshi Abdullah 50100 Kuala Lumpur Tel. No.: 03-26932075
LISTING SOUGHT	:	MESDAQ Market

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2. INFORMATION SUMMARY

THIS SECTION IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT US AND THE PUBLIC ISSUE AND IS EXTRACTED FROM THE FULL TEXT OF THIS PROSPECTUS. YOU SHOULD READ AND UNDERSTAND THIS SECTION TOGETHER WITH THE WHOLE PROSPECTUS BEFORE YOU DECIDE WHETHER TO INVEST IN US.

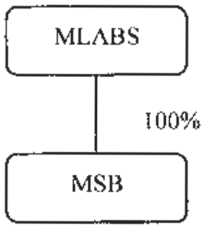
2.1 HISTORY AND BUSINESS

MLABS was incorporated in Malaysia on 21 May 2004 under the Act as a public limited company under its present name. As at the date of this Prospectus, MLABS' authorised share capital is RM50,000,000 comprising 500,000,000 ordinary shares of RM0.10 each of which 76,006,150 Shares are issued and fully paid-up. MLABS commenced operations on 31 March 2005.

MLABS was established as the investment holding company of MSB in conjunction with the listing of the Group on the MESDAQ Market.

Presently, MLABS has one (1) wholly-owned subsidiary company, namely MSB. MSB was incorporated in Malaysia on 28 July 1997 under the Act as a private limited company under the name Profound Blue Sdn Bhd. It changed its name to Multimedia Research Lab Sdn Bhd on 10 October 1997. The present authorised share capital of MSB is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each in MSB, of which 5,000,000 shares are issued and fully paid-up.

The Group's corporate structure is as follows:



As at the date of this Prospectus, MSB has no subsidiary or associated companies.

The principal activities of MSB are the provision of R&D in multimedia videoconferencing systems as well as assembling and trading of multimedia videoconferencing systems and equipment.

The history of the Group can be traced back to 1994 when a team of researchers from USM undertook the R&D of a new architecture and technology in multimedia videoconferencing. MSB's core product, MCS, was thus conceptualised and MSB was incorporated in 1997 to dedicate research resources to enhance MCS' architecture and its related technologies.

Presently, the Group has three (3) broad categories of MCS, namely MCS Client, MCS Server and AMMCS. The MCS Client systems are endpoint solutions developed to address various customers' needs whilst the MCS Server systems are conference management and multipoint solutions developed to meet the requirements of enterprise users, organisations, ASP and ISP. The AMMCS are developed to address dynamic changes that are taking place today in military communications. Further details on the Group's principal products are set out in Section 6.5.2 of this Prospectus.

MCS is an Internet Protocol-based M2M multimedia videoconferencing system. In applying MCS system, companies can reduce their cost by tapping onto either their existing corporate network or the country's internet infrastructure to build multiple virtual meeting places which is as effective as face-to-face meetings. This is achieved using the distributed entities architecture, the RSW Control Criteria and the MLIC, the underlying technologies behind MCS technology, which maintains low bandwidth consumption for unlimited number of users participating in the conference simultaneously, thus creating the M2M conferencing environment.

The unique concept and technology behind MCS has been accredited with numerous awards including Association of the Computer and Multimedia Industry, Malaysia (PIKOM)'s IT Product of the Year in 1999, the Merit Award at the Asia Pacific MSC Information Technology and Telecommunications Award (APMITTA) in 2000, and the Gold Award by the Ministry of Science, Technology and Environment in 2003.

On 25 January 1999, MSB was granted MSC status by MDC.

Further details on the Group's history and principal activities are set out in Sections 6.1 and 6.5 of this Prospectus respectively.

2.2 TECHNOLOGY AND INTELLECTUAL PROPERTY RIGHTS

We strive hard to pursue technological advances through the use of human creativity and are committed to continuous R&D efforts to keep abreast of market developments, market trends and to tap into new markets, to ensure the long-term sustainability of our business.

Technology

Extensive R&D by the Group has led to the development of the following three (3) underlying core technologies behind MCS:

(i) Distributed Network Entities Architecture;
(ii) RSW Control Criteria; and
(iii) MLIC.

MCS is a client-server Internet Protocol-based system which supports distributed network entities architecture. Under the Distributed Network Entities Architecture, MCS is divided into several components, making it very modular and flexible. Each of these components is a network entity, operating almost independently of each other. By just adding or taking out these components, MCS can cater to different needs and requirements. The four (4) main entities of the MCS are client entity, MLIC entity, server entity and the compression entity.

The RSW control criteria are a set of floor control criteria protocol created to administer ongoing conference session. It was created to optimise the high bandwidth requirements of multimedia conferences as well as to create a system of order for these conferences.

MLIC extends MCS' capabilities to connect users who are located remotely outside the organisation LAN network, by creating virtual tunnels for the remote participants or remote LANs.

In addition, MCS also uses UDP multicast technology for efficient transmission of real-time multimedia data. Multicast technology is used within the LAN and unicast technology within the WAN. This enables MCS to keep the conference bandwidth constant. In order for the multicast packets to transverse the WAN, the MLIC entity converts the LAN based multicast packets to unicast packets so as to enable them to pass through the WAN routers. Upon the receipts of unicast packets, MLIC reconverts and retransmits them as multicast packets into its own LAN. Therefore, it allows non-multicast networks like the Internet to connect as well.

Under the client-server Internet Protocol-based system, MCS allows up to 60 users per enterprise server and up to 1,000 users per ASP server. The number of servers are scalable. This means a conference can have an unlimited number of participants by simply increasing the number of servers.

All these underlying technologies behind MCS, maintains low bandwidth consumption for unlimited number of user participating in a conference simultaneously, thus, creating the M2M conferencing environment.

Intellectual Property Rights

The Group regards intellectual property rights as critical to its continued success and has taken the necessary steps to protect its intellectual property rights. The following applications are still pending for the registration of trade mark and patents of the Group:

(i) Trade Mark

MSB has filed an application for the trade mark described below which has been registered. Its application has been accepted by the Intellectual Property Corporation of Malaysia and is valid for a period of ten (10) years.

Description of marks	Details	Trade mark number/validity period	Jurisdiction
"QUICKMEETING" for computer operating programs (recorded) computer software (recorded), all included in Class 9	Proprietor: MSB	01014061/ 25 October 2001 to 25 October 2011	Malaysia

MSB has also filed another trade mark application which is still pending, the details of which are set out below:

Description of marks	Details of application	Application number and date	Jurisdiction
"MLABS" logo for computer operating programs (recorded) computer software (recorded), all included in Class 9	Applicant: MSB	04011178 3 August 2004	Malaysia

(ii) Patents

MSB has interest in the following patent applications:

Title of invention	Details of application	Application number and date	Jurisdiction
Multipoint-to-multipoint multimedia conferencing system incorporating a distributed entity environment and a unique method of floor control	Applicant: MSB Inventor: Dr Sureswaran Ramadass	PI200152558 16 November 2004	Malaysia
Multipoint-to-multipoint multimedia conferencing system incorporating a distributed entity environment and a unique method of floor control	Applicant and inventor: Dr Sureswaran Ramadass Assignee: MSB*	09/693,464 19 October 2000	USA

Note:

* *On 16 May 2001, Dr. Sureswaran Ramadass executed an assignment of the USA patent application No. 09/693,464 to Mlabs Global Inc. (which was formerly the holding company of MSB). On 15 June 2004, Mlabs Global Inc. assigned the said patent application to MSB.*

(iii) Copyright

MSB owns the copyright to the MCS version 5.0 software program and the source codes pertaining thereto.

Further details on the Group's technology and intellectual property rights are disclosed in Section 6.5.4 of this Prospectus.

2.3 PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT

The direct and indirect interests of the Promoters, substantial shareholders and Management in the issued and paid-up share capital of the Company after taking into account the Public Issue are as follows:

			Shareholding after the Public Issue			
			Direct		Indirect	
Name	**Designation**	**Nationality/ Place of incorporation**	**No. of Shares held**	**% held**	**No. of Shares held**	**% held**
Promoters						
Dr Sureswaran Ramadass *	Chairman/Non-Independent Non-Executive Director	Malaysian	687,132[(b)]	0.67	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,585,849[(b)]	1.55	52,847,913[(a)]	51.73
Lim Soon Seng	Executive Director	Malaysian	839,844[(b)]	0.82	-	-
Compquest *	Substantial Shareholder	Malaysia	52,847,913	51.73	-	-
Substantial Shareholders						
Compquest *	Substantial Shareholder	Malaysia	52,847,913	51.73	-	-
Kenwin	Substantial Shareholder	Hong Kong	5,714,749	5.59	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,585,849[(b)]	1.55	52,847,913[(a)]	51.73

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2. INFORMATION SUMMARY *(Cont'd)*

			< -------- Shareholding after the Public Issue -------- >			
			< ---------Direct--------- >		< ---------Indirect--------- >	
Name	**Designation**	**Nationality/ Place of incorporation**	**No. of Shares held**	**% held**	**No. of Shares held**	**% held**
Directors						
Dr Sureswaran Ramadass *	Chairman/Non-Independent Non-Executive Director	Malaysian	687,132[(b)]	0.67	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,585,849[(b)]	1.55	52,847,913[(a)]	51.73
Lim Soon Seng	Executive Director	Malaysian	839,844[(b)]	0.82	-	-
Tan Sri Musa Bin Mohamad	Independent Non-Executive Director	Malaysian	100,000[(b)]	0.10	-	-
Zaidi Bin Shamsuddin	Independent Non-Executive Director	Malaysian	100,000[(b)]	0.10	-	-
Key Management and Key Technical Personnel						
Khairil Anuar Aziz	Chief Executive Officer	Malaysian	100,000[(b)]	0.10	-	-
Wong Kin Thong	Vice President Asia Pacific	Malaysian	100,000[(b)]	0.10	-	-
Dr Omar Amer Abouabdalla	Chief Technology Officer	Libyan	1,899,518[(b)]	1.86	-	-
Tan Chen Wei	Technical Support Engineer	Malaysian	50,000[(b)]	0.05	-	-
Vanessa Sebastian	Senior Finance Manager	Malaysian	25,000[(b)]	0.02	-	-

Notes:

* *Please refer to Section 9.6 for the relationship amongst Dr Sureswaran Ramadass, Vena A/P Jaganathan and Compquest.*

(a) *Deemed interest by virtue of her substantial shareholding in Compquest pursuant to Section 6A of the Act.*

(b) *Inclusive of their indicative Pink Form Shares allocation and assuming they subscribe in full for their Pink Form Shares allocation.*

Pursuant to By-Law 4.2 which is disclosed in Section 15 of the Prospectus, the maximum allowable allotment in relation to the Offer of the ESOS Options to non-executive Directors is up to ten percent (10%) of the total number of Shares available under the ESOS. As at the Latest Practicable Date, the amount of ESOS Options to be granted to non-executive Directors has not been determined.

Further information on the Promoters, substantial shareholders and Management are set out in Section 9 of this Prospectus.

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2.4 FINANCIAL HIGHLIGHTS

2.4.1 Proforma Consolidated Income Statements

The following is a summary of the proforma consolidated income statements of the Company for the fifteen (15)-month financial period ended 31 December 2000, and the four (4) financial years ended 31 December 2001 to 31 December 2004. The proforma consolidated income statements had been prepared on the assumption that our current Group structure has been in existence throughout the period/years under review. The proforma consolidated income statements should be read in conjunction with the accompanying notes and assumptions set out in Section 13 of this Prospectus:

	<--------------------Proforma Group-------------------->				
Financial period/years ended	**15-month ended 31 December**	< ------------	------------**31 December**	------------	------------ >
	2000	**2001**	**2002**	**2003**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	537	1,041	917	2,556	5,042
(Loss)/Profit before interest, depreciation, taxation and amortisation	(209)	246	356	1,277	2,361
Interest expense	(6)	(18)	(19)	(36)	(85)
Depreciation	(141)	(124)	(176)	(201)	(134)
Amortisation	-	(190)	(380)	(506)	(895)
(LBT)/PBT	(356)	(86)	(219)	534	1,247
Taxation	-	-	(1)	-	(9)
(LAT)/PAT	(356)	(86)	(220)	534	1,238
No. of Shares assumed in issue to form the Group ('000)*	76,006	76,006	76,006	76,006	76,006
Gross (LPS)/EPS (sen)	(0.47)	(0.11)	(0.29)	0.70	1.64
Net (LPS)/EPS (sen)	(0.47)	(0.11)	(0.29)	0.70	1.63

Note:

* *Based on the number of Shares in issue after the MSB Acquisition but before the Public Issue.*

There were no exceptional or extraordinary items in the relevant financial period/years under review. In addition, there was no material impact of foreign exchange, interest rates or commodity prices on operating profits of the Group in the relevant financial period/years under review. There were no audit qualifications for the financial period/years under review.

Further information on the proforma consolidated income statements is set out in Section 5.1 of this Prospectus.

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2.4.2 Proforma Consolidated Balance Sheets

The proforma consolidated balance sheets of the Company as at 31 December 2004, assuming that the MSB Acquisition, the Public Issue, utilisation of proceeds and the full exercise of the ESOS Options arising from the ESOS had been completed as at that date, together with the detailed assumptions underlying its preparation are set out in Section 5.4 of this Prospectus. The following table shows a summary of the proforma consolidated balance sheets of the Group as at 31 December 2004:

	Company **RM'000**	**Proforma I** **RM'000**	**Proforma II** **RM'000**	**Proforma III** **RM'000**
PROPERTY, PLANT AND EQUIPMENT	-	848	848	848
INTELLECTUAL PROPERTIES	-	6,519	6,519	6,519
INVESTMENT IN UNQUOTED SHARES, AT COST	-	300	300	300
DEVELOPMENT EXPENDITURES	-	171	171	171
CURRENT ASSETS				
Trading inventories, at cost	-	61	61	61
Trade and other receivables	-	3,380	3,380	3,380
Cash and cash equivalents	*	852	13,435	19,053
	-	4,293	16,876	22,494
CURRENT LIABILITIES				
Trade and other payables	7	3,285	3,285	3,285
Taxation	-	8	8	8
	7	3,293	3,293	3,293
NET CURRENT (LIABILITIES)/ASSETS	(7)	1,000	13,583	19,201
	(7)	8,838	21,421	27,039
Financed by:				
SHARE CAPITAL	*	7,600	10,215	11,237
SHARE PREMIUM	-	43	10,011	14,607
(LOSS CARRIED FORWARD)/RETAINED PROFIT	(7)	1,195	1,195	1,195
SHAREHOLDERS' FUNDS	(7)	8,838	21,421	27,039
Net tangible (liabilities)/assets per ordinary share of RM0.10 each (sen)	(35,000)	2.83	14.42	18.11

* Denotes RM2, comprising 20 ordinary shares of RM0.10 each

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Proforma I

Acquisition by MLABS of the entire issued and paid up capital of MSB, comprising 5,000,000 ordinary shares of RM1.00 each for a total consideration of RM7,600,613 satisfied by the issuance of 76,006,130 new MLABS Shares credited as fully paid up at an issue price of RM0.10 per share.

On proforma basis, the purchase consideration is based on the audited shareholders' funds of MSB at 31 December 2003 of RM4,021,655, after adjusting for the increase in paid-up share capital of 500,000 and 435,000 ordinary shares of RM1 each at issue price of approximately RM1.16 and RM6.90 per share respectively totalling RM3,578,958 in April and May 2004 .

The acquisition has been accounted for using the merger method of accounting as the acquisition meets the relevant criterias under Malaysian Accounting Standards Board Standard 21 – Business Combinations.

Inter-company balances have been eliminated in arriving at the Proforma Consolidated Balance Sheets.

Proforma II

Proforma II incorporates Proforma I and the following:

i) Public Issue of 26,150,850 new ordinary shares of RM0.10 each at an issue price of RM0.55 per Share.

ii) The share issue expenses amounting to RM1.8 million will be set off against share premium account.

Proforma III

Proforma III incorporates Proforma II and the exercise of 10,215,000 options under the ESOS (10% of the enlarged share capital) at an assumed exercise price of RM0.55 per Share.

The gross proceeds of RM14,382,968 from the public issue will be utilised as follows:

	RM'000
Capital expenditure	3,200*
Business expansion	1,500*
Marketing and promotion expenses	800*
Working capital	2,273*
Repayment to creditor	2,400*
R&D expenditure	2,410*
Estimated share issue expenses	1,800^
	14,383

Notes:-

* *Included in cash and cash equivalents under current assets, pending utilisation under Proforma II.*

^ *The estimated share issue expenses of RM1,800,000 will be set off against share premium account.*

Further details on the Group's proforma consolidated balance sheets are set out in Section 5.4 of this Prospectus.

2.4.3 Future Financial Information

Future financial information has not been included in this Prospectus as it is difficult to forecast due to the uncertain nature and inherent risks of the business of the Company. Please refer to Section 4 of this Prospectus for further details.

2.5 PRINCIPAL STATISTICS RELATING TO THE PUBLIC ISSUE

(a) Share Capital

	RM
Authorised share capital	
500,000,000 ordinary shares of RM0.10 each	50,000,000
Issued and fully paid-up share capital as at the date of this Prospectus	
76,006,150 ordinary shares of RM0.10 each	7,600,615
To be issued and credited pursuant to the Public Issue	
26,150,850 new ordinary shares of RM0.10 each	2,615,085
Enlarged issued and paid-up share capital upon Listing	
102,157,000 ordinary shares of RM0.10 each	10,215,700
Assuming all ESOS Options are granted and exercised *	
10,215,000 new ordinary shares of RM0.10 each	1,021,500
Enlarged issued and paid-up share capital after full exercise of ESOS Options	
112,372,000 ordinary shares of RM0.10 each	11,237,200

Note:

* *The ESOS of up to 10% of the issued and paid-up capital of the Company will be implemented in conjunction with the Listing. An initial grant of ESOS Options for up to 3,000,000 of new Shares will be granted to the eligible Directors and employees of the Group in conjunction with the Listing, and will only be exercisable after one (1) year from the Listing date.*

(b) Issue Price per Public Issue Share — RM0.55

The factors taken into consideration in determining the price of the Public Issue Shares are set out in Section 3.8 of this Prospectus.

(c) Market capitalisation upon Listing (before exercise of any ESOS Options) based on the issue price of RM0.55 per Public Issue Share — RM56,186,350

(d) Class of shares, ranking and rights

MLABS has only one (1) class of shares, being ordinary shares of RM0.10 each. The Public Issue Shares rank equally in all respects with existing issued and fully paid-up Shares including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the Public Issue Shares.

Unless there are special rights attached to any shares which MLABS may issue in the future, a shareholder shall be entitled to share in the whole of profits paid out as dividends and other distributions and the whole of any surplus in the event of liquidation in accordance with the Company's Articles of Association. Such entitlement shall be in proportion to the amount of paid-up Shares held by them.

Each shareholder is entitled to vote at any of our general meeting in person, 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 who is present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held. A proxy may but need not be our member.

(e) Proforma consolidated NTA as at 31 December 2004

Proforma consolidated NTA (after the MSB Acquisition, the Public Issue and deducting estimated share issue expenses of RM1.80 million)	RM14.731 million
Proforma consolidated NTA per Share (based on the enlarged issued and paid-up share capital of 102,157,000 Shares after the Public Issue)	RM0.14

Further details on the Public Issue are set out in Section 3 of this Prospectus.

2.6 UTILISATION OF PROCEEDS

The total gross proceeds of approximately RM14.38 million arising from the Public Issue will be fully utilised by the Group, as follows:

	RM'000	Timeframe for utilisation from the Listing date
Capital expenditure	3,200	36 months
Business expansion	1,500	24 months
Marketing and promotion expenses	800	36 months
Working capital	2,273	12 months
Repayment to creditor	2,400	6 months
R&D expenditure	2,410	36 months
Estimated share issue expenses	1,800	6 months
Total	**14,383**	

Further details on the utilisation of proceeds of the Public Issue are set out in Section 3.9 of this Prospectus.

2.7 MATERIAL LITIGATION, MATERIAL CAPITAL COMMITMENTS, WORKING CAPITAL, BORROWINGS AND CONTINGENT LIABILITIES

(a) Material Litigation

Save as disclosed below, as at the Latest Practicable Date, the Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which may have a material effect on the Group's financial position or business upon becoming enforceable, and the Directors do not have any knowledge of any proceedings pending or threatened against the Group or of any facts likely to give rise to any proceedings which may materially and adversely affect the Group's financial position or business.

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(i) By a summons dated 30 June 2003, Arvind Nagpal ("the plaintiff") commenced a civil suit against MSB to claim for the sum of RM47,593.67 (together with costs and interest at 8% per annum on the amount claimed from the date of the summon until actual settlement) for wages and commission allegedly due to the plaintiff for his services as a Director-Sales and Marketing based in Singapore under a fixed term contract of employment. MSB filed a defence dated 15 September 2003 stating, inter alia, that the plaintiff was not employed as an employee under a contract of service but under a contract for services, and that the plaintiff had breached the contract by failing to fulfill agreed targets and that the commission was only payable in regard to sales for which MSB had received payment. MSB had proposed to settle the matter by paying SGD17,000 (approximately, RM39,100 at the exchange rate of RM2.30:SGD1.00) as full and final settlement which was agreed by the plaintiff, and the only outstanding issue that is still being negotiated is the question of who shall retain the plaintiff's tax payable to the Inland Revenue Board from the settlement sum.

A provision of RM24,138 has been provided for in the financial statements for the financial year ended 31 December 2004.

(ii) MSB filed a summons and statement of claim on 6 February 2004 against Paneagle Holdings Bhd claiming for the sum of RM210,000 being the balance payment for the supply and installation of software, RM39,498.90 being interest chargeable until 31 January 2004, interest at 2% per month on RM210,000 from 1 February 2004 until the date of judgment, interest at 8% per annum on the judgment sum from the date of judgment until full settlement and costs. On 7 May 2004, MSB filed an application for summary judgment which hearing on 13 May 2005 was adjourned and fixed for mention on 29 July 2005 by the court.

The solicitors representing MSB in the above case is of the opinion that MSB stands a good chance in succeeding in the claim.

(b) Material Capital Commitments

As at the date of this Prospectus, the Directors are not aware of any capital commitment contracted or known to be contracted by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

(c) Working Capital

The Directors are of the opinion that, after taking into account the cash flow forecast, banking facilities available and the total gross proceeds to be raised from the Public Issue, the Group will have adequate working capital for the present and foreseeable requirements for a period of twelve (12) months from the date of this Prospectus.

(d) Borrowings

Save as disclosed below, as at 30 April 2005, the Group has no outstanding interest-bearing borrowings.

MSB executed a Settlement Agreement, a Novation Agreement and a Debenture, all dated 20 April 2004 with MV1 in respect of the sum of RM2.70 million debt owing to MV1. However, as at 31 December 2004, the amount due to MV1 has been reduced to RM2,400,000 due to the settlement by the Company. The debt bears interest of 6% per annum calculated on a daily basis on the outstanding amount and is chargeable from 1 July 2004 to 30 June 2005 being the extended period for repayment as agreed by MV1.

Further details of the above transaction are set out in Sections 16.6(i), (ii) and (iii) of this Prospectus.

As at the Latest Practicable Date, the Group does not have any non-interest bearing borrowings or foreign borrowings.

There has been no default by the Group on payments of either interest and/or principal sums in respect of its borrowings throughout the past financial year ended 31 December 2004 and the subsequent period up to the date of this Prospectus.

(e) Contingent Liabilities

As at the Latest Practicable Date, the Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the financial position of the Group.

2.8 EXCLUSION OF PROFIT FORECAST AND PROJECTIONS

The Group's revenue and operating results are dependent on the delivery schedule of its projects which is subject to many factors, some of which are highlighted in Section 4 of this Prospectus. MLABS' profit forecast and projections are subject to the vagaries and uncertainty of the business environment in which the Group operates and hence are not disclosed in this Prospectus.

2.9 RISK FACTORS

You should rely on your own evaluation and 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 the other information contained elsewhere in this Prospectus, before applying for any of the Public Shares, which are the subject of this Prospectus. The order in which the risk factors are presented should not be construed as a ranking of the risk factors.

(1) No prior market for Shares;
(2) Business risk;
(3) Political, economic and regulatory factors;
(4) Capital market risk;
(5) Competition;
(6) Rapid technological changes;
(7) Protection of the Group's intellectual property rights;
(8) Dependence on Management;
(9) Ability to secure future projects;
(10) Dependence on key products and delay in R&D;
(11) Control by substantial shareholders;
(12) USM ceasing its relationship with the Group;
(13) Future disposals of Shares by substantial shareholders;
(14) Market acceptance of the Group's products;
(15) Future capital injections;
(16) Foreign currency exchange risk;
(17) Litigation risk;
(18) Insurance coverage on the Group's assets and disaster recovery;
(19) Security and system disruptions;
(20) Brand awareness;
(21) Operating risks;
(22) MSC status;
(23) Dependence on distributors;
(24) Uncertainty of the five (5)-year business development plan; and
(25) Failure/delay in the Listing.

Further details of the risk factors are set out in Section 4 of this Prospectus.

3. PARTICULARS OF THE PUBLIC ISSUE

3.1 INTRODUCTION

This Prospectus is dated 27 May 2005.

We have registered a copy of this Prospectus with the SC. We have also lodged a copy of this Prospectus, together with the application forms with the ROC, who takes no responsibility for its contents.

We have received the SC's and the FIC's (via the SC) approvals for the Public Issue on 9 March 2005. Approval has also been obtained from the Securities Exchange on 29 April 2005 for MLABS' admission to the Official List of the MESDAQ Market and permission to deal in and for quotation of its entire issued and paid-up share capital including the Public Issue Shares which are the subject of this Prospectus.

MLABS' entire issued and paid-up share capital will be admitted to the Official List of the Securities Exchange and the official quotation will commence upon receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. The Securities Exchange assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Admission to the MESDAQ Market is not taken as an indication of the merits of the Company and its subsidiary company or its Shares.

Under the Securities Exchange's trading rules, effective from the date of Listing, trading in all Securities Exchange listed securities can only be executed through an ADA who is also a Securities Exchange member. Pursuant to Section 14(1) of the Central Depositories Act, Securities Exchange has prescribed the Shares as a prescribed security. Therefore, we will deposit the Public Issue Shares directly with Bursa Depository. Any dealings in the Shares will be carried out in accordance with the aforesaid act and the rules.

Pursuant to the MMLR, at least 25% but not more than 49% of the total number of shares for which Listing is sought is to be in the hands of public shareholders with a minimum number of two hundred (200) public shareholders upon admission to the MESDAQ Market. We expect to meet the public shareholding requirement at the point of Listing. If we do not meet the public shareholding requirement, we may not be allowed to proceed with the Listing. In such an event, we will return in full, without interest, monies paid in respect of all applications.

Applicants of the Public Issue Shares must have a CDS Account. For application by way of Application Form, the applicant should state his CDS Account number in the space provided in the Application Form. For application by way of ESA, the applicant shall furnish his/her CDS Account number to the Participating Financial Institution in the ESA by keying in his CDS Account number if the instructions on the ATM screen at which he enters his ESA requires him to do so. A corporation or institution cannot apply for the Public Issue Shares by way of ESA.

You should rely only on the information contained in this Prospectus. We or our advisers have not authorised anyone to provide you with information that is different and not contained in this Prospectus. The delivery of this Prospectus or any issue made in connection with this Prospectus shall not, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Prospectus.

You should rely on your own evaluation to assess the merits and risks of the Public Issue and an investment in MLABS. In considering the investment, if you are in any doubt as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

3.2 OPENING AND CLOSING OF APPLICATIONS

Applications will be accepted from 10.00 a.m. on 27 May 2005 and will be closed at 5.00 p.m. on 3 June 2005 or for such further date or dates as the Directors together with the Underwriter may in their absolute discretion mutually decide. Late applications will not be accepted.

3.3 INDICATIVE TIMETABLE

EVENT	INDICATIVE TIME AND DATE
Opening of applications	10.00 a.m. on 27 May 2005
Closing of applications	5.00 p.m. on 3 June 2005
Balloting	7 June 2005
Allotment of Shares	14 June 2005
Listing	15 June 2005

The Directors and Underwriter may mutually decide, at their absolute discretion, to extend the closing date and time for the applications to any later date or dates. If the date of the closing of applications is extended, the dates of the subsequent events would be extended accordingly. The Company will announce any extension of the date of closing of applications in a widely circulated English and Bahasa Malaysia newspaper not less than one (1) Market Day before the original date of the closing of applications.

3.4 PURPOSES OF THE PUBLIC ISSUE

The purposes of the Public Issue are as follows:

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

(ii) To enable MLABS to have access to the capital market to raise funds for future expansion and continued growth of the Group;

(iii) To enhance the stature of the Group in marketing its products and services, and to retain and attract new skilled employees; and

(iv) To increase the Group's profile in Malaysia and in the international markets that the Group is serving and intends to serve in the future.

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3.5 SHARE CAPITAL AND RIGHTS ATTACHING TO THE PUBLIC ISSUE SHARES

	RM
Authorised share capital	
500,000,000 ordinary shares of RM0.10 each	50,000,000
Issued and fully paid-up share capital as at the date of this Prospectus	
76,006,150 ordinary shares of RM0.10 each	7,600,615
To be issued and credited pursuant to the Public Issue	
26,150,850 new ordinary shares of RM0.10 each	2,615,085
Enlarged issued and paid-up share capital upon Listing	
102,157,000 ordinary shares of RM0.10 each	10,215,700
Assuming all ESOS Options are granted and exercised *	
10,215,000 new ordinary shares of RM0.10 each	1,021,500
Enlarged issued and paid-up share capital after full exercise of ESOS Options	
112,372,000 ordinary shares of RM0.10 each	11,237,200

Note:

* *The ESOS of up to 10% of the issued and paid-up capital of the Company will only be implemented in conjunction with the Listing. An initial grant of ESOS Options for up to 3,000,000 of new Shares will be granted to the eligible Directors and employees of the Group in conjunction with the Listing, and will only be exercisable after one (1) year from the Listing date.*

Issue Price per Public Issue Share **RM0.55**

The factors taken into consideration in determining the price of the Public Issue Shares are set out in Section 3.8 of this Prospectus.

The issue price of RM0.55 for each Public Issue Share is payable in full upon application.

Market capitalisation upon Listing (before exercise of any ESOS Options) based on the issue price of RM0.55 per Public Issue Share **RM56,186,350**

Class of shares, ranking and rights

MLABS has only one (1) class of shares, being ordinary shares of RM0.10 each. The Public Issue Shares rank equally in all respects with existing issued and fully paid-up Shares including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the Public Issue Shares.

Unless there are special rights attached to any shares which MLABS may issue in the future, a shareholder shall be entitled to share in the whole of profits paid out as dividends and other distributions and the whole of any surplus in the event of liquidation in accordance with the Company's Articles of Association. Such entitlement shall be in proportion to the amount of paid-up Shares held by them.

Each shareholder is entitled to vote at any of our general meeting in person, 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 who is present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held. A proxy may but need not be our member.

Proforma consolidated NTA as at 31 December 2004

Proforma consolidated NTA (after the MSB Acquisition, the Public Issue and deducting estimated share issue expenses of RM1.80 million)	RM14.731 million
Proforma consolidated NTA per Share (based on the enlarged issued and paid-up share capital of 102,157,000 Shares after the Public Issue)	RM0.14

3.6 DETAILS OF THE PUBLIC ISSUE

The 26,150,850 Public Issue Shares will be allocated in the following manner:

(a) Eligible Directors, employees and business associates

3,000,850 Public Issue Shares will be reserved for application by eligible Directors, employees and business associates of the Group.

(b) Private placement

21,150,000 Public Issue Shares will be placed with identified placees by the placement agent.

(c) Malaysian Public

2,000,000 Public Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions.

The Public Issue Shares under paragraph (b) above are not underwritten.

Any Public Issue Shares under paragraph (a) above which are not subscribed by the eligible Directors, employees and business associates of the Group ("Unsubscribed Shares") will be offered to other eligible Directors, employees and business associates. However, if the Unsubscribed Shares are not fully subscribed under the subsequent offer, the Unsubscribed Shares will be made available for application by members of the Malaysian Public, of which such Unsubscribed Shares are fully underwritten by the Underwriter.

The Public Issue Shares made available to the Malaysian public under paragraph (c) above have been fully underwritten via the conditional Underwriting Agreement referred to in Section 3.11 of this Prospectus by the Underwriter as set out under Section 1 of this Prospectus.

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3.7 DETAILS OF PINK FORM SHARES ALLOCATION

The allocation of the Pink Form Shares in respect of Section 3.6 above is based on the following criteria, which has been approved by the Directors:

(a) Eligible Directors and employees

- must be at least eighteen (18) years old and confirmed in service on the date of allocation; and
- position and length of service in the Group.

Based on the abovementioned criteria, 1,083,000 Public Issue Shares are reserved for application by twenty-one (21) employees of the Group, of which 825,000 Public Issue Shares are reserved for application by the following eligible Directors and key management and key technical personnel:

Name	Designation	Indicative Number of Pink Form Shares Allocated
Dr Sureswaran Ramadass	Chairman/Non-Independent Non-Executive Director	100,000
Vena A/P Jaganathan	Managing Director	100,000
Lim Soon Seng	Executive Director	100,000
Tan Sri Musa Bin Mohamad	Independent Non-Executive Director	100,000
Zaidi Bin Shamsuddin	Independent Non-Executive Director	100,000
Khairil Anuar Aziz	Chief Executive Officer	100,000
Wong Kin Thong	Vice President Asia Pacific	100,000
Dr Omar Amer Abouabdalla	Chief Technology Officer	50,000
Tan Chen Wei	Technical Support Engineer	50,000
Vanessa Sebastian	Senior Finance Manager	25,000
		825,000

(b) Business associates of the Group

- the length of relationship;
- contributions to the MLABS Group; and/or
- the value of transactions.

Based on the above mentioned criteria, 1,917,850 Public Issue Shares have been reserved for business associates of the Group. The Group has a total of twenty (20) business associates who are eligible to subscribe to the reserved shares. The number of Public Issue Shares available for allocation to business associates is based on the length of relationship and/or the value of transactions of business associates with the Group throughout the financial year ended 31 December 2004.

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3.8 PRICING OF THE PUBLIC ISSUE SHARES

The issue price of RM0.55 per Public Issue Share was determined and agreed upon by MLABS and Alliance, as the Adviser, Sponsor, Underwriter and Placement Agent, after taking into consideration the following factors:

(i) the Group's financial and operating history and conditions as described in Section 6 of this Prospectus;

(ii) the outlook of this industry in which the Group operates, and the Group's future plans, strategies and outlook as described in Sections 7 and 8 of this Prospectus;

(iii) the prevailing market conditions; and

(iv) the proforma consolidated NTA of the Company of RM14.731 million after the MSB Acquisition, Public Issue and deducting estimated share issue expenses of RM1.80 million.

3.9 UTILISATION OF PROCEEDS

The total gross proceeds of approximately RM14.38 million arising from the Public Issue will be fully utilised by the Group, as follows:

	Note	RM'000	Timeframe for utilisation from the Listing date
Capital expenditure	*(a)*	3,200	36 months
Business expansion	*(b)*	1,500	24 months
Marketing and promotion expenses	*(c)*	800	36 months
Working capital	*(d)*	2,273	12 months
Repayment to creditor	*(e)*	2,400	6 months
R&D expenditure	*(f)*	2,410	36 months
Estimated share issue expenses	*(g)*	1,800	6 months
Total		**14,383**	

Notes:

(a) Capital Expenditure

We intend to invest RM3.20 million to purchase equipment for the subscription and rental market segment of our business and also to upgrade our operating facilities.

The items to be purchased pursuant to our capital expenditure allocation are as follows:

	RM'000
Servers to support rental of system business and conferencing centres	*500*
Boardroom systems equipment for rental business and conferencing centres (large screen monitors, photocopy machines, tables, chairs, etc.)	*1,200*
Building for corporate office with R&D facilities	*1,500*
Total	***3,200***

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(b) Business Expansion

We intend to invest RM1.50 million mainly for the setting up of representative offices in various potential overseas markets in line with our plan in expanding our international distribution networks. The allocation includes expenses such as the hiring of staff, payment of staff salaries, travelling expenses and general administration. In addition, should the opportunity arise, we intend to pursue strategic investment in companies that complement our business operations. The amount that is proposed to be allocated to strategic investments has not yet been confirmed to date. As such, no potential investment has been identified.

(c) Marketing and Promotion Expenses

We intend to invest RM0.80 million for marketing and promotion activities such as advertising, promotion, road shows, trade shows and publicity in both the local and international markets. The Group's marketing personnel will be equipped with better presentation tools to enable them to carry out their work more effectively. These activities are expected to lead to better market penetration and higher market growth, shorter selling cycle and increase in brand awareness.

(d) Working Capital

We intend to allocate approximately RM2.27 million for working capital purposes in line with our business expansion plan. The funds will be used to finance day-to-day operations of the Group such as staff salaries and other operating expenses.

The working capital allocation will be used for the following purpose:

	RM'000
Marketing and operations	
i) Employees salaries	*1,269*
ii) Daily operation expenses	*594*
iii) Miscellaneous project expenses	*410*
Total	***2,273***

(e) Repayment to Creditor

We intend to use RM2.40 million for the repayment of debt owing to MV1 pursuant to the settlement agreement, novation agreement and debenture all dated 20 April 2004 as disclosed in Sections 16.6(i) to (iii).

(f) R&D Expenditure

The key thrust of the multimedia videoconferencing system in the various applications lies in the strength of the Group's R&D activities, which consequently generates value-added products to existing and potential customers. As R&D has been of paramount importance in maintaining the Group's technological advantage over competitors, we have allocated RM2.41 million for the development of future products as well as the continual enhancement of existing products. The allocation will cover mainly manpower cost, hardware and software, training and other related expenses. The details of the elements to be financed by the R&D allocation are as follows:

	RM'000
R&D staff cost and outsourcing charges	*1,910*
Rental of premises for R&D facilities	*160*
Internet access and network charges for R&D	*180*
R&D accessories and consumables	*160*
Total	***2,410***

(g) Estimated Share Issue Expenses

The estimated share issue expenses incidental to the Listing on the MESDAQ Market, to be borne by us are as follows:

	RM'000
Professional fees	*700*
Fees to the authorities	*65*
Underwriting commission, placement fees and brokerage fee	*300*
Printing and advertising fee	*200*
Miscellaneous expenses	*96*
*Contingencies (including service tax) **	*439*
Total estimated share issue expenses	*1,800*

* *Any unutilised amount will be used for working capital purposes.*

Any variation to the actual share issue expenses from the estimated amount will be adjusted via the working capital allocation of the Group.

The utilisation of proceeds as set out above is expected to enhance the future earning of the Group as the proceeds from the Public Issue is a cheaper source of funds compared to other types of borrowings and will further enable the Group to carry out its business plans set out in Section 8 of this Prospectus.

There is no minimum level of subscription for the 2,000,000 Public Issue Shares available for subscription by the Malaysian Public.

3.10 BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEE

Brokerage

Brokerage will be paid by MLABS at the rate of 1.0% of the issue price of RM0.55 per Public Issue Share in respect of successful applications bearing the stamp of Alliance, a member company of the Securities Exchange, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or the Issuing House.

Underwriting Commission

An underwriting agreement was entered into between MLABS and Alliance to underwrite 2,000,000 Public Issue Shares reserved for application by the Malaysian Public and any Unsubscribed Shares. Underwriting commission is payable by the Company at the rate 2.0% of the issue price of RM0.55 per share in respect of the Public Issue Shares which are required to be underwritten.

Placement Fee

A placement fee is payable by MLABS to the Placement Agent in respect of the 21,150,000 Public Issue Shares at the rate of 2.0% of the issue price of RM0.55 per Public Issue Share for placement to placees identified and secured by the Placement Agent. In respect of placement to placees identified and secured by MLABS, the placement fee is at the rate of 1.25% of the issue price of RM0.55 per Public Issue Share.

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3.11 DETAILS OF THE UNDERWRITING AGREEMENT

An underwriting agreement was entered into between the Company and Alliance ("Underwriter") on 9 May 2005 ("Underwriting Agreement") to underwrite 2,000,000 Public Issue Shares reserved for application by the Malaysian Public and any Unsubscribed Shares ("Underwritten Shares"). Underwriting commission is payable by MLABS at the rate 2.0% of the issue price of RM0.55 per Public Issue Share.

There is a *force majeure* clause in the Underwriting Agreement which allows the Underwriter to withdraw from the underwriting agreement under adverse circumstances.

The following salient terms are reproduced from the Underwriting Agreement and unless otherwise stated, all capitalised terms shall bear the same meanings as prescribed in the Underwriting Agreement.

"8. <u>CONDITIONS PRECEDENT</u>

8.1 The obligations of the Underwriter to perform its obligations to underwrite the Underwritten Shares under this Agreement are conditional upon:

8.1.1 there not having been on or prior to the Closing Date in the opinion of the Underwriter (which opinion is final and binding), any adverse change or any development reasonably likely to result in any adverse change in the financial position, business operations or conditions (financial or otherwise) of the Group, taken as a whole, which is material in the context of the Public Issue from that set forth in the Prospectus nor the occurrence of any event or discovery of any fact or circumstance rendering untrue or incorrect to an extent which is material as aforesaid or any breach of any of the representations, warranties contained in Clause 5 as though they had been given or made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings of the Company contained in Clause 5.

8.1.2 the issuance of the Prospectus within two (2) months from the date of this Agreement, or such other later date as the Underwriter may extend and the Company receiving the approval-in-principle of the Bursa Securities for the Listing within two (2) months from the date of issue of the Prospectus (or such longer period as may be specified by the Appropriate Authorities) and complying with the conditions imposed by the Bursa Securities (if any);

8.1.3 the Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the Underwriting Commission and the expenses referred to in Clause 22;

8.1.4 the Public Issue not being prohibited or impeded by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia 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 the Listing have been obtained and are in force on the Closing Date or the Underwriter being reasonably satisfied that the same will be in force on the Closing Date;

8.1.5 the Underwriter having been satisfied that the Company has complied with and that the Public Issue is in compliance with the policies, guidelines and requirements of the Appropriate Authorities and all revisions, amendments and/or supplements thereto;

8.1.6 the Public Issue and the Listing being approved by the shareholders of the Company in an Extraordinary General Meeting;

8.1.7 the due registration and lodgement of the Prospectus with the Appropriate Authorities together with copies of all required documents in accordance with the SCA, the Act and the relevant laws and regulations before the issuance of the same for purposes of the Public Issue;

8.1.8 the Composite Index of the Bursa Securities is at no less than 750 points; and

8.1.9 all approvals of the Appropriate Authorities remain in full force and effect on the Closing Date or the Underwriter being reasonably satisfied that the same will be in force on the Closing Date and the Underwriter being reasonably satisfied that all conditions of the same (to the extent that can be complied with prior to the Closing Date) have been complied with.

8.2 If any of the foregoing conditions is not satisfied or complied with to the satisfaction of the Underwriter on or before the Closing Date, the Underwriter shall thereupon be entitled subject as mentioned below, to terminate this Agreement by notice in writing served by the Underwriter and upon such termination, the obligations and liabilities of the Company and the Underwriter hereunder shall become null and void and none of the parties shall have any claim against the other save that each party shall return any and all moneys paid by the other(s) under this Agreement, except for the costs and expenses referred to in Clause 22, within three (3) days of the receipt of such notice PROVIDED THAT the Underwriter may at its discretion waive compliance with any of the above provisions of Clause 8.1.

9. <u>EVENTS AFFECTING THE LISTING</u>

9.1 The Underwriter shall be entitled to terminate this Agreement by notice in writing delivered by the Underwriter to the Company prior to the Closing Date if the success of the Listing is in the reasonable opinion of the Underwriter seriously jeopardised or affected by:

9.1.1 the coming into force of any law or governmental regulation or directive which seriously affects or is likely to seriously affect the business of the Group; or

9.1.2 any material breach by the Company of any of its representations, warranties, obligations or undertakings under this Agreement; or

9.1.3 any material and adverse change in the condition (financial or otherwise) of the Group from that described in the Prospectus.

9.2 On delivery of such a notice, this Agreement shall be terminated and rights and obligations of the Company and the Underwriter hereunder shall cease and none of the parties (except for the liability of the Company in respect of payments of costs and expenses referred to in Clause 22 incurred prior to or in connection with such termination) shall have any claim against each other. Thereafter the Underwriter and the Company shall confer with a view to deferring the Public Issue or amending its terms and/or entering into a new Underwriting Agreement PROVIDED THAT the Company and the Underwriter shall not be under any obligation to enter into such new agreement.

10. <u>TERMINATION IN THE EVENT APPROVAL FOR THE LISTING OF PUBLIC ISSUE SHARES IS WITHDRAWN</u>

The Underwriter shall have the right to terminate this Agreement by notice in writing served by the Underwriter on the Company in the event that the approval-in-principle of the Bursa Securities for the Listing is withdrawn or not procured within two (2) weeks from the date of issue of the Prospectus (or such longer period as may be specified by the Appropriate Authorities and agreed by the Underwriter) and upon such termination, the liabilities and obligations herein of the Company and the Underwriter shall become null and void and none of the parties aforementioned shall have a claim against each other save that each party shall return any money paid by the other under this Agreement within three (3) days of the receipt of such notice, except for the costs and expenses referred to in Clause 22.

11. FORCE MAJEURE

*11.1 Notwithstanding anything herein contained, the Underwriter may, after consultation with the Company in good faith at any time before the Closing Date, terminate its obligations under this Agreement by notice in writing delivered by the Underwriter to the Company if in the reasonable opinion of the Underwriter there shall have occurred, happened or come into effect any of the following circumstances ("**Force Majeure**"):*

11.1.1 any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, earthquake, epidemic, disease, civil commotion, sabotage, hijacking, acts of war or terrorism, hostilities, riot, uprising or accidents);

11.1.2 without prejudice to the generality of the foregoing, 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;

11.1.3 the imposition of any moratorium, suspension or material restriction on trading in securities generally in the Bursa Securities due to exceptional financial circumstances or otherwise;

which, in the reasonable opinion of the Underwriter, would have or can reasonably be expected to have a material adverse effect on the business or operations of the Group taken as a whole or the success of the Public Issue and the distribution or sale of the Public Issue Shares (whether in the primary market or in respect of dealings in the secondary market) or the Listing 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 and upon such termination, the parties hereto shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 22 hereof incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder.

12. TERMINATION

12.1 Notwithstanding anything herein contained, the Underwriter may, at any time prior to the Closing Date, by notice in writing delivered to the Company, terminate, cancel or withdraw its underwriting commitment to underwrite the Underwritten Shares under this Agreement if:

12.1.1 there is any breach by the Company of any of the representations, warranties and undertakings of the Company contained in Clause 5 above which is not capable of remedy, or if capable of remedy, is not remedied within such period as stipulated in the notice given by the Underwriter to the Company or by the Closing Date, whichever is earlier;

12.1.2 there is failure on the part of the Company to perform any of its obligations under this Agreement;

12.1.3 there is withholding of information of material nature from the Underwriter which is required to be disclosed pursuant to this Agreement which, in the opinion of the Underwriter 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 Public Issue Shares;

12.1.4 there shall have occurred or happened any material and adverse change in the business or financial condition of the Company or the Group as a whole;

12.1.5 there shall have occurred or happened any Force Majeure event referred to in Clause 11 above.

12.2 Upon any such notice being given pursuant to Clause 12.1, the Underwriter shall be released and discharged from its obligations under this Agreement whereupon this Agreement shall be of no further force or effect and no party shall be liable to the other in respect of this Agreement save and except that the Company shall remain liable in respect of its liabilities under Clause 5 or for any antecedent breach and for the payment of the costs and expenses referred to in Clause 22 below which are incurred prior to or in connection with such termination and such reimbursement of the costs and expenses incurred shall be paid to the Underwriter within three (3) days from the date of notification to the Company to discharge the Underwriter."

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4. RISK FACTORS

BEFORE INVESTING IN THE PUBLIC ISSUE SHARES, YOU SHOULD PAY ATTENTION TO THE FACT THAT THE GROUP, AND TO A LARGE EXTENT, ITS ACTIVITIES ARE SUBJECT TO LEGAL, REGULATORY AND BUSINESS ENVIRONMENT IN MALAYSIA. THE GROUP'S BUSINESS IS SUBJECT TO A NUMBER OF FACTORS, MANY OF WHICH ARE OUTSIDE ITS CONTROL. PRIOR TO MAKING AN INVESTMENT DECISION, YOU SHOULD CAREFULLY CONSIDER, ALONG WITH OTHER MATTERS IN THIS PROSPECTUS, THE RISKS AND INVESTMENT CONDITIONS SET OUT BELOW. THE RISKS AND INVESTMENT CONDITIONS SET OUT BELOW ARE NOT AN EXHAUSTIVE LIST OF THE CHALLENGES THAT THE GROUP CURRENTLY FACES OR THAT MAY DEVELOP IN THE FUTURE. ADDITIONAL RISKS, WHETHER KNOWN OR UNKNOWN, MAY IN THE FUTURE HAVE A MATERIAL ADVERSE EFFECT ON THE GROUP OR THE COMPANY'S SHARES.

4.1 NO PRIOR MARKET FOR SHARES

Prior to this Public Issue, there has been no public market for MLABS Shares. There can be no assurance that an active public market for our Shares will be developed or be sustained upon the Listing and the market price of our Shares will correspond to the price at which our Shares will trade on the MESDAQ Market upon or subsequent to the Listing. The issue price of RM0.55 per Public Issue Share was determined after taking into consideration various factors including, but not limited to the Group's financial and operating history and conditions, the industry outlook in which the Group operates, future plans, strategies and outlook of the Group and the prevailing market conditions prior to the issue of this Prospectus.

4.2 BUSINESS RISK

The Group is principally involved in R&D and provision of multimedia videoconferencing systems which consist of a combination of software programs and hardware systems. The Group is therefore vulnerable to certain risks inherent in the industry in which the Group operates. These include, amongst others, changes in conditions such as deterioration in prevailing market conditions, constraints in skilled labour supply, changes in economic and business conditions, foreign exchange fluctuations, changes in governmental and international policies, the introduction of new and superior technology or products by competitors, changes in legal and environmental framework in the industry in which the Group operates and a drop in demand for its products and services.

The Group seeks to limit these risks through, inter alia, expansion into both existing and new markets, developing and enhancing new and existing products and services, improving technological competence through R&D and advanced technologies and maintaining good business relationships with customers.

4.3 POLITICAL, ECONOMIC AND REGULATORY FACTORS

The financial and business prospects of the Group and the industry in which the Group operates may depend to some degree on the development in the political, economic and regulatory factors in Malaysia and other countries which the Group has business links. Amongst the political, economic and regulatory factors are war, riots, global economic downturn and unfavourable change in the Government's policy such as taxation, currency exchange controls and licensing regulations. Whilst the Management will continue to adopt effective measures such as prudent financial management and efficient operating procedures, there can be no assurance that adverse political, economic and regulatory factors will not materially affect the Group.

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

4.4 CAPITAL MARKET RISK

You should note that MLABS will be listed on the MESDAQ Market. The performance of the local bourse is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors will invariably contribute to the volatility of trading volumes witnessed on the Securities Exchange, thus adding risk of volatility to the market price of the listed Shares. Nevertheless, it shall be noted that our profitability is not dependent on the performance of the Securities Exchange.

4.5 COMPETITION

The industry in which the Group operates is relatively competitive and changing. The Group has experienced and expects to continue to experience competition from current and future competitors. The Directors believe that the Group's ability to compete depends on many factors within and outside its control, such as (but not limited to) timing and market acceptance of existing and new products and services, product differentiation, product enhancement, product functionality, performance and reliability, price differentiation, sales and marketing efforts, product distribution channels and customer service and support.

Nevertheless, the Directors believe that the Group has a competitive advantage in the nature, features, quality and cost of its products and services, strong R&D capabilities, customer references, quick response time for delivery and deployment of its products coupled with a reliable service and support team.

In spite of the above, there can be no assurance that the Group will be able to compete successfully against existing and new competitors, or that the competitive pressures will not have any material effect on its business, operating result and financial conditions.

4.6 RAPID TECHNOLOGICAL CHANGES

The market for the Group's products is characterised by rapid technological developments, evolving industry standards, swift changes in customer requirements and frequent new product introductions and enhancements. The Group's products may become obsolete due to changes in technology used in developing its products. As such, the Group's future depends substantially upon its ability to address the increasingly sophisticated needs of customers. To the extent that one or more of the Group's competitors introduce products and services that better addresses customers' needs or for any reason gain market share, the Group's business, operating results and financial condition could be materially and adversely affected. The Group may or may not be successful in developing and marketing its new products or enhancements to existing products to adequately address the changing needs of the marketplace. In recognition of this, the Group constantly endeavours to develop and/or enhance its products expeditiously.

4.7 PROTECTION OF THE GROUP'S INTELLECTUAL PROPERTY RIGHTS

The Group's success is dependent on its ability to create new and enhanced communication software for customers and to protect intellectual property rights. Thus, MSB has filed applications for the registration of trade mark and patents locally and/or internationally. However, existing copyright, trade mark and patent laws accord only limited protection. There might be delay in the trade mark and patents application process and there can be no assurance that our applications will be successful. Accordingly, there can be no assurance that MSB will be able to protect its intellectual property rights against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on our business, operating results and financial condition.

Nevertheless, the Directors believe that risks of unauthorised third party copying, use or exploitation are relatively low due to the complex nature of the R&D of the Group's products and require time to develop and integrate.

In addition, the Group intends to continue with its current policy of requiring employees to enter into confidentiality and non-disclosure agreements with the Group and to limit access to and distribution of its proprietary information and information of customers to mitigate the risk of misappropriation.

4.8 DEPENDENCE ON MANAGEMENT

The Directors recognise and believe that the Group's continuing success depends to a significant extent on the abilities and continuing efforts of existing Directors as well as key management and key technical personnel. The loss of the services of any of these individuals may have a material adverse effect on our performance.

The Directors recognise that the Group's continuing success depends to a significant extent upon, amongst others, its ability to retain existing Management and at the same time attract new skilled personnel to strengthen existing personnel. The Group seeks to mitigate this risk by offering employees competitive remuneration and benefits packages, and by implementing ESOS. However, there can be no assurance that the measures taken or to be taken will be successful and that any change in the Management will not have any material effect on the Group's business and operations.

4.9 ABILITY TO SECURE FUTURE PROJECTS

The Group secures majority of its purchase orders on a project-to-project basis. Once a project has been carried out, customers are not contractually bound to award further projects to the Group in the future. The aggregate contribution of the Group's top ten (10) customers account for approximately 86% of the Group's total revenue, based on the audited financial statements for the financial year ended 31 December 2004.

Nevertheless, the Group shall continue efforts to expand existing and penetrate new markets globally in particular the USA, Canada, Australia, Singapore, China, India, Thailand and Indonesia, maintain good relationships with its existing customers, provide good customer service and support and establish new relationships with potential customers in the future.

In spite of the above, there can be no assurance that the Group will be able to secure and maintain expected level of projects revenue.

4.10 DEPENDENCE ON KEY PRODUCTS AND DELAY IN R&D

Presently, the Group depends on key products such as MCS and related products to generate sufficient revenues for the continuing growth of the Group.

However, no assurance can be given that the sales of these products will continue to grow in the future. The failure of any one or more of the Group's products to generate sufficient sales will materially and adversely affect its business operating results and financial conditions. Nevertheless, the Directors believe that the continued promotion by the Government of the usage of broadband services within the business environment will provide MLABS with potential future sales and business growth.

In addition, the Group seeks to limit this risk by devoting substantial resources to R&D with the purpose of enhancing existing products as well as developing new products that are on the front edge of the market and meet the industry's requirements and expectations. Presently, the R&D department consists of nine (9) staff comprising software and system engineers with relevant experiences and know-how. In addition, there are nine (9) scientists and technical experts from USM assigned to the Group for the MCS product development. They are able to assist and support the Group in implementing the business plan to meet the demands and expectations of customers. However, the completion and the successful implementation of R&D efforts may require a long lead-time. There can be no assurance that there will not be any delay in the completion of R&D efforts and that any delay in its R&D efforts will not have any material impact on the Group's business operating results and financial conditions.

4.11 CONTROL BY SUBSTANTIAL SHAREHOLDERS

Following the Public Issue, substantial shareholders, Vena A/P Jaganathan and Compquest, will collectively hold 53.38% of MLABS' enlarged issued and fully paid-up share capital. The aforesaid shareholders will be able to influence the outcome of certain matters requiring the vote of 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 Directors, would help to promote greater transparency in all material transactions and the Group's accountability, thereby safeguarding the interests of the minority shareholders and the general public at large. Substantial shareholders would also be required to abstain from voting if there is any related-party transaction which may pose as a conflict of interest to the Company.

4.12 USM CEASING ITS RELATIONSHIP WITH THE GROUP

As and when MSB requires the expertise of the USM R&D key scientists and technical consultants to be involved in certain projects, the USM R&D key scientists and technical consultants will submit an application (including period of time spent) to obtain the consent of USM for their involvement in MSB's R&D project(s).

However, there is no guarantee that USM will not withdraw its co-operation. Should USM withdraw its co-operation, the impact will be minimal as MSB's R&D full-time staff comprises scientists and technical personnel with various industrial experiences and know-how and thus, they will be able to carry out the Group's continuous enhancement and development plans. To enhance the Group's collaboration with USM, the MSB had on 17 December 2004 signed a memorandum of understanding with Usains Holding Sdn Bhd (USM's investment arm) whereby Usains Holding Sdn Bhd agreed to provide researchers, programmers and consultants for the development and implementation of multimedia conferencing system based on the USM's prevailing rules and such terms contained in separate agreements to be concluded by the parties. In addition, the Listing will help the Group enhance its corporate reputation and raise funds for expansion. Hence, the Group will be able to recruit more technical experts with the required technical skills. To further reduce reliance on USM, the Group also plans to utilise approximately RM1.5 million of the initial public offering proceeds for setting up its own corporate office building with R&D facilities.

4.13 FUTURE DISPOSALS OF SHARES BY SUBSTANTIAL SHAREHOLDERS

The sale of a significant amount of our shares in the public market after the Public Issue, or the perception that such sales may occur could materially adversely affect the market price of our shares. Except as otherwise described under the moratorium of Promoters'/shareholders' shares set out in Section 10.2 of this Prospectus, there will be no other restriction on the ability of substantial shareholders to sell Shares either on the MESDAQ Market or otherwise.

4.14 MARKET ACCEPTANCE OF THE GROUP'S PRODUCTS

The market for multimedia videoconferencing system is still at its early stage of development in Malaysia as compared with the multimedia conferencing system usage in the USA, Europe and other regions where significant broadband infrastructure exists and utilisation have grown significantly. Similar growth may not be replicated in Malaysia and some other countries. However, by adapting its existing product range to portable notebooks, personal digital assistants ("PDAs") and others, the Group envisages better acceptance of its products.

Substantial resources may be devoted to business expansions of the Group such as setting up of offices in the overseas markets and appointing distributors. Although the Group seeks to expand its business to new markets in the future, there can be no assurance that the Group will be able to penetrate these new markets as it may be difficult and neither can the Group guarantee that these efforts will be profitable.

4.15 FUTURE CAPITAL INJECTIONS

It is the Directors' opinion that the net proceeds of the Public Issue, together with cash flows from operations and other existing sources of funds will be sufficient to meet the Group's projected working capital and other cash requirements within twelve (12) months from the date of Listing. There is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group.

4.16 FOREIGN CURRENCY EXCHANGE RISK

The Group's revenue for the financial year ended 31 December 2004 was predominantly generated from overseas and transacted in USD. The Group's exposure to the risk of foreign currency exchange fluctuations (in particular, USD) is minimised by the imposition of the fixed exchange rate of RM3.80 to USD1.00 on 1 September 1998. However, there can be no assurance that the removal or any change of the said fixed exchange rate will not have a material adverse effect on the performance of the Group.

4.17 LITIGATION RISK

The Group is exposed to the risk of product liability or other litigation risk in the development and sale of its products in the event such products fail to perform to their specifications. The Group sells its products directly to customers and via distributors or resellers and currently does not have any product liability insurance.

However, the Group's standard end-user software license agreement contains terms providing for the limitation of its liability only to the amount paid by the end-user for the software purchase. The Group has never experienced any liability claims in respect of products bought by customers, distributors, resellers or any third party in the past. Furthermore, the Directors believe that the Group's key management and key technical personnel possess the requisite experience and expertise to develop products which are of reliable quality.

Notwithstanding this, there can be no assurance that liability claims against the Group will not arise in the future and in the event that such claims arise, it is foreseeable that the Group will incur management time and expense in defending the claims which may adversely affect its business and financial conditions.

4.18 INSURANCE COVERAGE ON THE GROUP'S ASSETS AND DISASTER RECOVERY

The Group's daily operations may be affected by events of emergency such as explosion, fire, flooding, energy crisis, health crisis, sabotage, civil commotion, war or acts of God. The Group is aware of the adverse consequences arising from inadequate insurance coverage for damage that could cripple the Group's business operations. In ensuring such risks are maintained to the minimum, the Management reviews and ensures adequate coverage for the Group's assets on a continuous basis. For the Group's operations, all assets such as office equipment, peripherals and furniture and fittings are sufficiently insured under fire and burglary insurance policies. In addition, the Group has a disaster recovery plan by keeping its critical software codes and documentation at a different location other than the R&D site.

However, there can be no assurance that the disaster recovery plan will be able to prevent the loss of any critical data or that the insurance coverage and/or the disaster recovery centre will be adequate for the replacement cost of assets or any consequential loss arising therefrom.

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4.19 SECURITY AND SYSTEM DISRUPTIONS

There has been no major system or security disruption on the Group which has had any significant material adverse impact on the Group's operations prior to the date of this Prospectus nor does the Management anticipate any future major disruptions to the Group's operations. However, there is no assurance that any future security or system disruption will not materially affect the Group's business although the Management has sought to mitigate this risk by having the R&D and administration offices in more than one location to minimise possible losses associated with this risk.

4.20 BRAND AWARENESS

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

4.21 OPERATING RISKS

The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. These include, amongst others, debtor's collection problems, customer order deferrals, changes in operating expenses, the ability to develop and market new products and secure new projects and other business risks. The Group will continuously employ prudent management practices, monitor the market acceptance of its products and focus on R&D to improve the competitiveness of its products. However, there can be no assurance that the Group will be profitable in future years or that the Group will achieve increasing or consistent levels of profitability.

4.22 MSC STATUS

MSB was granted MSC status on 25 January 1999 by the MDC. As an MSC status company, MSB enjoys certain financial and non-financial incentives which are guaranteed under the Malaysian Government's Bill of Guarantees for MSC status companies. MDC has the right to revoke or withdraw MSB's MSC status at any time if MSB fails to comply with the conditions thereof. If MSB loses its MSC status, it will cease to be entitled to the benefits accorded to MSC status companies. MSB believes that it has and will continue to be able to fulfil the conditions imposed by MDC and maintain its MSC status.

4.23 DEPENDENCE ON DISTRIBUTORS

Distributors have been appointed to enable the Group's products to be promoted over wider market and achieve its revenue projections. Although the distributorship agreements do specify, amongst others, sales target to be achieved by the Group's distributors, there can be no assurance that the sales target will be met consistently or that its distributors will maintain the relationship. The cessation of the relationship may undermine the achievement of the Group's objectives.

Nonetheless, to reduce dependence on distributors, the Group will maintain its own marketing and sales personnel to market its products and build cordial relationship with customers.

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4.24 UNCERTAINTY OF THE FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN

The success of the Group's five (5)-year business development plan will be determined by, amongst others, the following factors:

(i) the continuous acceptability of the Group's products;
(ii) marketing strategies;
(iii) R&D activities to create/maintain new and existing products to maintain a competitive edge;
(iv) ability to recruit and retain skilled technical, marketing, financial and other key personnel; and
(v) ability to obtain further financing as and when required.

There can be no assurance that the Group will be able to successfully implement its five (5)-year business development plan or that unanticipated expenses or problems or technical difficulties will not occur which would result in material delays in its implementation or even deviation from original plans. In addition, the actual results may deviate from the business plan due to rapid technological changes as well as competitive pressures. Please refer to Section 8 for further details.

4.25 FAILURE/DELAY IN THE LISTING

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

(a) the Underwriter of the Public Issue fail to honour their obligations under the Underwriting Agreement;

(b) the placees for the private placement fail to subscribe for the portion of the Public Issue Shares allocated to them; and

(c) MLABS is unable to meet the public spread requirement, that is, at least 25% but not more than 49% of the total number of the shares for which Listing is sought is to be in the hands of public shareholders with a minimum number of two hundred (200) public shareholders (including employees) upon admission to the MESDAQ Market.

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5. FINANCIAL INFORMATION

5.1 PROFORMA CONSOLIDATED INCOME STATEMENTS

The following is a summary of the proforma consolidated income statements of the Company for the fifteen (15)-month financial period ended 31 December 2000, and the four (4) financial years ended 31 December 2001 to 31 December 2004. The proforma consolidated income statements had been prepared on the assumption that the current Group structure has been in existence throughout the period/years under review. The proforma consolidated income statements should be read in conjunction with the accompanying notes and assumptions set out in Section 13 of this Prospectus:

	<------Proforma Group------>				
Financial period/years ended	**15-month ended 31 December 2000 RM'000**	**<------31 December------> 2001 RM'000**	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**
Revenue	537	1,041	917	2,556	5,042
(Loss)/Profit before interest, depreciation, taxation and amortisation	(209)	246	356	1,277	2,361
Interest expense	(6)	(18)	(19)	(36)	(85)
Depreciation	(141)	(124)	(176)	(201)	(134)
Amortisation	-	(190)	(380)	(506)	(895)
(LBT)/PBT	(356)	(86)	(219)	534	1,247
Taxation	-	-	(1)	-	(9)
(LAT)/PAT	(356)	(86)	(220)	534	1,238
No. of Shares assumed in issue to form the Group ('000)*	76,006	76,006	76,006	76,006	76,006
Gross (LPS)/EPS (sen)	(0.47)	(0.11)	(0.29)	0.70	1.64
Net (LPS)/EPS (sen)	(0.47)	(0.11)	(0.29)	0.70	1.63

Notes:

* *Based on the number of Shares in issue after the MSB Acquisition but before the Public Issue.*

(a) *For the financial period ended 31 December 2000, the Group's revenue decreased by 32% to RM0.54 million mainly due to the focus of its resources on R&D activities for product enhancement as the earlier release of MCS version 4.0 was not compatible with Microsoft Windows 2000. The Group incurred losses for the financial period ended 31 December 2000 as a result of lower revenue.*

(b) *For the financial year ended 31 December 2001, the Group's revenue increased by 94% to approximately RM1.04 million mainly due to the re-release of MCS version 4.0 compatible with Microsoft Windows 2000. The Group's LBT for the financial year ended 31 December 2001 reduced by 76% to approximately RM0.09 million mainly due to the increase in revenue.*

(c) *For the financial year ended 31 December 2002, the Group's revenue declined by 12% to approximately RM0.92 million. The Group's LBT for the financial year ended 31 December 2002 increased from approximately RM0.09 million to approximately RM0.22 million mainly due to lower gross profit margin obtained from sales which had high hardware content and the outsourcing of certain services to third parties.*

5. FINANCIAL INFORMATION *(Cont'd)*

(d) *For the financial year ended 31 December 2003, the Group's revenue increased by 179% to approximately RM2.56 million mainly due to the launch of the MCS version 5.0 series of products in 2003 coupled with the wide availability of broadband at affordable prices. The increase in the Group's PBT for the financial year ended 31 December 2003 by 344% to approximately RM0.53 million was mainly due to the increase in revenue especially the sales of MCS version 5.0 server which have a higher margin.*

(e) *For the financial year ended 31 December 2004, the Group's revenue increased by 97% to approximately RM 5.04 million mainly due to the continued growth in broadband adoption in Malaysia and higher sales of MCS ASP servers from overseas service providers. The increase in the Group's PBT for the financial year ended 31 December 2004 by 135% to approximately RM1.25 million was mainly due to the increase in revenue.*

MSB was granted MSC status by the MDC on 25 January 1999. With the MSC status, the Group's operating profit derived from its eligible products and services is exempted from income tax for a period of five (5) years by the Ministry of International Trade and Industry ("MITI"). The production date was fixed on 25 January 1999. The MDC vide its letter dated 3 September 2004, has approved the extension of MSB's pioneer status for another five (5)-year period from 25 January 2004 to 24 January 2009.

The tax returns up to year of assessment 2003 have been submitted and there were no impending tax liabilities to be settled. No tax disputes were noted and no tax investigation has been carried out by the Inland Revenue Board. There were no unutilised tax losses, unabsorbed capital allowances nor any tax credits carried forward for all the financial years/period under review.

There were no exceptional or extraordinary items in the relevant financial period/years under review. In addition, there was no material impact of foreign exchange, interest rates or commodity prices on operating profits of the Group in the relevant financial period/years under review. There were no audit qualifications for the financial period/ years under review.

5.2 ANALYSIS OF REVENUE BY MARKETS

Financial Period/Year Ended	15-month ended 31.12.2000 RM '000	31.12.2001 RM '000	31.12.2002 RM '000	31.12.2003 RM '000	31.12.2004 RM '000
Revenue					
Local	450	977	762	690	2,781
Overseas	87	64	155	1,866	2,261
	537	1,041	917	2,556	5,042

There is no revenue analysis by products, profits analysis by products and markets as the revenue/costs are not captured by these classifications.

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5.3 DIRECTORS' DECLARATION ON THE FINANCIAL PERFORMANCE OF THE GROUP

Save as disclosed in Sections 5 and 13 of this Prospectus, the Directors are of the view that the Group's financial performance, position and operations are not affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that have had, or that the Group reasonably expects to have, a material favourable or unfavourable impact on its financial performance, position and operations;

(b) material capital expenditure commitments;

(c) unusual, infrequent events or transactions or significant economic changes that have materially affected the Group's financial performance, position and operations;

(d) substantial increases in revenue; and

(e) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the Group's historical financial statements not indicative of its future financial performance and position other than its overall focus on R&D prior to financial year ended 31 December 2003 which had caused the Group to incur losses in the financial period/years ended 31 December 2000, 2001 and 2002 which may not be indicative of its future financial performance.

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5.4 PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004

(Prepared for inclusion in the Prospectus)

MLABS SYSTEMS BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2004
AND ITS SUBSIDIARY COMPANY

The Proforma Consolidated Balance Sheets of the MLABS Group ("MLABS Systems Berhad and its subsidiary company") have been prepared for illustrative purposes only on the basis of assumptions set out in the notes below.

	Company	Proforma I	Proforma II	Proforma III
	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	-	848	848	848
INTELLECTUAL PROPERTIES	-	6,519	6,519	6,519
INVESTMENT IN UNQUOTED SHARES, AT COST	-	300	300	300
DEVELOPMENT EXPENDITURE	-	171	171	171
CURRENT ASSETS				
Trading inventories, at cost	-	61	61	61
Trade and other receivables	-	3,380	3,380	3,380
Cash and cash equivalents	*	852	13,435	19,053
	-	4,293	16,876	22,494
CURRENT LIABILITIES				
Trade and other payables	7	3,285	3,285	3,285
Taxation	-	8	8	8
	7	3,293	3,293	3,293
NET CURRENT ASSETS/(LIABILITIES)	(7)	1,000	13,583	19,201
	(7)	8,838	21,421	27,039
Financed by:				
SHARE CAPITAL	*	7,600	10,215	11,237
SHARE PREMIUM	-	43	10,011	14,607
(LOSS CARRIED FORWARD)/RETAINED PROFIT	(7)	1,195	1,195	1,195
SHAREHOLDERS' FUNDS	(7)	8,838	21,421	27,039
Net tangible (liabilities)/assets per ordinary share of RM0.10 each (sen)	(35,000.00)	2.83	14.42	18.11

* Denotes RM2, comprising 20 ordinary shares of RM0.10 each

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NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF MLABS AT 31 DECEMBER 2004

The Proforma Consolidated Balance Sheets together with the notes thereon have been prepared based on accounting principles and bases consistent with those to be adopted by the MLABS Group and are presented in a form suitable for inclusion in the Prospectus.

1. (a) These definitions are used:

MLABS	-	MLABS Systems Berhad
MSB	-	Multimedia Research Lab Sdn Bhd

(b) The Proforma Consolidated Balance Sheets of MLABS and its subsidiary company have been prepared for illustrative purposes only and are prepared using the merger method of accounting and are based on the audited financial statements of MSB at 31 December 2004.

2. The following transactions are assumed to have been effected as at 31 December 2004:-

2.1 **Proforma I**

Acquisition by MLABS of the entire issued and paid up capital of MSB, comprising 5,000,000 ordinary shares of RM1.00 each for a total consideration of RM7,600,613 satisfied by the issuance of 76,006,130 new MLABS Shares credited as fully paid up at an issue price of RM0.10 per share.

On proforma basis, the purchase consideration is based on the audited shareholders' funds of MSB at 31 December 2003 of RM4,021,655, after adjusting for the increase in paid-up share capital of 500,000 and 435,000 ordinary shares of RM1 each at issue price of approximately RM1.16 and RM6.90 per share respectively totalling RM3,578,958 in April and May 2004.

The acquisition has been accounted for using the merger method of accounting as the acquisition meets the relevant criterias under Malaysian Accounting Standards Board Standard 21 – Business Combinations.

Intercompany balances have been eliminated in arriving at the Proforma Consolidated Balance Sheets.

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NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF MLABS AT 31 DECEMBER 2004 (Cont'd)

2.2 **Proforma II**

Proforma II incorporates Proforma I and the following:

i) Public Issue of 26,150,850 new ordinary shares of RM0.10 each at an issue price of RM0.55 per share.

ii) The share issue expenses amounting to RM1.8 million will be set off against share premium account.

2.3 **Proforma III**

Proforma III incorporates Proforma II and the exercise of 10,215,000 options under the Employees' Share Option Scheme (10% of the enlarged share capital) at an assumed exercise price of RM0.55 per share.

3. The gross proceeds of RM14,382,968 from the public issue will be utilised as follows:

	RM'000
Capital expenditure	3,200*
Business expansion	1,500*
Marketing and promotion expenses	800*
Working capital	2,273*
Repayment to a creditor	2,400*
Research and development expenditure	2,410*
Estimated share issue expenses	1,800^
	14,383

Notes:-

* included in cash and cash equivalents under current assets, pending utilisation under Proforma II

^ The estimated share issue expenses of RM1,800,000 will set off against share premium account

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NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF MLABS AT 31 DECEMBER 2004 (Cont'd)

4. The movements of the issued and paid up share capital and the share premium account of MLABS after taking into account the transactions mentioned in para (2) above are as follows :

	Share capital RM'000	Share premium RM'000
At date of incorporation	**	-
Proforma I - Issued as consideration for the acquisition of MSB	7,600	-
- Arising from acquisition of MSB	-	2,644
Less : Merger deficit	-	(2,601)
After Proforma I	7,600	43
Proforma II - Public Issue	2,615	11,768
- Estimated share issue expenses	-	(1,800)
After Proforma II	10,215	10,011
Proforma III - Exercise of ESOS	1,022	4,596
After Proforma III	11,237	14,607

** Denotes RM2, comprising 20 ordinary shares of RM0.10 each

5. The movements in cash and cash equivalents of MLABS after taking into account the transactions mentioned in para (2) above are as follows :

	RM'000
Balance as at date of incorporation	**
Proforma I – Arising from acquisition of MSB	852
After Proforma I	852
Proforma II - Public Issue	14,383
- Estimated share issue expenses	(1,800)
After Proforma II	13,435
Proforma III – Exercise of ESOS	5,618
After Proforma III	19,053

** Denotes RM2, comprising 20 ordinary shares of RM0.10 each

KPMG Stamped For Identification Purposes only PENANG

5.5 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004

(Prepared for inclusion in the Prospectus)

KPMG

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The Board of Directors
MLABS Systems Berhad
Suites 704&705
7th Floor
11 Lorong Kinta
10400 Penang

13 MAY 2005

Dear Sirs

MLABS Systems Berhad ("MLABS")
Reporting accountants' letter on the proforma consolidated balance sheets as at 31 December 2004

We have reviewed the presentation of the proforma consolidated balance sheets of MLABS and its subsidiary company ("MLABS Group") as at 31 December 2004 which have been prepared for illustrative purposes only, for which the Directors are solely responsible, as set out in the accompanying statement (which we have stamped for the purpose of identification), for inclusion in the Prospectus in connection with the listing of and quotation for the entire issued and paid up share capital of MLABS on the Malaysian Exchange of Securities Dealing & Automated Quotation Bhd and which should not be relied on for any other purposes.

In our opinion,

- the proforma consolidated balance sheets have been properly compiled on the basis of preparation stated;
- such basis is consistent with the accounting policies (as set out in Section 3.1 of the Accountants' report dated 13 MAY 2005) to be adopted by the MLABS Group; and
- the adjustments are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully

KPMG

Chartered Accountants

5.6 MATERIAL LITIGATION, MATERIAL CAPITAL COMMITMENTS, WORKING CAPITAL, BORROWINGS AND CONTINGENT LIABILITIES

5.6.1 Material Litigation

Save as disclosed below, as at the Latest Practicable Date, the Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which may have a material effect on the Group's financial position or business upon becoming enforceable, and the Directors do not have any knowledge of any proceedings pending or threatened against the Group or of any facts likely to give rise to any proceedings which may materially and adversely affect the Group's financial position or business.

(i) By a summons dated 30 June 2003, Arvind Nagpal ("the plaintiff") commenced a civil suit against MSB to claim for the sum of RM47,593.67 (together with costs and interest at 8% per annum on the amount claimed from the date of the summon until actual settlement) for wages and commission allegedly due to the plaintiff for his services as a Director-Sales and Marketing based in Singapore under a fixed term contract of employment. MSB filed a defence dated 15 September 2003 stating, inter alia, that the plaintiff was not employed as an employee under a contract of service but under a contract for services, and that the plaintiff had breached the contract by failing to fulfill agreed targets and that the commission was only payable in regard to sales for which MSB had received payment. MSB had proposed to settle the matter by paying SGD17,000 (approximately, RM39,100 at the exchange rate of RM2.30:SGD1.00) as full and final settlement which was agreed by the plaintiff, and the only outstanding issue that is still being negotiated is the question of who shall retain the plaintiff's tax payable to the Inland Revenue Board from the settlement sum.

    A provision of RM24,138 has been provided for in the financial statements for the financial year ended 31 December 2004.

(ii) MSB filed a summons and statement of claim on 6 February 2004 against Paneagle Holdings Bhd claiming for the sum of RM210,000 being the balance payment for the supply and installation of software, RM39,498.90 being interest chargeable until 31 January 2004, interest at 2% per month on RM210,000 from 1 February 2004 until the date of judgment, interest at 8% per annum on the judgment sum from the date of judgment until full settlement and costs. On 7 May 2004, MSB filed an application for summary judgment which hearing on 13 May 2005 was adjourned and fixed for mention on 29 July 2005 by the court.

    The solicitors representing MSB in the above case is of the opinion that MSB stands a good chance in succeeding in the claim.

For further information on the material litigation, please refer to Section 16.5 of this Prospectus.

5.6.2 Material Capital Commitments

As at the date of this Prospectus, the Directors are not aware of any capital commitment contracted or known to be contracted by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

5.6.3 Working Capital

The Directors are of the opinion that, after taking into account the cash flow forecast, banking facilities available and the total gross proceeds to be raised from the Public Issue, the Group will have adequate working capital for the present and foreseeable requirements for a period of twelve (12) months from the date of this Prospectus.

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5.6.4 Borrowings

Save as disclosed below, as at 30 April 2005, the Group has no outstanding interest-bearing borrowings.

MSB executed a Settlement Agreement, a Novation Agreement and a Debenture, all dated 20 April 2004 with MV1 in respect of the sum of RM2.70 million debt owing to MV1. However, as at 31 December 2004, the amount due to MV1 has been reduced to RM2,400,000 due to the settlements by the Company. The debt bears interest of 6% per annum calculated on a daily basis on the outstanding amount and is chargeable from 1 July 2004 to 30 June 2005 being the extended period for repayment as agreed by MV1.

Further details of the above transaction are set out in Sections 16.6(i), (ii) and (iii) of this Prospectus.

As at the Latest Practicable Date, the Group does not have any non-interest bearing borrowings or foreign borrowings.

There has been no default by the Group on payments of either interest and/or principal sums in respect of its borrowings throughout the past financial year ended 31 December 2004 and the subsequent period up to the date of this Prospectus.

5.6.5 Contingent Liabilities

As at the Latest Practicable Date, the Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the financial position of the Group.

5.7 EXCLUSION OF PROFIT FORECAST AND PROJECTIONS

The Group's revenue and operating results are dependent on the delivery schedule of its projects which is subject to many factors, some of which are highlighted in Section 4 of this Prospectus. MLABS' profit forecast and projections are subject to the vagaries and uncertainty of the business environment in which the Group operates and hence are not disclosed in this Prospectus.

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