

## 6. INFORMATION ON THE GROUP

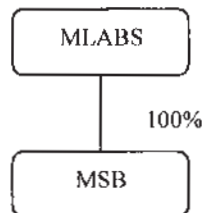
### 6.1 HISTORY AND BUSINESS

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 in the Company, 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 MEXDAQ 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 Sections 6.5.2 of this Prospectus.

MCS is an Internet Protocol-based M2M multimedia videoconferencing system. In applying the 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 credited 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.

## 6. INFORMATION ON THE GROUP (Cont'd)

### 6.2 SHARE CAPITAL

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. Upon completion of the Public Issue (before exercise of the ESOS Options), the issued and paid-up share capital of MLABS will be increased to RM10,215,700 comprising 102,157,000 Shares. The changes in MLABS' issued and paid-up share capital since its incorporation are as follows:

Date of allotment	No. of ordinary shares allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
21.05.2004	20	0.10	Cash	2
31.03.2005	76,006,130	0.10	Shares issued pursuant to the MSB Acquisition at par	7,600,615

As at the date of this Prospectus, save for the ESOS, no person has option or is entitled to be given an option to subscribe for any of our shares.

### 6.3 RESTRUCTURING AND LISTING SCHEME

As an integral part of the listing and quotation for its entire issued and paid-up capital on the MIESDAQ Market, the Company undertook a restructuring scheme which was approved by the SC and the FIC (via the SC) vide its letter dated 9 March 2005.

The restructuring scheme entails the following:

#### (i) MSB Acquisition

MLABS had on 16 June 2004, entered into a share sale agreement to acquire the entire issued and paid-up share capital of MSB, comprising 5,000,000 ordinary shares of RM1.00 each in MSB from the vendors of MSB for a total purchase consideration of RM7,600,613 fully satisfied by the issuance of 76,006,130 new Shares at par in the following manner:

Vendors of MSB	Shareholding in MSB		Number of new Shares to be issued as consideration	
	No. of ordinary shares of RM1.00 each held	% held	No. of ordinary shares of RM0.10 each held	% held
Compquest	3,476,556	69.53	52,847,913	69.53
Kenwin	375,940	7.52	5,714,749	7.52
Usains Holding Sdn Bhd	241,040	4.82	3,664,103	4.82
Informant Computer Services Sdn Bhd	185,226	3.70	2,815,662	3.70
Dr Omar Amer Abouabdalla	121,669	2.43	1,849,518	2.43
Vena A/P Jaganathan	97,744	1.96	1,485,829	1.96
Superb Management Approach Sdn Bhd	93,985	1.88	1,428,687	1.88
Manomani A/P K.P. Nair	56,507	1.13	858,976	1.13
Ramadass A/L. Munusamy	53,645	1.07	815,470	1.07
Lim Soon Seng	48,670	0.97	739,844	0.97
Azlan Bin Osman	43,023	0.86	654,002	0.86
Cimarron Capital Sdn Bhd	42,916	0.86	652,376	0.86
Lam Wai Beng	40,770	0.82	619,754	0.82
Dr Sureswaran Ramadass	38,624	0.77	587,132	0.77
Saravanan A/L. Kulanthaivelu	35,048	0.70	532,773	0.70
Malathi A/P Pachiappan	24,319	0.49	369,679	0.49
Wan Tat Chee	11,444	0.23	173,963	0.23
Shoena Devi A/P Jaganathan	6,437	0.13	97,850	0.13
Goh Beng Fong	6,437	0.13	97,850	0.13
	<b>5,000,000</b>	<b>100.00</b>	<b>76,006,130</b>	<b>100.00</b>

**6. INFORMATION ON THE GROUP (Cont'd)**

The purchase consideration of RM7,600,613 for the MSB Acquisition was arrived at based on the adjusted audited shareholders' funds of MSB as at 31 December 2003 of RM7,600,613.

The ordinary shares of RM1.00 each in MSB acquired by MLABS shall be free from all liens, pledges, charges, mortgages and other encumbrances whatsoever and with all rights attached thereto including any dividend, bonus or rights issue hereafter to be declared.

The MSB Acquisition was completed on 31 March 2005 and upon completion of the MSB Acquisition, the issued and paid-up share capital of MLABS increased from RM2 to RM7,600,615 comprising 76,006,150 Shares.

The new Shares issued pursuant to the MSB Acquisition rank equally in all respects with the existing issued and paid-up share capital of MLABS including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the said Shares.

**(ii) Public Issue**

In conjunction with the Listing, MLABS will undertake a public issue of 26,150,850 Public Issue Shares at an issue price of RM0.55 per Public Issue Share 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 new Shares to be issued pursuant to the Public Issue shall, upon allotment and issue, rank equally in all respects with the existing issued and paid-up share capital of MLABS including voting rights and the rights to all dividends and other distributions that may be declared subsequent to the date of allotment of the said Shares.

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## 6. INFORMATION ON THE GROUP *(Cont'd)*

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### 6.4 ESOS

MLABS had on 9 March 2005 and 16 April 2005 obtained the approval of the SC and the existing shareholders of the Company, respectively, to establish an ESOS to motivate, retain and reward eligible employees whose services are vital to the operation and continued growth of the Group.

The ESOS Options to be granted under the ESOS will involve up to 10% of the issued and paid-up share capital of MLABS at any time during the existence of the ESOS. Based on the enlarged issued and paid-up share capital of RM10,215,700 comprising 102,157,000 Shares after the Public Issue, the number of new Shares to be issued pursuant to the ESOS is up to a maximum of 10,215,000 Shares.

The new Shares to be issued upon the exercise of the ESOS Options shall, upon allotment and issue, rank equally in all respects with the existing issued and 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 said Shares.

In conjunction with the Listing on the MESDAQ Market, the Directors made an Initial Grant to the eligible Directors and employees. The exercise price of the ESOS Options which are the subject matter of the Initial Grant is the Issue Price of our shares. However, the ESOS Options granted under the Initial Grant can only be exercised after one (1) year from the Listing date.

In addition to the Initial Grant, the Directors shall, within the duration of the ESOS, make offers to grant the ESOS Options to the eligible employees in accordance with the ESOS By-Laws adopted by the shareholders. Each such ESOS Options which is not part of the Initial Grant shall be exercised at a price which shall be set at a discount of not more than 10% of the weighted average market price of the shares as shown in the Daily Official List of the Securities Exchange for the five (5) Market Days immediately preceding the Offer date (or such other pricing mechanism permitted by the Securities Exchange or any other relevant regulatory authorities, from time to time) provided that the exercise price of the ESOS Options shall be less than the par value of the shares.

The Directors intend to utilise the proceeds from the exercise of the ESOS Options as and when received for working capital purposes.

The ESOS By-Laws are set out in Section 15 of this Prospectus.

### 6.5 BUSINESS OVERVIEW

#### 6.5.1 Principal Activities

The Group is principally engaged in operating a focused R&D centre targeted at delivering next generation solutions in multimedia videoconferencing to the global market. The team of scientists and technical experts are dedicated to R&D in areas of optimising algorithms, functionality and features in creating a multicast multimedia videoconferencing system over a distributed network. The core product is the MCS which enables Internet Protocol-based M2M multicast multimedia videoconferencing.

In a globalised economy, Internet connectivity has become an essential tool in conducting business and communication. Many companies, especially multinational corporations, have invested heavily in Intranet and communication infrastructure to interconnect its overseas offices and branches worldwide. In applying the MCS system, companies can significantly 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 Internet Protocol-based MCS videoconferencing thus offers a powerful business collaboration tool enabling enterprises to audio, video, animation, text chat and real-time document exchange with value-added functions such as web-based centralised management, usage accounting and monitoring of conferences, which are all seamlessly connected between disparate endpoints.

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## 6. INFORMATION ON THE GROUP (Cont'd)

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Some of the unique features of our MCS are:

(i) Distributed Network Entity

By distributing specific functions to different entities, MCS optimises its performance by having these different but related processes executed by different systems, creating parallel environments for information and data processing. This is a unique architecture designed and completed by MSB and NRG (a research group of the computer science school of USM).

(ii) RSW Control Criteria

An internal technical development criterion which allows bandwidth optimisation.

(iii) MLIC

Connects users who are located remotely outside the organisation's LAN network.

(iv) Unlimited participants

Allows up to 1,000 users per server and is server-scalable. This means that a conference can have an unlimited number of participants by simply increasing the number of servers.

(v) Roaming Feature

Allows remote clients to log in from anywhere in the world and at anytime to start or join a conference.

(vi) Multicast Enabled

MCS uses Dynamic UDP multicast technology for efficient transmission of real-time multimedia data. The MLIC enhances this to allow non-multicast networks like the Internet to connect as well.

(vii) Full Duplex Audio and Video Transmission

Permits four (4) pictures of participants on the screen of a client as MCS version 5.0 uses a conference control criteria called Chairman Continuous Presence and other sites (up to 1,000) are allowed to switch in and out.

The model for the MCS system is a client-server Internet Protocol-based system which supports distributed network entities. The system applies a high level of privacy and security, which can be applied to fit the requirements ranging from financial privacy to national security. MCS' products are currently being used for intra-corporate meetings, distance learning, telemedicine, international desktop and boardroom conferencing and defence communication.

### 6.5.2 Principal Products

Our products can be categorised as follows:

(a) **MCS Client**

MSB has developed a range of MCS Client products for users. All products incorporate the unique MCS technology to produce high quality multimedia videoconferencing solutions to address various customers' needs. MCS Client systems are compatible with all H.323 videoconferencing systems.

There are currently three (3) types of MCS Client products being offered in the market namely:

- i) MCS Desktop Client;
- ii) MCS Boardroom Client; and
- iii) MCS Mini Boardroom Client.

**6. INFORMATION ON THE GROUP (Cont'd)**

**i) MCS Desktop Client**

MCS Desktop Client is the efficient solution to communicate face-to-face, delivering enterprise quality desktop videoconferencing for businesses or homes at affordable rates. MCS Desktop Client is unique compared to any other H.323 based videoconferencing systems as it supports Dynamic Internet Protocol Configuration. This means that users can be invited to a conference by name rather than dialing their numbers or Internet Protocol. Users using this system can thus be mobile and still be connected/invited to a conference anywhere in the world.

Unlike traditional videoconferencing systems, the MCS Desktop Client offers simultaneous multiple access without compromising on the quality of audio and video utilising an existing bandwidth and network infrastructure.

**ii) MCS Boardroom Client**

MCS Boardroom Client videoconferencing product delivers top-quality video, state-of-the-art audio which is user-friendly and easy to manage. It is equipped with high resolution monitor, high resolution pan-tilt camera with echo cancellation.

MCS Boardroom Client is suitable for large conference rooms, training and collaboration on projects and designs where more than fifteen (15) people are involved real-time. Similarly with the MCS Desktop Client, the MCS Boardroom Client also supports the MCS Document Conferencing feature, where multiple file formats can be shared simultaneously with all multipoint conferencing clients, and can be used with all the MCS systems and any other H.323 compatible videoconferencing systems.

**iii) MCS Mini Boardroom Client**

MCS Mini Boardroom is developed based on the MCS Boardroom model, designed to meet the needs and budget of small boardrooms and offices where six (6) to eight (8) participants can conference in real-time. Versatile and compact, the system can be moved to different locations where required, and simply plug-in to their existing network point to videoconference. One (1) unique feature is that two (2) screens are dedicated differently for video and document conferencing from a single codec unit.

**(b) MCS Server**

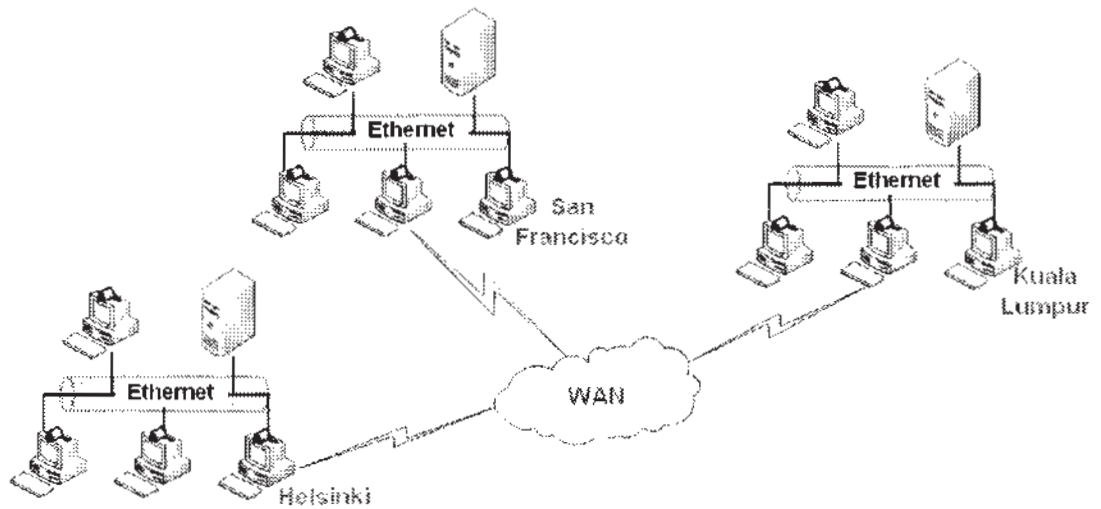
The MCS Server systems are solutions developed to meet the requirements of enterprise users, organisations, ASP and ISP. Users are given the option to either co-locate their server on a data centre (server farm) or have the server physically installed at their premises. The Group currently offers three (3) server products namely:

- i) MCS Enterprise Server;
- ii) MCS ASP Server; and
- iii) MMCS Server.

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**6. INFORMATION ON THE GROUP (Cont'd)****i) MCS Enterprise Server**

The MCS Enterprise Server is a product developed for enterprises, corporations and organisations which is scattered around few locations. This system is catered to meet the needs of five (5), ten (10), thirty (30) and sixty (60) users' multipoint server, allowing users to carry out M2M videoconferencing within a company or organisation on LAN, Virtual Private Network ("VPN") and Internet. MCS Enterprise Server also supports remote (unicast) and local conferences (multicast) to support better bandwidth management. The server is easily scalable to accommodate a large number of users without requiring to buy extra expensive hardware such as a Multipoint Control Unit required by other H.323 competing products.

**MCS Enterprise Server**

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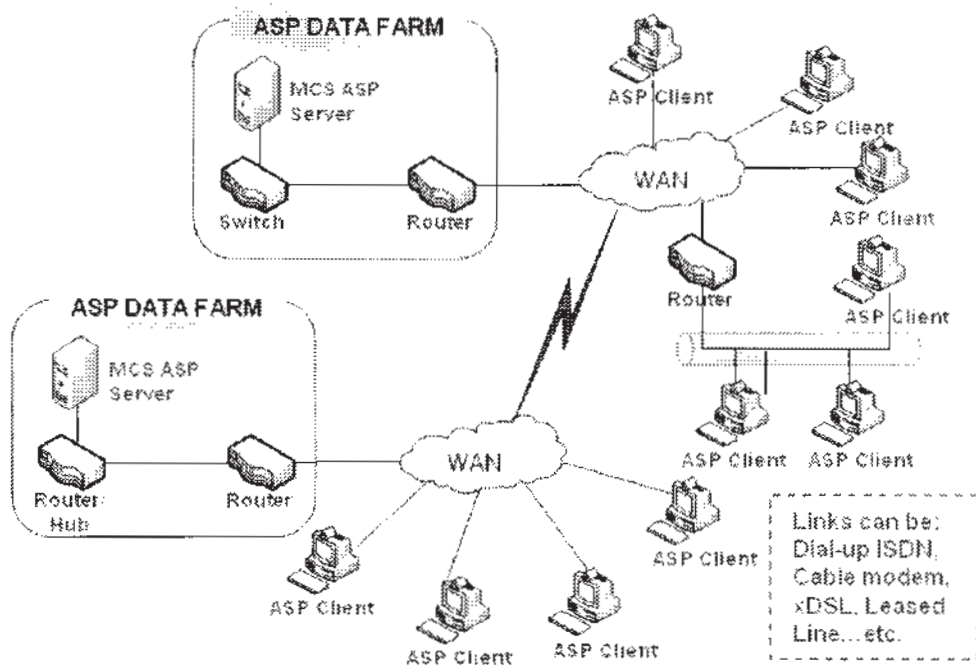
## 6. INFORMATION ON THE GROUP (Cont'd)

## ii) MCS ASP Server

Unlike an MCS Enterprise Server, the MCS ASP Server would be hosted and connected to the backbone of a telecommunication or ISP's network or data farm. Subscribers, in turn, use a remote client to log into the server to access videoconferencing services.

Presently, the MCS ASP is the only videoconference solution where servers can be linked together to create M2M videoconferencing facilities. This means that the ISP or ASP can place videoconference servers in more than one (1) location according to the subscribers' demography thus reducing the required bandwidth at one centralised location. In addition, each user can dynamically adjust the amount of bandwidth that he or she wishes to use during that conference.

MCS ASP Server is developed to serve ASP and ISP providers who in turn extend these services to users such as small organisations, small cooperations and home users. By providing the MCS ASP Server, an ISP can provide voice and video over Internet Protocol services to its subscribers. This would increase their revenue and also reduce its customers distance call charges.



## MCS ASP Server

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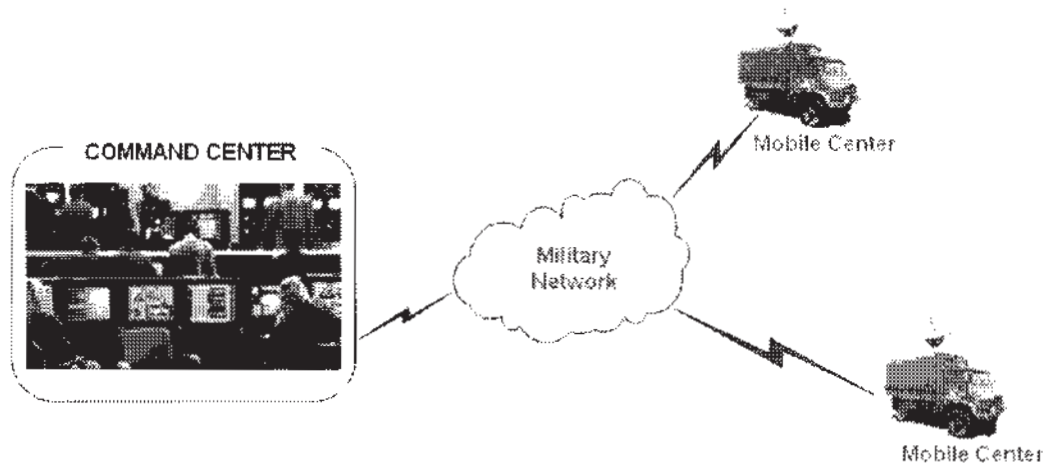


6. INFORMATION ON THE GROUP (Cont'd)

iii) MMCS Server

The MMCS is specifically engineered and developed for military communication purposes. This server is capable of providing multimedia videoconferencing for military purposes and can be seamlessly integrated to the military networks without additional communication equipment.

The system is equipped with built-in 512bit user certificate authentication and 168bit streaming encryption assuring military communication to be totally secured from any possible attempts to be tapped or hacked. The MMCS servers are also built on highly customised casings, capable to withstand the severe conditions in the front lines of military warfare. The main users for MMCS are the defence force of nations including military, police force and natural disaster recovery task forces.



MMCS Server

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**6. INFORMATION ON THE GROUP (Cont'd)**

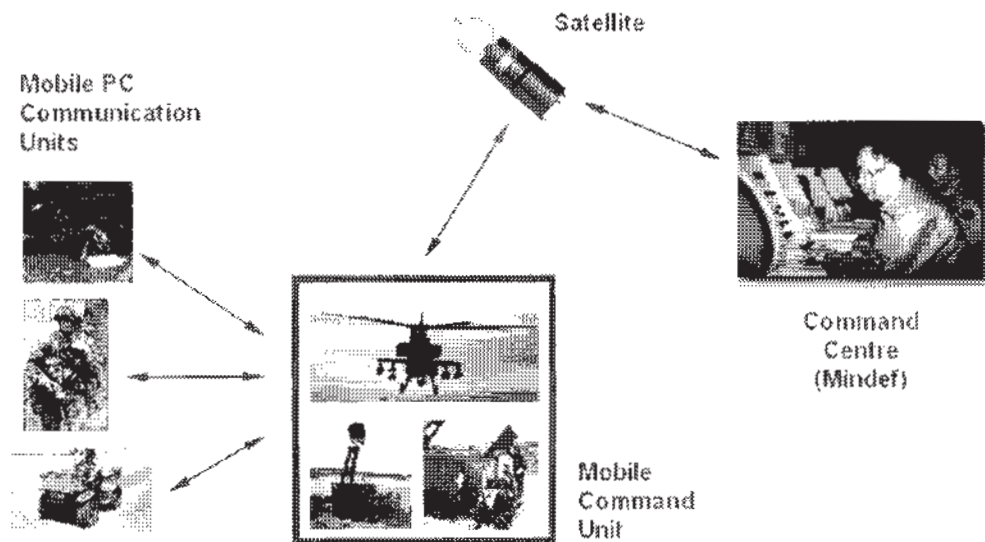

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**(c) AMMCS**

Dynamic changes are taking place today in military communications. Joint and coalition interoperability, communications infrastructure for homeland defence, global network mobility and flexibility as well as the over-arching need to achieve real-time information superiority are some of the issues that are driving the development of infrastructure, standards, equipment and technologies for the military of tomorrow.

Armed forces around the world require customised command, control and secured communication infrastructures in order to deal with the rapidly changing tactical operational environments. Soldiers and army personnel need the extra edge when combating enemies in open fields and uncertain environments.

In order to help these soldiers to optimise their new role in emergencies and in the battlefield, MSB has developed a secure multimedia videoconferencing system called the AMMCS, a secure audio-visual communication system that is developed in the current market for multi-warfare purposes, ranging from national to international public security.




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**Communications for AMMCS**

The implementation of the multimedia videoconferencing system in military communications will connect to sub-command posts to headquarters via satellite and tactical communications. In general, AMMCS would consist of several entities from the communication perspective, AMMCS clients and AMMCS server entities. Today, the use of multimedia videoconferencing systems could be considered as the main communications used in the Brigade, Division, Corps and Central Command levels as depicted by the pictures above.

AMMCS will provide these few modules.

- i) AMMCS Command Centre;
- ii) AMMCS Mobile Command Unit; and
- iii) AMMCS Mobile Communication PC Unit.

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**6. INFORMATION ON THE GROUP (Cont'd)**

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**i) AMMCS Command Centre**

AMMCS Command Centre would be the main client unit that would be placed in a military headquarters. This would be normally placed in a boardroom environment to facilitate high ranking officials to be part of the decision making chain directly linking them to men in the front-line.

**ii) AMMCS Mobile Command Unit**

The Mobile Unit is a very important component in this system proposed as it deals with the communication between the Command Centre and the troops on the field. This can be achieved with mobility, durability and endurance of the AMMCS Client.

**iii) AMMCS Mobile Communication PC Unit**

This unit is worn by the troopers in the field. Thus weight and durability is the focus point for developing this unit. This unit is a military version of mobile computers in the market.

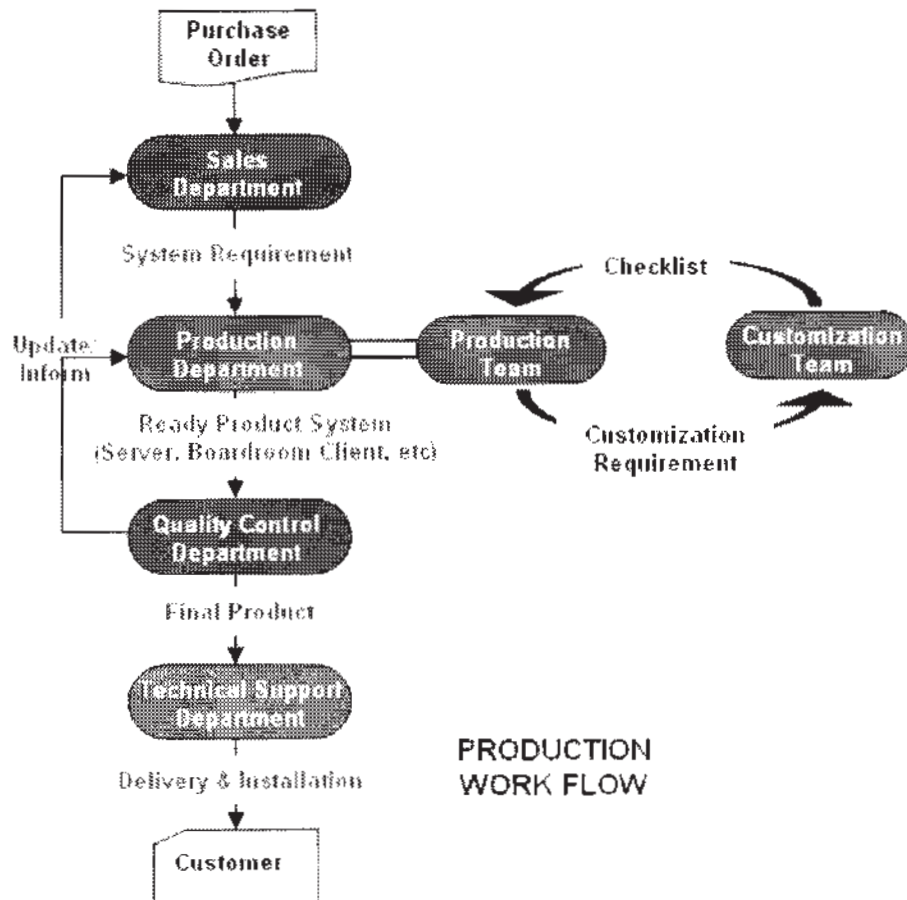
The Group has successfully developed the working prototype and are ready to accept orders for AMMCS. AMMCS is currently in the commercialisation stage.

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## 6. INFORMATION ON THE GROUP (Cont'd)

## 6.5.3 Production workflow

The production workflow for the MLABS Group's customised MCS Systems is as follows:

**Narration of Customised MCS Systems Production Workflow:**

- (a) MSB receives purchase order from customers.
- (b) The sales department processes the orders accordingly and verifies system requirements with the production department.
- (c) There are two (2) teams in the production department, i.e. production team and customisation team. The order will go through the customisation team first to meet the requirements set out according to the customer's purchase order. The customisation team will then prepare a checklist for the production team to assemble the MCS (codec, server) according to specifications required.
- (d) The completed MCS (codec, server) will then be transferred to the QC department for quality assurance checks to ensure that the product assembled achieves the highest standards. The QC department will keep the production department and sales department informed about the quality of the MCS (codec, server) ordered by the customer.
- (e) The technical support department is responsible in carrying out the second phase of the QC. It tests the functionality and technical feasibility of the MCS (codec, server) before the MCS is delivered to the customer.

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**6. INFORMATION ON THE GROUP (Cont'd)**

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**6.5.4 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.

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**6. INFORMATION ON THE GROUP (Cont'd)**


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**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 application 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

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**6. INFORMATION ON THE GROUP (Cont'd)**

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*Note:*

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

**6.5.5 MSC Status, Pioneer Status and Licences**

**MSC Status**

On 25 January 1999, MSB was granted MSC status by the MDC which entitles MSB to the incentives, rights and privileges under the Bill of Guarantees. The Bill of Guarantees, which the Government commits to companies with MSC-status are summarised as follows:

1. Provides a world-class physical and information infrastructure;
2. Allows unrestricted employment of local and foreign knowledge workers;
3. Ensures freedom of ownership by exempting companies with MSC status from local ownership;
4. Gives freedom to source capital for MSC infrastructure globally and the right to borrow funds globally;
5. Provides competitive financial incentives, including Pioneer Status (100% tax exemption) for up to ten (10) years or an investment tax allowance for up to five (5) years and no duties on the importation of multimedia equipment;
6. Becomes a regional leader in Intellectual Property Protection and Cyberlaws;
7. Ensures no censorship of the Internet;
8. Provides globally competitive telecommunications tariffs;
9. Tenders key MSC infrastructure contracts to leading companies willing to use MSC as their global hub; and
10. Provides a high-powered implementation agency to act as an effective one (1)-stop super shop.

The MDC had imposed a condition that MSB has to be located in a MSC designated cybercity. This condition has been complied with as MSB has, since 2001, had an office in Technology Park Malaysia.

**Pioneer Status**

MSB has applied to the MDC for an extension of the Pioneer Status which expired on 24 January 2004. On 3 September 2004, MDC informed MSB that it has approved the extension of MSB's Pioneer Status for a further five (5)-year period and MSB received a formal notification from MITI via letter dated 1 October 2004 that its Pioneer Status has been extended for a further five (5)-year period from 25 January 2004 to 24 January 2009.

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## 6. INFORMATION ON THE GROUP (Cont'd)

### Licences

The approvals and licences issued the Group are summarised below:

Company	Licence no.	Particulars	Effective date/ Expiry date	Issuing authority
MSB	181130	Registered contractor for provision of communication equipment, educational aids, software products and services, computer related services and networking products and services	1.4.2005/ 31.3.2008	Minister of Finance
MSB	CMC/R1D/1.AAD/ 2/6/3/07200 (1)	Applications services provider licence	15.5.2001/ Nil	Malaysian Communications and Multimedia Commission

### 6.5.6 Principal Markets, Marketing and Distribution

The MCS systems are distributed throughout Malaysia, Canada, the USA, Myanmar, Vietnam, Australia, Singapore, India, Thailand and Indonesia through the Group's directly appointed distributors, reseller, agents and partners. The end-users of the MCS range from large multinational corporations and government agencies to small and medium enterprises ("SME:") and individuals, due to the flexibility of the product.

For the financial year ended 31 December 2004, Malaysia contributed to 55% of the Group's revenue and the USA contributed 25%. The balance of 20% of the Group's revenue came from Indonesia and India.

According to Infocredit D&B Report, *"Based on the report by Wainhouse Research, the market size for multimedia videoconferencing is worth an estimated USD3.5 billion (RM13.2 billion) in 2003. As a comparison, M1.ABS registered revenue of RM2.56 million in 2003 with a market share of close to 0.02% of the entire global multimedia videoconferencing market. Going forward, the demand for Internet Protocol-based multipoint videoconferencing from both enterprises and service providers will fuel the market growth."*

### 6.5.7 R&D

We recognise the importance of R&D to ensure our business' sustainability and success in the long term. The Group's R&D department is spearheaded by Associate Professor Dr. Sureswaran Ramadass, Head of R&D, Dr Omar Amer Abouabdalla, Chief Technology Officer and other qualified personnel. As at the Latest Practicable Date, our R&D team consists of nine (9) staff which includes a team of scientists, technical experts and software engineers with various industrial experiences and know-how. Currently, we are actively involved in new product development whereby a substantial amount of pre-launch testing (beta testing) is conducted before a new product is officially marketed.

Our main R&D centre is located at NRG. Development work is also being conducted at our office at Technology Park Malaysia, Bukit Jalil. NRG is a research group of USM. There is a large pool of researchers based at NRG, with a research staff population of forty (40) full-time staff and thirty (30) part-time research trainees.

In line with our continuous product enhancement and development plans, we have spent approximately RM1.59 million on R&D for the past three (3) financial years ended 31 December 2004, which is approximately 19% of the Group's aggregate turnover for the said years.



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**6. INFORMATION ON THE GROUP (Cont'd)**


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Our R&D strategies are as follows:

**(i) Increasing R&D Manpower**

Our R&D staff force is expected to increase from nine (9) staff for the financial year ended 31 December 2004 to forty-five (45) for the financial year ending 31 December 2008.

**(ii) Keeping Abreast with New Technology**

We have allocated funds for the R&D department to attend product launches, workshops with distributors, purchase of new tool kits and other R&D related activities. In addition, our R&D department is encouraged to be involved in newsgroups within the multimedia conferencing industry to keep abreast of new development and to participate in brainstorming sessions within the organisation. The R&D department is also encouraged to study white papers on related technologies posted on the Internet as well as participate in establishing the world standards for multimedia conferencing.

The majority of our research staff are Computer Science graduates from USM and are encouraged to pursue their Master Degree and PhD in the multimedia network research areas. The NRG of USM constantly provides guidance and motivation to the research staff and often conducts special courses and classes, extended to the Group, to keep its staff updated on new technological developments. These training sessions are conducted by researchers and experts in the area of multimedia network from local and international universities.

**(iii) Meeting Needs of End-users**

This will be done by effectively communicating between our R&D department and end-users. We will organise an end-user conference once a year to obtain feedback of its products.

Our R&D policies on its new or proposed products are as follows:

<b>Management Policy</b>	<p>The Group is committed to appropriately manage and be accountable for all the funding received.</p> <p>The Group's R&amp;D staff under the management responsibility of its Chief Technology Officer report to its Directors on all R&amp;D matters, including records of all R&amp;D activities.</p>
<b>Intellectual Property Policy</b>	<p>All employees of the Group shall not disclose any confidential information or inventions made in the course of while being employed with MLABS to any outside party without written consent of the Management.</p>
<b>Product Development Policy</b>	<p>Product Scalability - all products are designed to be scaleable based on the users' requirement and future needs.</p> <p>Product User Friendliness - all products are designed and developed to accommodate non-technical users. Hence, the MCS systems can be used by a wide range of technical and non-technical users.</p> <p>Product Reliability - all products must undergo a vigorous test procedure with almost zero crash rates to ensure stability of the product.</p> <p>Product Maintainability - all the products must be easily maintained with the objective of reducing future maintenance cost.</p> <p>Product Uniqueness - all products must be unique in its design, functionalities and features in order to differentiate from the competitors.</p>

## 6. INFORMATION ON THE GROUP (Cont'd)

<b>Product Quality Policy</b>	The Group's quality strategy will be implemented at all levels of management. Performance, quality and benefits arising will be carefully recorded.
	All products will use the best quality hardware and standard software design.
	All products will undergo final testing and QC before they are released to the Group's customers.

Our R&D efforts have paid off with a number of achievements, the most recent being the release of MCS version 5.0, revision C and Client (Camera testing application) and Server testing utility application. A table depicting our R&D achievements is as follows:

Activity	Project Achievement Date
MCS version 1.0 released	November 1994
MCS version 2.0 released	August 1996
MCS version 3.0 released	January 1999
Enabling Multicast	January 1999
Full Duplex Audio and Video	January 1999
Internet real-time streaming standards	June 1999
Compression	June 1999
Dynamic Multicast Address Assignment	June 1999
MCS version 4.0 (internal beta) release	December 1999
Multiple Server Communication (internal beta)	December 1999
Windows NT development	January 2000
Automatic Client Configuration	January 2000
Integrate Document Conferencing into MCS version 4.0 and improvements	June 2000
Browser-based Administration Tools	June 2000
MCS version 4.0 (external beta) release	Sept 2000
User Interface, Online Documentation and integration of new hardware peripherals	December 2000
MCS version 4.0 commercial release	January 2001
System analysis and design for version 5.0	June 2001
MCS version 5.0 (internal beta) release	September 2001
MCS Document Conferencing	December 2001
User Profile for MCS Desktop Client	January 2002
User Friendly Multi Windows OS Installer	January 2002
MCS H.323 (internal beta) release	June 2002
MCS Boardroom Client version 5.0 (internal beta) release	June 2002
MCS Launcher	July 2002
MCS Boardroom full screen picture.	January 2003
MCS version 5.0 commercial release	January 2003
MCS Boardroom Client version 5.0 commercial release	January 2003
MCS version 5.0 (revision B) commercial release	June 2003
MCS Boardroom Client version 5.0 (revision B) commercial release	June 2003
MCS AMMCS version (military) release	July 2003
Enhanced audio and video structure	November 2003
JAVA based web admin tool	December 2003
MCS version 5.0 (revision C) commercial release	January 2004
Client (Camera testing application) and Server testing utility application release	February 2004

**6. INFORMATION ON THE GROUP (Cont'd)**

Activity	Project Achievement Date
Chat development and enhancement server to server Version 5	April 2004
MCS multi-server DC version 5	June 2004
MCS server to server version 5	September 2004
MCS Tablet PC Version	December 2004
Web Administration	February 2005

Please refer to Section 8.3 of this Prospectus for further details on the Group's plans and strategies.

**6.5.8 Interruptions in Operations**

The Group did not experience any disruptions in business which had a significant effect on its operations for the twelve (12)-month period prior to the date of this Prospectus.

**6.5.9 Information on Employees**

As at the Latest Practicable Date, the Group has a total of twenty-six (26) full-time employees (including the Directors) comprising twenty-two (22) Malaysians and four (4) foreigners. The breakdown of the total number of employees and their length of service in the Group are as follows:

Categories of Employee	Average length of employment			Total
	Less than one (1) year	One (1) to five (5) years	More than five (5) years	
Management and Professional	3	-	2	5
Marketing (Business Development)	2	2	-	4
Technical Software and Support	-	3	-	3
R&D	6	5	-	11
Administration and Clerical	1	2	-	3
<b>Total</b>	<b>12</b>	<b>12</b>	<b>2</b>	<b>26</b>

As we realise the importance of retaining valuable skilled employees, we provide in-house workshops to update all our employees on new developments achieved, technical and production training and also engages external training centres and associations to conduct seminars and workshop to identify, evaluate and manage risks, to enhance management quality, staff benefits and to increase the competency level of our employees.

In addition, MSB has an understanding with USM through Usains Holding Sdn Bhd to provide key scientists and technical experts in its R&D projects. As at the Latest Practicable Date, there are nine (9) scientists and technical experts from the NRG assigned to MSB.

The Directors believes that the working relationship between its senior management and the employees of MLABS is good. There is no labour or industrial dispute between the employees of the Group and the Management which could have a material adverse financial impact on the Group. The employees of the Group do not belong to any labour union and enjoy a cordial relationship with the Management.

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## 6. INFORMATION ON THE GROUP (Cont'd)

### 6.5.10 Location

Our places of business are located at:

	Address	Activity
(a)	No. 59B-01-05 Jalan Sungai Dua 11700 Batu Uban Penang	The Group administration office.
(b)	Lot G-3A, Incubator 1 Technology Park Malaysia Bukit Jalil 57000 Kuala Lumpur	R&D centre cum sales office.
(c)	NRG School of Computer Sciences Universiti Sains Malaysia 11800 Penang	R&D centre

### 6.5.11 Description of Landed Properties

We do not own any landed property as at the date of this Prospectus.

### 6.5.12 Competition

According to the Directors, the number of companies operating in the multipoint videoconferencing industry is limited. According to Infocredit D&B, the major companies which provide products similar to those of the Group are as follows:

Company	Country
Polycorn Inc.	USA
Tanberg ASA	Norway
First Virtual Communications Inc.	USA
Aethra SPA	Italy
Web Ex Communications Inc.	USA

The Directors believe that the Group is able to maintain the technological lead ahead of its competitors locally and abroad. Being very sensitive with technology developments, the Group's R&D department has already drawn out the areas that are suitable for its future versions of MCS. The Group's R&D department also employs extensive R&D and market intelligence to maintain its competitiveness and position in the market.

### 6.5.13 Demand/Supply Conditions

There is no seasonal trend for our products. According to the Management, there is regular demand for the Group's products throughout the year. The Directors believe that the demand for our MCS products and services will grow due to various factors such as declining prices in electrical and electronic equipment, increased market awareness by users, improving technologies which offer faster speed in data transmission and growth in the popularity of the Internet as well as the Government's drive against the use of pirated software. In addition, our current aggressive sales and marketing activities are also expected to bring in additional business.

## 6. INFORMATION ON THE GROUP (Cont'd)

### 6.5.14 Reliance on and Vulnerability to Imports

The local players operating in the videoconferencing market have a certain degree of collaboration with international providers to develop solutions and applications for their clients. Hence, the industry to some extent is reliant on foreign partners for some IT applications.

However, we do not rely on foreign partners as most of the MCS versions were designed and developed in-house at NRG under the consultancy joint R&D contract with USM. NRG is a prestigious and internationally recognised research group based within USM. There is a large pool of researchers based at NRG, with a research staff population of forty (40) full-time staff and thirty (30) part-time researchers and trainees.

## 6.6 SUBSIDIARY COMPANY

Presently, the Company has one (1) wholly-owned subsidiary company, namely MSB.

### 6.6.1 History and Business

MSB was incorporated in Malaysia on 28 July 1997 under the Act as a private limited company under the name Profound Blue Sdn Bhd and commenced its operations on 1 October 1997. It changed its name to Multimedia Research Lab Sdn Bhd on 10 October 1997.

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 products of MSB are set out in detail in Section 6.5.2 above.

### 6.6.2 Share Capital

The present authorised and issued and paid-up share capital of MSB is as follows:

	No. of shares	Amount (RM)
<b>Authorised</b>		
Ordinary shares of RM1.00 each	5,000,000	5,000,000
<b>Issued and paid-up</b>		
Ordinary shares of RM1.00 each	5,000,000	5,000,000

### 6.6.3 Changes in Share Capital

The changes in the issued and paid-up share capital of MSB since its incorporation are as follows:

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
28.7.1997	2	1.00	Cash	2
27.10.1997	39,998	1.00	Cash	40,000
27.10.1997	160,000 <sup>†</sup>	1.00	Otherwise than cash	200,000
22.12.1998	10,000	1.00	Cash	210,000
18.10.1999	3,800,000 <sup>*</sup>	1.00	Otherwise than cash	4,010,000
14.3.2000	10,000 <sup>^</sup>	1.00	Otherwise than cash	4,020,000

**6. INFORMATION ON THE GROUP (Cont'd)**

Date of allotment	No. of shares allotted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
31.7.2000	45,000 ^	1.00	Otherwise than cash	4,065,000
30.4.2004	500,000 @	1.00	Otherwise than cash	4,565,000
15.5.2004	435,000 @	1.00	Otherwise than cash	5,000,000

Notes:

# Purchase consideration of equipment and set off against debts at par.

\* Purchase consideration of MCS version 3.0 at par.

^ Set off against debts at par.

@ Set off against debt at premium.

**6.6.4 Substantial Shareholders**

As at the date of this Prospectus, MSB is a wholly-owned subsidiary company of the Company.

**6.6.5 Subsidiary and Associate Companies**

As at the date of this Prospectus, MSB does not have any subsidiary or associate company.

**6.7 MAJOR CUSTOMERS**

Our top ten (10) customers for the financial year ended 31 December 2004 are as follows:

Name of customers	Location	Length of relationship (years)	Turnover (RM'000)	% of turnover
Cerebit Inc.	USA	1	973	19
Jabatan Perkhidmatan Kajiucuaa Malaysia	Malaysia	1	719	14
PT Internetindo Data Centre Indonesia	Indonesia	1	684	12
Innovative Diamond Technology Sdn Bhd	Malaysia	1	493	10
Third Gen Technology Pvt Ltd	India	2	303	6
Cybercom Resources Inc	USA	2	300	6
TGS E-Security Systems Sdn Bhd	Malaysia	2	300	6
Equip Way Sdn Bhd (now known as MCS Live Sdn Bhd)	Malaysia	1	242	5
Projek Lebuhraya Utara-Selatan Berhad	Malaysia	1	146	3
Ranhill Engineers and Constructors Sdn Bhd	Malaysia	1	164	3

## 6. INFORMATION ON THE GROUP (Cont'd)

For the financial year ended 31 December 2004, the Group has had dealings with a total of twenty-nine (29) customers, of which the top four (4) customers account for approximately 55% of the turnover. The Directors believe that the Group's continuing efforts to expand and penetrate into new markets such as China, Singapore, Australia, the USA, Canada, India, Thailand and Indonesia, actively providing good customer service, support and potential customers in the future can diversify the Group's customer base.

### 6.8 MAJOR SUPPLIERS

Our top ten (10) suppliers for the financial year ended 31 December 2004 are as follows:

Name of supplier	Location	Length of relationship (years)	Purchases (RM'000)	% of purchases
First Tech Pacific Distributors	Malaysia	1	172	17
New Global Innovative Marketing	Malaysia	1	150	15
Ara TechBis Sdn Bhd	Malaysia	4	59	6
PKU Technology (KL) Sdn Bhd	Malaysia	1	46	5
ICT Distribution Sdn Bhd	Malaysia	1	41	4
Inetmon Sdn Bhd	Malaysia	3	29	3
Compugates Sdn Bhd	Malaysia	1	25	3
EOM System Sdn Bhd	Malaysia	4	25	3
Smartleap Sdn Bhd	Malaysia	1	22	2
Innovative Diamond Technology Sdn Bhd.	Malaysia	1	18	2

The suppliers of the Group provide various software and hardware which are required to complement its systems. The Group procures most of its supplies on a back-to-back basis, when its customers place their orders for such materials. In this regard, the Group does not hold substantial inventory.

The Group has a wide supplier base and are not dependent on any single supplier. In addition, the Directors believe that the Group will not face any difficulty in sourcing for its supplies as there are many alternative suppliers in which the Group could source for its supplies.

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**7. INDUSTRY OVERVIEW AND OUTLOOK**

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**7.1 OVERVIEW OF THE GLOBAL ECONOMY**

In 2004, the global economy expanded at its fastest pace of 5% since 1984, led by the United States (US), strong growth in the Asian region and a revival of growth in Japan and Europe. Above average growth in the first half-year reflected the strong rebound from the lower base of 2003 as a result of the economic uncertainties related to the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome (SARS) in Asia. In the second half-year, despite the dampening effects of sharply higher oil prices and the increase in interest rates, the growth momentum was sustained, reflecting sustained strong consumer spending and the revival in private investments. Overall, the global economy exhibited greater resilience to energy shocks.

Robust global expansion was reflected in significant improvements in both international trade and financial flows. Global trade expanded by 8.8% in 2004, due mainly to the global electronics up-cycle, higher commodity prices and rising import demand, notably in the US and China. In the Asian region, these developments in tandem with stronger domestic demand contributed to further expansion in intra-regional trade. In the financial markets, major equity market indices increased strongly, buoyed by improved investor optimism amidst higher corporate earnings. In the foreign exchange markets, growing concerns on the large and widening US current account imbalances, and the sustainability of capital inflows to finance the fiscal deficit led to the depreciation of the US dollar against the other key currencies.

The outlook for 2005 remains favourable. Both global output and global trade are projected to expand at 4% and 5.8%, respectively, in 2005. The pace of slowdown in the US and to a smaller extent, China is expected to be modest, on the basis that adjustments of the imbalances in these economies would be gradual. In addition, as crude oil prices recede from its peak as the supply and demand forces reach equilibrium, inflationary pressures are expected to remain manageable. This would provide flexibility for gradual increases in interest rates and in return, dampens the slowdown in consumer expenditure in the US. Monetary conditions are therefore, expected to remain supportive of growth. Meanwhile, China is expected to manage some softening of the economy so as to lessen its impact on the unemployment front. On the global inflation front, price increases are forecast to rise gradually, stemming mainly from the pass-through effects of higher commodity prices. Nonetheless, the rise in inflation is expected to be gradual as labour productivity continues to exceed real wage growth. The consensus is that the global expansion, while still solid, will therefore likely be somewhat weaker than earlier expected. The balance of risks has shifted to the downside with further oil price volatility a particular concern. On the policy side, interest rates will need to rise further as the economic recovery proceeds, although the pace and timing vary considerably across countries, depending on their relative cyclical positions.

*(Source: Infocredit D&B Report)*

**7.2 OVERVIEW OF THE MALAYSIAN ECONOMY**

With the more robust growth in global trade and domestic demand, the momentum of economic expansion in Malaysia, which began in the second half of 2003, gathered steam in 2004. Real GDP increased by 7.1% in 2004, registering the fastest growth since 2000. The economy benefited from the rapid growth of global trade in manufactured products and higher prices for primary commodities. Although global growth moderated somewhat in the second half of the year, the Malaysian economy remained resilient with stronger domestic demand providing the impetus for sustained expansion. The private sector was the main force of economic expansion, while the government continued with fiscal consolidation.

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**7. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)**

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The prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to grow by at least 5%. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support for exports. While the global electronics industry is beginning to consolidate after reaching a peak in mid-2004, the cyclical downturn is forecast to be modest in view of the strong Asian demand, fast product life cycle and the relatively rapid inventory adjustments. In the domestic economy, the private sector would remain as the main driver of growth, as the government remains committed to optimising expenditure in order to strengthen the fiscal position. Both household consumption and business outlays are projected to remain resilient, thereby cushioning some of the effects of lower public investment spending arising from the government's gradual fiscal consolidation programme.

As a small net oil exporter, Malaysia benefits to a degree from the higher world oil prices as crude oil accounts for around 5% of exports. Since the 2001 economic slowdown, most industrial countries, but notably the US, have pursued highly expansionary macroeconomic policies. As a result, world interest rates are close to historical lows and many countries have high fiscal deficits. Low interest rates have fuelled housing and asset price rises, at the same time supporting consumption and leading to a sharp deterioration in the current account in the US. As global GDP accelerated over the past year, inflationary pressure started to mount, albeit remaining very mild. However, higher oil prices, if sustained over a long period of time, will feed inflationary pressures, possibly forcing interest rates to rise faster than expected. This could trigger a sudden reversal in consumption and savings behaviour, leading to a substantial slowdown in world economic growth and affecting, in particular, non-oil exports from the Asian economies, including Malaysia. A slowdown in the US economy would have both heavy direct and indirect negative effects on exports, since the US is by far Malaysia's biggest export market. The signing of a Malaysia-US Trade and Investment Framework Agreement in May 2004 may help to mitigate this.

Inflation is likely to nudge up in 2005, as budgetary consolidation may lead the government to reduce its subsidies on consumer energy. Due to a slowdown in exports, particularly electronics and electrical products, private consumption is expected to remain the main source of GDP growth. The 2005 budget targets a modest reduction in the deficit to 3.8% of GDP. Going forward, the government's plan for a new broad-based goods and services tax in 2007 adds credibility to its commitment to fiscal balance, and may pave the way for a long-anticipated cut in business income taxes, which is critical in attracting more direct foreign investments.

*(Source: Infocredit D&B Report)*

**7.3 OVERVIEW OF THE ICT INDUSTRY IN MALAYSIA**

Skilled and knowledge workers are pre-requisites for the country to propel itself into the K-based economy as well as to enhance competitiveness. In this regard, education and training programmes continue to be given emphasis to address the issue of manpower shortage in ICT and related areas. Malaysia's ICT industry domestic billings grew by 10% to RM7.9 billion in 2003 and a further 15% to RM9.1 billion in 2004.

In an effort to accelerate the objectives of Vision 2020 of transforming Malaysia into a K-based society, the MSC was established in 1996. This includes efforts in increasing the availability of the required expertise, creating a pool of local technology entrepreneurs, producing high quality products and services, adopting world class standards and attracting world-class companies to Malaysia for the purpose of spurring growth in strategic areas of ICT.

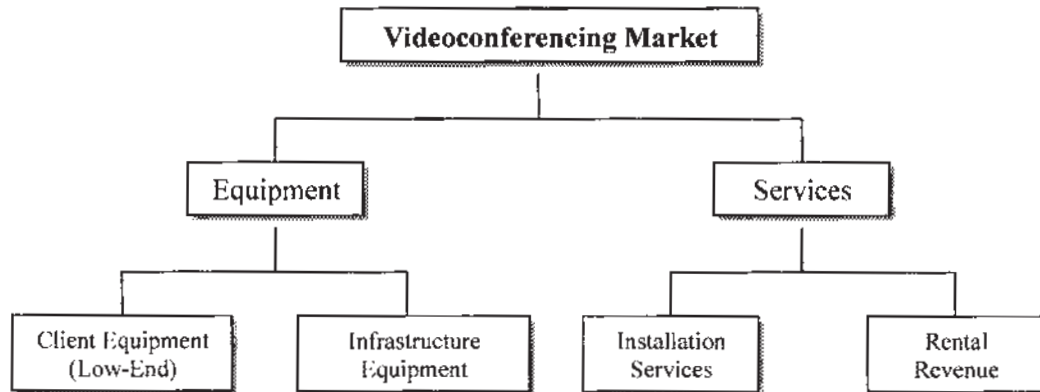
MSC has since propelled Malaysia into a thriving and dynamic ICT hub, hosting an estimated 1,208 MSC status multinationals, foreign-owned and home-grown Malaysian companies as of 15 March 2005. The largest sector consists of 486 companies or 40.2% in software development (both business, engineering and specialised applications) while 119 companies or 9.9% are involved in Internet-based business and e-commerce service/solution providers.

*(Source: Infocredit D&B Report)*

## 7. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### 7.4 VIDEOCONFERENCING INDUSTRY STRUCTURE

The videoconferencing market can be broadly divided into two (2) areas of equipment and services, diagrammatically illustrated as follows:



(Source: Infocredit D&B Report)

#### (a) Equipment

##### (i) Client Equipment (Low-End)

Client equipment can be divided into enterprise class group or enterprise class personal/desktop systems. These systems are generally inexpensive, and provide minimal levels of functionality and software/hardware features. These equipment can also be regarded as "low-end videoconferencing system".

##### (ii) Infrastructure Equipment (High-End)

The infrastructure equipment market can be divided by network and by type of equipment. These systems are expensive "high-end videoconferencing system" and it provides higher level of functionalities and features. In terms of network, infrastructure equipment can run on most corporations' ISDN, LAN, WAN or even the Internet, making it highly flexible. Infrastructure equipment encompasses either the Multipoint Control Unit (MCU) or Multipoint Conference Server.

#### (b) Services

##### (i) Installation Services

An initial videoconferencing installation can include many components and associated costs which are based mainly on the integration of equipment, cabling, lighting, furnishings, networking equipment or even consulting services.

##### (ii) Rental Revenue

Some companies might rent videoconferencing equipment on a short-term basis in order to resolve a temporary problem, such as a need for a greater number of meetings than usual or to cope with a short-term increase in capacity.

(Source: Infocredit D&B Report)

## 7. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)

### 7.4.1 Total Market Size for the Multimedia Videoconferencing Industry

The conferencing service provider industry can be separated into four distinct segments: audio conferencing, web data conferencing, multipoint videoconferencing services (video bridging) and IP video network services.

Wainhouse Research reported in mid-2003 that the total worldwide market for conferencing services would grow from USD3.0 billion in 2002 to USD5.5 billion in 2008. The top-level breakdown of this market forecast by conferencing segment can be seen in the table below.

**Table 1: Global Multimedia Videoconferencing Industry, 2002 - 2008**

Market Size	2002 USD mil	2003 USD mil	2004 USD mil	2005 USD mil	2006 USD mil	2007 USD mil	2008 USD mil	5-yr Growth
Audio Conferencing	2,351	2,660	3,061	3,399	3,439	3,379	3,249	4.1%
Web-Based Data Conferencing	314	472	627	768	896	936	949	15.0%
Multipoint Videoconferencing	290	278	271	263	250	240	229	-3.8%
IP Video Network Services	13	59	144	533	855	1,069	1,099	79.5%
<b>Total</b>	<b>2,968</b>	<b>3,469</b>	<b>4,103</b>	<b>4,963</b>	<b>5,440</b>	<b>5,624</b>	<b>5,526</b>	<b>9.8%</b>

(Source: Wainhouse Research)

The worldwide revenue shown above can be further broken down by geographical region, with the North American market providing the largest portion of the revenue. However, the European and Asia Pacific markets have considerably higher growth rates. Also, while there is no specific market data for the Latin America region, the opportunity for conferencing service providers is promising.

**Table 2: Global Multimedia Videoconferencing Industry, 2002 - 2008**

	2002 (USD bil)	2008 (USD bil)	Last 5 years
North America	2.4	4.0	7.3% growth
Europe	0.4	0.9	12.8% growth
Asia Pacific	0.1	0.7	30.8% growth

(Source: Wainhouse Research)

(Source: Infocredit D&B Report)

### 7.4.2 Market Size and Share of the Company

This report examines the multimedia videoconferencing industry with specific focus on the conferencing infrastructure market audio, video, and web conferencing servers and bridges, video gateways and gatekeepers and IM & presence servers. As there are no local players involved in the same industry, Infocredit D&B used comparison and analysis based on various syndicated reports and sources from established technical experts including Wainhouse Research.

Based on the report by Wainhouse Research, the market size for Multimedia Videoconferencing in Asia-Pacific is worth an estimated USD100 million in 2002 (Ref: Table 2) and is growing at a rate of 30.8% annually. Based on the same growth rate of 30.8%, the market size of Multimedia Videoconferencing in Asia-Pacific could be worth an estimated USD130.8 million (RM497.0 million) in 2003. Despite its recent commercialisation of the MCS system, MLABS registered revenue of RM2.56 million in 2003 or 0.5% market share of the Asia-Pacific region.

(Source: Infocredit D&B Report)

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## 7. INDUSTRY OVERVIEW AND OUTLOOK *(Cont'd)*

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### 7.5 OUTLOOK OF THE MULTIMEDIA VIDEOCONFERENCING SYSTEMS INDUSTRY

The multimedia conferencing infrastructure market has experienced a tumultuous year. While the market was still burdened by the telecom meltdown, general economic malaise, and a lingering IT spending hangover, the first signs of market recovery have begun to emerge. Forced with the need to raise productivity, users recognise multimedia conferencing as a viable alternative. Audio conferencing minutes and web conferencing seats grew to record levels. Instant messaging became an accepted tool (if not officially sanctioned) within many enterprises. Shipments of videoconferencing endpoints rose. All of which signaled a rise in consumption was finally underway as measured in port or seat shipments – though the upturn in terms of revenue dollars could have been stronger.

The multimedia conferencing infrastructure market continues to evolve. While the past was concerned with holding audio and video conferences over the Public Switch Telephone Network (PSTN) with higher quality and reliability, today's situation is far more complex as the industry is being swept by three (3) fundamental changes:

(a) Single, converged, Internet Protocol-based voicevideo-data network

As indicated by the number of Internet Protocol ports shipped by the conferencing infrastructure vendors in this report, the movement to a single, converged, Internet Protocol-based voicevideo-data network is well underway. While the market was initially drawn to a converged network on the promise to deliver higher quality and better reliability with attractive economics, the prospect of using one network to seamlessly integrate multimedia conferencing into an enterprise's IT environment may emerge to be the real "killer app" of Internet Protocol. The ability to initiate an instant rich-media conference from within the very application that raises an issue or signals a need – whether it be while reviewing a document, email, status report, or from within a customer relationship management system, etc – could deliver the next wave of productivity gains for an organisation.

(b) Web conferencing, instant messaging ("IM"), and presence

IM is coupled with presence to show the availability status of each potential attendee in real-time before a conference is initiated. While conferencing has quickly transitioned from a scheduled to an ad-hoc paradigm over the past few years, IM and presence holds the potential of taking ad-hoc conferencing to a whole new level by bringing the first change to the call initiation paradigm since the telephone was invented. And while IM text messaging has been the traditional method of communicating using the presence metaphor, advanced conferencing systems (Lotus, Microsoft, FVC, others) already integrate the full spectrum of multimedia conferencing tools so that an IM session can easily escalate to include audio, video, or web conferencing.

(c) Evolution of business communication

For strategic reasons, business communications is becoming increasingly important, as companies seek to gain a competitive edge in the market. The growing need for communications in business, as well as globalisation, is giving the market an underlying strength, meaning that videoconferencing is riding out the contraction of business IT budgets to a greater extent than other computer-based industries.

*(Source: Infocredit D&B Report)*

### 7.6 INDUSTRY FORECAST

Based on the forecast from Wainhouse Report 2004 on the Rich Media Conferencing Market (which includes audio, video, webconferencing and IM) the conferencing infrastructure industry in Malaysia is forecast to grow from USD475 million in 2003 to over USD675 million in 2006, producing a compounded annual growth rate of 7.3%, despite dramatic declines in average selling prices across the board.

## 7. INDUSTRY OVERVIEW AND OUTLOOK *(Cont'd)*

However, trends now underway in both the conferencing infrastructure market and the multimedia videoconferencing industry as a whole will continue to change the shape of the industry over the forecast period. The market for web conferencing and IM/presence servers and the market for audio conferencing servers will account for an increasing share of the market – at the expense of the market share for video conferencing multipoint control units, gateways, and gatekeepers.

*(Source: Infocredit D&B Report)*

### 7.7 FUTURE TREND OF THE VIDEOCONFERENCING MARKET

The next five (5) years will see the following key developments in the market.

- (i) A shift towards internal hosting of conferences and away from organising conferences through service providers, as users seek more control, better integration into their IT environments and a perceived increase in security. This will tend to benefit market areas such as web servers.
- (ii) Videoconferencing will increasingly be integrated into webconferencing and instant messaging services, and will slowly cease to be seen as a stand-alone application. Multimedia videoconferences will increasingly become the standard form of conferencing, which will lead to greater integration between audio, web and video conferences in a multimedia communications environment. Consequently, Internet Protocol-based multimedia videoconferencing will become the norm. This implies relatively strong growth in Internet Protocol-based video infrastructure equipment, such as multipoint control units, gateways and gatekeepers.
- (iii) The growing importance of internal hosting will lead to a greater role for videoconferencing products that are easy to use, are reliable and have user-friendly enhanced functionality.
- (iv) The endpoints market will be increasingly divided into appliances and software codecs. Personal computer (PC)-based endpoints are increasingly software based and the majority of products today are already Universal Serial Bus (USB) ready. In the future, as most PCs come with quality cameras bundled free (and cameras become a normal part of PC kit), the PC market will shift to a software codec business. The software codecs will increasingly segment into stand-alone products and those designed to run over computer networks. Increasingly in large organisations, the IT network will control conference features, such as presence and availability management, directory services and call handling. This development should help develop the market for desktop PC-based conferencing products, as the network will make organising and controlling a conference easier.

*(Source: Infocredit D&B Report)*

### 7.8 INDUSTRY STANDARDS

Up until 1999, the Telecommunications Departments and the Ministry of Information regulated the telecommunications and broadcasting industry respectively. As a result of the Communications and Multimedia Act 1998 (CMA), the Malaysian Communications and Multimedia Commission (MCMC) was commissioned to monitor developments in the convergent ICT industry to ensure national policy objectives were followed. The CMA replaced both the Telecommunications Act (1950) and the Broadcasting Act (1998) to establish a new regulatory framework to address the convergence of telecommunications, broadcasting and information technology.

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**7. INDUSTRY OVERVIEW AND OUTLOOK (Cont'd)**

The table below summarises the acts, regulations, rules and orders concerning players in the ICT industry including videoconferencing:

<b>Acts</b>
Malaysian Communications and Multimedia Commission Act 1998/Act 589 Communications and Multimedia Act 1998/Act 588
<b>Regulations</b>
Communications and Multimedia (Licensing) Regulations 1999/P.U. (A) 124 Communications and Multimedia (Technical Standards) Regulations 2000/P.U.(A) 124 Communications and Multimedia (Spectrum) Regulations 2000/P.U.(A) 128 Communications and Multimedia (Licensing) Regulations 2000/P.U.(A) 129 Communications and Multimedia (Technical Standards) (Amendment) Regulations 2001/P.U.(A) 89 Communications and Multimedia (Technical Standards) (Amendment) Regulations 2001/P.U.(A) 261 Communications and Multimedia (Spectrum) (Amendment) Regulations 2001/P.U.(A) 277 Communications and Multimedia (Licensing) (Amendment) Regulations 2001/P.U.(A) 298 Communications And Multimedia (Compounding of Offences) Regulations 2001/P.U.(A) 346 Communications and Multimedia (Universal Services Provision) Regulations 2002/P.U.(A) 419 Communications and Multimedia (Universal Services Provision) (Amendment) Regulations 2003/P.U.(A) 402
<b>Rules</b>
Communications and Multimedia (Rates) Rules 2002/P.U.(A) 79
<b>Exemption Orders</b>
Communications and Multimedia (Licensing) (Exemption) Order 2000/P.U.(A) 125

(Source: Infocredit D&B Report)

**7.9 PROSPECTS OF THE GROUP**

Given the prospect of the multimedia videoconferencing systems industry, the Directors believe that the Group is well positioned to capture the next wave of growth with the support of its experienced Management and R&D team. In addition, the Group possesses the cutting-edge technology and hands-on domain knowledge which are all crucial to the success in the multimedia videoconferencing systems industry.

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## **8. SUMMARY OF FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN**

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### **8.1 OVERVIEW**

As we are principally engaged in operating a focused R&D centre targeted at delivering next generation solutions in multimedia videoconferencing system to the global market, our team of scientists and technical experts are dedicated to R&D in areas of optimising algorithms, functionality and features in creating a multicast multimedia videoconferencing system over a distributed network. Our core product is the MCS which enables Internet Protocol-based M2M multicast multimedia videoconferencing.

### **8.2 VISION AND MISSIONS**

Our vision is "To Connect to the World with the Next Generation Multipoint Multimedia Conferencing System".

The missions in realising our vision are:

- to continuously research and develop next generation technology in multimedia multipoint conferencing that will meet the global needs for efficient and cost effective solutions;
- to dedicate resources to attract talent and like-minded researchers and scientists in developing new frontiers in technologies that have intrinsic commercial value;
- to develop strategic relationships with partners to enhance market penetration and technology advancement; and
- to maximise the value of its stakeholders.

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## 8. SUMMARY OF FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN (Cont'd)

### 8.3 FUTURE PLANS

In order to realise our vision, we strongly believe that we have to expand our business activities through appropriate and effective strategies to steer the Group.

Our plans and strategies are as follows:

#### (i) Product Development and Enhancement Plan

We will focus on the development of the MCS technology, where we will produce state-of-the-art systems to meet and capture the global market demand for videoconferencing products. Our R&D team will focus on achieving the product development and enhancement plan as summarised below:

PRODUCT DEVELOPMENT AND ENHANCEMENT PLAN					
	2006	2006	2007	2008	2009
MCS Version 6.0	Development Stage of MCS Version 6.0	Beta Release of MCS Version 6.0	Launching of MCS Version 6.0		Development of High Density/High Resolution MCS
MCS Version 7.0			System Design of MCS Version 7.0	Development of MCS Version 7.0	
Enhance Features for MCS		Release of Multipoint		Production Version of AMCCS	Development of IPV6 Enabled MCS
MCS for PDA		Wi-Fi PDA based Internet Protocol Phone			Conceptualisation of MCS for Mobile Phone using 3G/4G Technology
Other Development	Tablet PC Client Development		Public Switch Telephone Network (PSTN) Integration	Conceptualisation of Holographic Videoconferencing	

We will also adopt the following product development strategies to expand into vertical markets and other application markets:

#### (a) Third Party Integration

We have plans to work with software vendors to integrate or co-market our MCS solutions with the vendors' products. We are currently in the final stages of concluding negotiations with Microsoft to co-market our MCS solutions with Microsoft server products.

We may also consider the potential acquisition of leading videoconferencing and audio/video products resellers with a target clientele base similar to that of the Group, to penetrate new markets or enhance the Group's existing market share.

#### (b) Product Customisation by Business Partners

We are planning to cross-develop our technology with potential foreign partners in countries such as China and Japan to localise our MCS to meet the respective country's language, culture and local needs. Discussions have been had with some interested parties in China. We are also exploring the potential development of new intellectual property to be registered following the localisation of product content.



**8. SUMMARY OF FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN (Cont'd)**

**(c) Industry-focused solutions**

As the MCS technology offers much flexibility in creating solutions to address different client requirements, we are planning to develop products in line with our development of AMMCS for defence and public security. Some of the vertical markets which the Group is planning to focus on are as follows:

- (i) Distance learning groups;
- (ii) Telemedicine;
- (iii) Government agencies;
- (iv) Training;
- (v) Hotels; and
- (vi) Supply chain and customer relationship management.

**(ii) Geographical expansion**

We intend to broaden our marketing reach across geographic boundaries and industries. We intend to further appoint and sign up appropriate business partners to market and distribute our products worldwide.

We plan to develop and support an extensive network of strategically selected business partners such as bandwidth providers, distribution channels and other complementary technology companies in various countries to promote its products. We are also considering the formation of joint ventures with partners who will become master/exclusive distributors in different market/products segments.

Our geographical expansion plan are summarised as follows:

GEOGRAPHICAL EXPANSION PLAN					
	2005	2006	2007	2008	2009
Penetration through US Representative Office	<b>Penetration through Master Distributor in US to:</b> <ul style="list-style-type: none"> <li>• Thailand</li> <li>• Singapore</li> <li>• China</li> <li>• Japan</li> <li>• Taiwan</li> </ul>	<b>Market Expansion Plan through Master Distributor in US on countries</b>			
Penetration into other countries		<b>Market penetration</b> <ul style="list-style-type: none"> <li>• South Korea</li> <li>• The UK</li> <li>• Japan</li> </ul>	<b>Market penetration</b> <ul style="list-style-type: none"> <li>• Middle East</li> <li>• Germany</li> </ul>	<b>Market penetration</b> <ul style="list-style-type: none"> <li>• South America</li> <li>• France</li> </ul>	<b>Market penetration</b> <ul style="list-style-type: none"> <li>• Eastern Europe</li> <li>• Russia</li> </ul>

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**8. SUMMARY OF FIVE (5)-YEAR BUSINESS DEVELOPMENT PLAN (Cont'd)**


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**8.4 HUMAN RESOURCE POLICY**

We consider our employees as important assets and we strongly believe in retaining talented and productive employees. As such, we adopt a strong corporate culture to set goals, and strategies, and to provide progressive direction and development for employees to create a healthier, comfortable and innovative working environment.

A series of continuous training and development programmes are provided to our employees. The main objective of the training and development programmes is to keep staff informed about recent developments in technology and to further encourage overall productivity and efficiency.

Our human resource policy is summarised as below:

<b>Human Resource Vision</b>
To attain organisational excellence by developing and inspiring the true potential of our human capital and providing opportunities for growth, innovation and enrichment.
<b>Human Resource Mission</b>
To create an environment that promotes cutting edge R&D, motivated administrators and technology capable sales experts.
<b>Human Resource Objectives</b>
<ul style="list-style-type: none"> <li>▪ To create an environment of creativity, innovation and commitment;</li> <li>▪ To develop and sustain core values;</li> <li>▪ To provide opportunities for career advancement and development;</li> <li>▪ To implement a career development plan that caters for career advancement for all employees;</li> <li>▪ To attract, develop and retain reliable and talented employees;</li> <li>▪ To inculcate a spirit of learning and challenges;</li> <li>▪ To provide job contentment through empowerment, accountability and responsibility; and</li> <li>▪ To demonstrate fairness, equality of opportunity and respect to all.</li> </ul>

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## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT

### 9.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

#### 9.1.1 Shareholdings of the Promoters and Substantial Shareholders

The Promoters and the substantial shareholders of MLABS and their respective shareholdings in the Company before and after the Public Issue are as follows:

	Designation	Nationality/ Place of incorporation	< -----Shareholding before the Public Issue ----- >				< ----- Shareholding after the Public Issue ----- >			
			< -----Direct----- >		< -----Indirect----- >		< -----Direct----- >		< -----Indirect----- >	
			No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held
<b><u>Promoters</u></b>										
Dr Sureswaran Ramadass *	Chairman/Non- Independent Non-Executive Director	Malaysian	587,132	0.77	-	-	687,132 <sup>(b)</sup>	0.67	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,485,829	1.95	52,847,913 <sup>(a)</sup>	69.53	1,585,849 <sup>(b)</sup>	1.55	52,847,913 <sup>(a)</sup>	51.73
Lim Soon Seng	Executive Director	Malaysian	739,844	0.97	-	-	839,844 <sup>(b)</sup>	0.82	-	-
Compquest *	Substantial Shareholder	Malaysia	52,847,913	69.53	-	-	52,847,913	51.73	-	-
<b><u>Substantial Shareholders</u></b>										
Compquest *	Substantial Shareholder	Malaysia	52,847,913	69.53	-	-	52,847,913	51.73	-	-
Kenwin	Substantial Shareholder	Hong Kong	5,714,749	7.52	-	-	5,714,749	5.59	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,485,829	1.95	52,847,913 <sup>(a)</sup>	69.53	1,585,849 <sup>(b)</sup>	1.55	52,847,913 <sup>(a)</sup>	51.73

**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.

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## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.1.2 Background on Promoters and Substantial Shareholders

Dr Sureswaran Ramadass, Vena A/P Jaganathan and Lim Soon Seng are Directors and Promoters of the Company and their profiles are set out in Section 9.2.1 of this Prospectus.

The brief background of Compquest, a Promoter and substantial shareholder of MLABS is set out below:

#### Compquest

**Compquest** was incorporated on 25 May 1993 under the Act as a private limited company. The principal activity of Compquest is the development and programming of computer systems and to carry on the business as a computer software house. As at the Latest Practicable Date, its authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which RM30,000 comprising 30,000 ordinary shares have been issued and fully paid-up.

The substantial shareholders and directors of Compquest and their respective shareholdings in Compquest as at the Latest Practicable Date are as follows:

	Designation	< ----Direct---- >		< ----Indirect---- >	
		No. of shares held	% held	No. of shares held	% held
Vena A/P Jaganathan	Substantial shareholder and Director	29,700	99.00	-	-
Manomani A/P K.P. Nair	Director	300	1.00	-	-

The brief background of Kenwin, a substantial shareholder of the Company is set out below:

#### Kenwin

**Kenwin** was incorporated on 19 July 2000 as a limited company in Hong Kong under the Companies Ordinance (Chapter 32). The principal activity of Kenwin is investment holding. As at the Latest Practicable Date, its authorised share capital is HK\$10,000 comprising 10,000 ordinary shares of HK\$1.00 each, of which two (2) ordinary shares have been issued and fully paid-up.

The shareholders and the directors of Kenwin and their respective shareholdings in Kenwin as at the Latest Practicable Date are as follows:

	Designation	< ----Direct---- >		< ----Indirect---- >	
		No. of shares held	% held	No. of shares held	% held
Irazeq Bin Zainol	Substantial shareholder and Director	1	50.00	-	-
Lo Chok Ping	Substantial shareholder and Director	1	50.00	-	-
Damian Dielenberg	Director/Chief Executive Officer	-	-	-	-

## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.1.3 The Promoters' and Substantial Shareholders' Directorships and/or Substantial Shareholdings in Other Public Corporations for the Past Two (2) Years

None of the Promoters and the substantial shareholders has any directorship and/or substantial shareholding (holding five percent (5%) shareholding or more), whether directly or indirectly, in other public corporations for the two (2) years prior to the date of this Prospectus.

### 9.1.4 Changes in the Promoters' and Substantial Shareholders' Shareholdings

The changes in the shareholdings of the Promoters and the substantial shareholders since the Company's incorporation on 21 May 2004 up to the date of this Prospectus are as follows:

Name	←-----As at 21 May 2004----->				After MSB Acquisition but before the Public Issue			
	<---Direct--->		<---Indirect--->		<---Direct--->		<---Indirect--->	
	No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held
Dr Sureswaran Ramadass	-	-	-	-	587,132	0.77	-	-
Vena A/P Jaganathan	-	-	-	-	1,485,849	1.96	52,847,913 <sup>(a)</sup>	69.53
Lim Soon Seng	-	-	-	-	739,844	0.97	-	-
Compquest	-	-	-	-	52,847,913	69.53	-	-
Kenwin	-	-	-	-	5,714,749	7.52	-	-

Note:

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

## 9.2 BOARD OF DIRECTORS

### 9.2.1 Profiles

**Dr Sureswaran Ramadass**, aged 39, a Malaysian, was appointed as the Chairman/Non-Independent Non-Executive Director of the Company on 1 April 2005. He is presently the Company's Head of R&D. He obtained his Bachelor in Computer Engineering and Masters in Electrical and Computer Engineering from the University of Miami, USA in 1990. He also holds a doctorate from USM. He started off his career in 1990 as a senior member of the technical staff of the research team of MODCOMP, Inc., a Florida-based research company focused on the R&D of real-time systems. He has worked with numerous customers to benchmark their needs, including National Aeronautics and Space Administration engineers. He left in 1991 and joined ICON Business System, Inc. (Florida) as Senior Consultant. He was subsequently promoted to Vice President Engineering and was responsible in overseeing the entire engineering and R&D divisions of ICON Business Systems, Inc. (Florida). He joined USM in 1992 as a lecturer and is currently an Associate Professor. During his tenure at USM, he has been a research partner/consultant to many companies in Malaysia including Telekom Malaysia Berhad, NCR Corporation, IBM Inc., MIMOS Berhad, Cabletron Systems Sdn Bhd and Compquest Sdn Bhd. Currently, he is the Program Chairman and Head of Network Research, School of Computer Science, USM. He also holds numerous positions in global organisations including AI3 project, which is a research-based project sponsored by the Japanese Government. He was also a nominated candidate for the position of Director of the Internet Corporation for Assigned Names and Numbers in 2000 (ICANN). He is also the Head of APAN for Malaysia. Over the years, he has published over fifty (50) national and international level research papers as well as written chapters and provided writing materials for a few books in the area of multimedia conferencing.

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**9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT**  
*(Cont'd)*

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**Vena A/P Jaganathan**, aged 39, a Malaysian, was appointed as the Managing Director of the Company on 1 April 2005. She graduated from USM in 1990 with a Bachelor of Science, Honours in Biology (Micro). In 2001, she obtained a Master of Science, majoring in Information Technology from USM. She started her career as a medical technologist in 1990 with the Royal Australian Air Force. She left to join Pantai Medical Centre in Kuala Lumpur in 1991 as a microbiologist. In 1992, she joined Lablink Sdn Bhd as the Head Technologist in charge of the Penang operations. Her interest in the IT industry led her to start her own entrepreneurial pursuit by establishing ICON Computer Systems, a sole proprietor involved in the marketing of computers and computer peripherals. In 1993, she formed Compquest Sdn Bhd, a company involved in the development and programming of computer systems and to carry on the business as a computer software house. She joined MSB as Operations Manager in 1997 and was promoted as the Operations Director in 1998 before assuming her current position as Chief Operations Officer in 2004. She is primarily responsible for the overall business operations and strategic planning of the Group. She also sits on the board of directors of a few private limited companies.

**Lim Soon Seng**, aged 46, a Malaysian, was appointed as the Executive Director of the Company on 1 April 2005. He qualified as a Certified Public Accountant with the Malaysia Institute of Certified Public Accountants in January 1986 and is also a registered member of the Malaysia Institute of Accountants since 1989. He has over twenty (20) years of working experience in the fields of auditing, taxation, privatisation, receivership, initial public offering with international accounting firms and management. He began his career with PricewaterhouseCoopers in 1979 as an audit assistant. In 1984, he joined Touche Ross as a qualified professional to lead the Penang Office. In 1988, he joined Northern Telecom SEA Manufacturing Operations as the Finance Manager responsible for the accounting, costing and systems implementation for the manufacturing plants in Malaysia and Thailand. He joined MSB in 1998 in his capacity of Chief Financial Officer and is primarily responsible for the financial matters of MSB. With effect from 1 January 2005, he moved to head the International Operations of the Group. He also sits on the board of directors of a few private limited companies.

**Tan Sri Musa bin Mohamad**, aged 62, a Malaysian, was appointed as the Independent Non-Executive Director of the Company on 1 April 2005. He graduated with a Bachelor of Pharmacy Degree from the University of Singapore in 1964. He was awarded the Chalmers Medal by the University Senate for best all round performance in the final year. He then joined the Ministry of Health Malaysia as a house pharmacist in 1964 and continued to serve the Ministry as a Superintending Pharmaceutical Chemist till 1970 when he enrolled in the M.Sc. (Pharmaceutical Technology) course at Chelsea College, University of London. He graduated with a M.Sc. Degree with a Mark of Distinction in 1972 and was awarded the Abbot's Prize for best student. On his return to Malaysia, he rejoined the Ministry of Health before he was called upon to serve as Foundation Dean of the Pharmacy School by USM in 1975 and was subsequently appointed as the Vice-Chancellor from 1982 to 1995. In 1999, he was appointed as Malaysia's Minister of Education from 1999 to 2004. During his tenure as the Education Minister, he has pursued for quality education, democratisation of university education, innovation and R&D, particularly in science and technology. He was awarded the top federal award by the King which carries the title Tan Sri, the top Perak State award carrying the title Dato' Seri and Dato' and the title Datuk by the State of Penang. He was also awarded Honorary Doctorates of Science by USM and the University College of Science and Technology and the Honorary Doctorate of Philosophy (Technology Management) by the University College Tun Hussein Onn. He was made Fellow of the Malaysian Academy of Sciences and the Malaysian Pharmaceutical Society. He also sits on the board of directors of a private limited company.

**Zaidi Bin Shamsuddin**, aged 42, a Malaysian, was appointed as the Independent Non-Executive Director of the Company on 1 April 2005. He graduated with a Bachelor of Science majoring in Electrical Engineering from Wichita State University, Kansas, USA in 1985. He started his career with Nortel, SEA Manufacturing Operations as a Process Engineer in 1986. His last ten (10) years with Nortel was as at Senior Management level for the SEA Operations where he head various functions such as Business Development, Manufacturing Management, New Product Introduction (Radio Frequency Products) and Redesigning Products for Cost Reductions. He is one of the founders of OTC Security Solutions Sdn Bhd, a company specialising in Global Positional and Security Solutions. Since 2001, he is the Executive Director of OTC Security Solutions Sdn Bhd. He also sits on the board of directors of a few private limited companies.

## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.2.2 The Directors' Shareholdings in the Company

The Directors and their respective shareholdings in the Company before and after the Public Issue are as follows:

Name	Designation	Nationality	<----- Shareholding before the Public Issue ----->		<----- Shareholding after the Public Issue ----->		<----- Shareholding before the Public Issue ----->		<----- Shareholding after the Public Issue ----->	
			<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->	<-----Direct----->	<-----Indirect----->		
<i>Directors</i>			No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held
Dr Sureswaran Ramadass *	Chairman/Non-Independent Non-Executive Director	Malaysian	587,132	0.77	-	-	687,132 <sup>(b)</sup>	0.67	-	-
Vena A/P Jaganathan *	Managing Director	Malaysian	1,485,829	1.95	52,847,913 <sup>(a)</sup>	69.53	1,585,849 <sup>(b)</sup>	1.55	52,847,913 <sup>(a)</sup>	51.73
Lim Soon Seng	Executive Director	Malaysian	739,844	0.97	-	-	839,844 <sup>(b)</sup>	0.82	-	-
Tan Sri Musa Bin Mohamad	Independent Non-Executive Director	Malaysian	-	-	-	-	100,000 <sup>(b)</sup>	0.10	-	-
Zaidi Bin Shamsuddin	Independent Non-Executive Director	Malaysian	-	-	-	-	100,000 <sup>(b)</sup>	0.10	-	-

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 the non-executive Directors of the Company is ten percent (10%) of the total number of our shares available under the ESOS. As at the Latest Practicable Date, the amount of ESOS Options to be granted to the non-executive Directors of the Company has not been determined. In respect of the Initial Grant, 100,000 ESOS Options will be granted to Tan Sri Musa Bin Mohamad, who is the Independent Non-Executive Director of the Company.

### 9.2.3 The Directors' Directorships and Substantial Shareholdings in Other Public Corporations for the Past Two (2) Years

None of the Directors has any directorships and/or substantial shareholdings (holding five percent (5%) shareholding or more), whether directly or indirectly, in other public corporations for the two (2) years prior to the date of this Prospectus.

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## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.2.4 The Directors' Remuneration and Benefits

The remuneration and benefits paid to the Directors for services rendered in all capacities to the Group for the financial year ended 31 December 2004 amounted to RM162,085. For the financial year ending 31 December 2005, the amount payable to the Directors are estimated to be RM372,000. The number of Directors and the remuneration and benefits range are set out below:

Remuneration Band (RM)	Financial year ended 31 December 2004		Financial year ending 31 December 2005	
	Executive Director	Non-Executive Director	Executive Director	Non-Executive Director
Below 50,000	-	-	-	2
50,001 to 150,000	2	-	2	1

### 9.3 AUDIT COMMITTEE

Details of the members of the Audit Committee are as follows:

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

The Audit Committee, comprising two (2) Independent Non-Executive Directors and an Executive Director, is responsible for the recommendations to the Board of Directors of the Company regarding the selection of the Company's external auditors, reviewing the results and scope of the audit and other services provided by the Company's external auditors and reviews and evaluates the Company's internal audit and control functions. The Audit Committee is also responsible for the assessment of financial risk and matters relating to related party transactions and conflict of interests. The Audit Committee may obtain advice from independent parties and other professionals in the performance of its duties.

### 9.4 KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

The Group's management team is headed by its Managing Director and other Executive Directors. The particulars of the Group's key management and key technical personnel are as follows:

#### 9.4.1 Profiles

**Khairil Anuar Aziz**, aged 38, a Malaysian, is the Chief Executive Officer of MSB. He graduated from Coventry University, United Kingdom, with a Bachelor of Business Administration (Honours) majoring in Marketing Management in 1993. He worked with the National Health Service in Wakefield, Northern England as part of his degree course and started his career in Malaysia as a Management Trainee with Renong Berhad in 1993. He was posted to several companies in the Renong Berhad group of companies namely Cement Industries of Malaysia Berhad, a subsidiary of United Engineers (Malaysia) Berhad, Pemasaran Simen Negara Sdn Bhd and TIMEDotCom Berhad, gaining extensive experience in sales and marketing management in various industries including the ICT sector. He left Renong Berhad in 2000 to join Jaring, the then Internet Unit of Mimos Berhad, where he was the Head of Sales and Channel Management Division. Prior to joining the Group, he was the General Manager in the Marketing Division at Atlas One Sdn Bhd. He joined MSB in 2004 as the Vice President, Government and Enterprise Sales and assumed his current position in 2005 where he is currently responsible for the sales and marketing activities in the Group.



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**9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT**  
*(Cont'd)*

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**Wong Kin Thong**, aged 44, a Malaysian, is the Vice President for the Asia Pacific region of MSB. He graduated with a Bachelor of Business Management and Computer Science degree from the University of Louisiana in Lafayette, the USA in 1986. He has broad Asia Pacific experience in the enterprise customers, government, telecommunications, defense and utilities industries. He started his career at Fujitsu Systems Business Malaysia as a Sales Executive. He spent a total of eighteen (18) years with several large MNCs and local IT companies based in Kuala Lumpur in a variety of leadership positions. Prior to joining the Group, he was the General Manager of Sales and Marketing at Palette Multimedia Bhd. He joined MSB in 2004 as the Vice President, Asia Pacific. He oversees all sales and marketing initiatives and is responsible for driving the Group's sales, business development, marketing and channel activities throughout the Asia Pacific Region.

**Dr Omar Amer Abouabdalla**, aged 37, a Libyan, is the Chief Technology Officer of MSB. He graduated with a Bachelor of Computer Science, majoring in Software Engineering from Al-Fateh University, Libya in 1993. He began his career as a Head of Computer Department with Couled Seeding Project, a project under the Ministry of Transportation (Tripoli - Libya) in 1993. In 1995, he joined the Ministry of Transportation (Tripoli - Libya) as a Manager of Technical Department and in 1997, he joined NRG in School of Computer Science, USM as a Research Officer and began to be involved in the development of MCS since 1997. He has more than thirteen (13) years of experience in implementation of networks and multimedia. He was involved in various projects such as AMMCS exhibited in the Langkawi International Maritime and Aerospace Exhibition ("LIMA") 2003 and integrating MCS and Session Initiation Protocol. He is an active member of APAN and is the Chairman of the Multimedia Working Group in APAN. He is also a member of Internet Engineering Task Force. He joined MSB in 2004. He is responsible for the development of MCS version 6 server and MLIC. In 2004, he obtained a Doctorate of Philosophy in Computer Science majoring in Multimedia Network from USM in 2004.

**Tan Chen Wei**, aged 28, a Malaysian, is the Technical Support Engineer of MSB. He graduated with a Bachelor of Science majoring in Information System from USM in 2001. He began his career as a Research Officer with NRG. In 2001, he joined NRG in School of Computer Science, USM as a Research Officer. He has more than four (4) years of experience in the implementation of networks, multimedia and Very Small Aperture Terminal ("VSAT") setup. He was involved in various projects such as setting up of the three (3) VSAT earth stations in USM and AMMCS exhibited in LIMA 2003. He is an active member of A13 and is the co-chair for the Multimedia Working Group in APAN. He joined the Group in 2002 and has been involved in the development of MCS version 5 since 2001. In 2005, he was promoted to Technical Support Engineer and is responsible for the corporate wide network setup and maintenance and also arrangement for customer support. He is currently pursuing his Master degree in USM.

**Vanessa Sebastian**, aged 32, a Malaysian is the Senior Finance Manager of MSB. She holds an Associate Diploma in Business (Accounting) from TAFE Western Australia. She has more than eleven (11) years of experience with Optosensors (M) Sdn Bhd, an American MNC. She was actively involved in the implementation on the Enterprise Resource Planning system in her former company. She joined MSB in 2004 and is responsible for the finance and administrative activities.

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## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.4.2 Shareholdings of the Key Management and Key Technical Personnel

The key management and key technical personnel and their respective shareholdings in the Company before and after the Public Issue are as follows:

Name	Designation	Nationality	< --- Shareholding before the Public Issue --- >				< --- Shareholding after the Public Issue --- >				
			< -----Direct----- >		< -----Indirect----- >		< -----Direct----- >		< -----Indirect----- >		
			No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held	No. of Shares held	% held	
<b><u>Key Management and Key Technical Personnel</u></b>											
Khairil Anuar Aziz	Chief Executive Officer	Malaysian	-	-	-	-	100,000*	0.10	-	-	
Wong Kin Thong	Vice President Asia Pacific	Malaysian	-	-	-	-	100,000*	0.10	-	-	
Dr Omar Amer Abouabdalla	Chief Technology Officer	Libyan	1,849,518	2.43	-	-	1,899,518*	1.86	-	-	
Tan Chen Wei	Technical Support Engineer	Malaysian	-	-	-	-	50,000*	0.05	-	-	
Vanessa Sebastian	Senior Finance Manager	Malaysian	-	-	-	-	25,000*	0.02	-	-	

Note:

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

### 9.4.3 The Key Management and Key Technical Personnel Directorships and Substantial Shareholdings in Other Public Corporations for the Past Two (2) Years

None of the key management and key technical personnel has any directorship and/or substantial shareholdings (holding five percent (5%) shareholding or more), whether directly or indirectly, in other public corporations for the two (2) years prior to the date of this Prospectus.

## 9.5 DECLARATION BY DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

None of the Director, key management and key technical personnel of MLABS is or has been involved in any of the following events (whether in or outside Malaysia):

- (i) a petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel; or
- (ii) charged and/or convicted in a criminal proceeding or is a named subject of any pending criminal proceeding; or
- (iii) the subject of any order, judgment or ruling of any court of competent jurisdiction, temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.

## 9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT (Cont'd)

### 9.6 RELATIONSHIPS AND ASSOCIATES

Save as disclosed below, there are no family relationships or business relationships amongst the Promoters, the substantial shareholders and the Management.

- (a) Vena A/P Jaganathan, the Managing Director of the Company, is also a director and substantial shareholder of Compquest.
- (b) Dr Sureswaran Ramadass, the Chairman/Non-Executive Non-Independent Director of the Company, is the husband of Vena A/P Jaganathan.
- (c) Compquest, the Promoter and substantial shareholder, is represented by Vena A/P Jaganathan.

### 9.7 SERVICE AGREEMENTS

As at the date of this Prospectus, none of the Management has any existing or proposed service agreements with the Group. All the employees of the Group have standard employment contracts.

### 9.8 INVOLVEMENT OF EXECUTIVE DIRECTORS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL IN OTHER BUSINESSES OR CORPORATIONS

Save as disclosed below, none of the Executive Directors, key management and key technical personnel are involved in other businesses or corporations as at the date of this Prospectus.

Name	Name of company	Directorships Date appointed/ (Date resigned)	Shareholdings				Principal activities
			Direct		Indirect		
			No. of ordinary shares of RM1.00 each held	% held	No. of ordinary shares of RM1.00 each held	% held	
Vena A/P Jaganathan	Compquest	25 May 1993/ -	29,700	99.00	-	-	The development and programming of computer systems and to carry on the business as a computer software house.
	Inetmon Sdn Bhd	10 January 2003/ -	-	-	65,000 *	100	To carry on business as dealer, exporter and importer in computer software and all computer-related peripherals, and provide computer consultancy services, conduct training, research in information technology and multimedia.
Lim Soon Seng	Informant Computer Services Sdn Bhd	2 September 1999/ -	911	17.58	-	-	Consultancy services and investment holding.

**9. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND MANAGEMENT**  
(Cont'd)

Name	Name of company	Directorships Date appointed/ (Date resigned)	Shareholdings				Principal activities
			Direct		Indirect		
			No. of ordinary shares of RM1.00 each	%	No. of ordinary shares of RM1.00 each	%	
Khairil Anuar Aziz	Agiline Sdn Bhd	7 December 2004/ -	-	-	-	-	To provide consultancy services and equipments on bio-technology.
Tan Chen Wei	Fourbytes Sdn Bhd	12 May 2004/ -	1	25.00	-	-	Webpage development, email set-up and networking.

Note:

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

The allocation of the above persons' time and effort in their different positions are as follows:

Name	Average time and effort allocated to the the Group per annum (%)	Average time and effort allocated to other company(ies) per annum (%) *
Vena A/P Jaganathan	99.0	1.0
Lim Soon Seng	99.0	1.0
Khairil Anuar Aziz	99.0	1.0
Tan Chen Wei	99.0	1.0

Note:

\* According to above mentioned Executive Directors, key management and key technical personnel of the Group, their involvements in the other companies as mentioned above are minimum and the job function thereto are mainly attending directors' meetings.

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## 10. APPROVALS AND CONDITIONS

### 10.1 CONDITIONS ON APPROVALS

The Public Issue under the terms of this Prospectus was approved by the SC (and approved under the Guidelines on the Acquisitions of Interest, Mergers and Take-Overs by Local and Foreign Interest) on 9 March 2005, subject to the following conditions:

Authorities	Date of approval	Conditions imposed	Status of compliance
SC	9 March 2005	MLABS to disclose in its prospectus the risk, impact and mitigating factors of Universiti Sains Malaysia ceasing its relationship with MLABS;	Complied. Please refer to Section 4.12 of this Prospectus.
		Dr Sureswaran Ramadass to provide an undertaking to the Board of MLABS to devote all necessary R&D leadership, diligence and commitment in his capacity of spearheading MLABS' R&D department;	Complied via letter dated 21 March 2005 to the Board of Directors of MLABS.
		MLABS to disclose in its public issue prospectus the Company's consolidated financial accounts assuming it had used the acquisition method for the acquisition of MSB and to explain the rationale for adopting the merger method. MLABS is also to explain in its prospectus the differences arising from these two methods;	Completed. Please refer to Section 13 of this Prospectus.
		Alliance Merchant Bank Berhad (Alliance)/MLABS to inform the SC on the appointment of Independent Directors and to provide confirmation that they qualify as Independent Directors as defined in the MMLR;	Complied via letter dated 12 April 2005 to the SC.
		Alliance/MLABS to provide a confirmation from the legal adviser, to the SC, that clause/by-law 8.1 of the draft by-laws has been incorporated into the final ESOS by-laws and approved by the shareholders of MLABS prior to issuance of MLABS prospectus;	Complied via letter dated 13 May 2005 to the SC.
		Alliance/MLABS to disclose the status of utilisation of proceeds in its periodic and annual reports until the proceeds are fully utilised;	To be complied.

**10. APPROVALS AND CONDITIONS (Cont'd)**

Authorities	Date of approval	Conditions imposed	Status of compliance
SC		Alliance/MLABS to ensure that all provisions under MMLR are complied with;	To be complied.
		Alliance/MLABS to include a negative statement in its prospectus on the exclusion of a profit forecast and projections from the prospectus and the reasons thereof;	Complied. Please refer to Sections 2.8 and 5.7 of this Prospectus.
		Alliance/MLABS to inform the SC when the proposed flotation on MEXDAQ Market is completed; and	To be complied.
		Approvals to be obtained from other relevant authorities, if any.	Complied.

*Note:*

*No equity condition is imposed on MLABS in conjunction with the Listing as its subsidiary company, namely MSB is a MSC status company.*

**10.2 MORATORIUM ON THE SALE OF SHARES**

In accordance with Paragraph 2.10.2 of the MMLR, the shares held by the promoters of a company amounting to 45% of the nominal issued and paid-up share capital of the company at the date of admission of the company to the Official List of the MEXDAQ Market must be placed under moratorium. In the case of MLABS, the Promoters whose MLABS Shares are subject to moratorium are as follows:

Name of Promoter	< ----- After the Public Issue ----- >			
	No. of Shares held	% of share capital	No. of Shares under moratorium	% of share capital
Dr Sureswaran Ramadass	687,132 *	0.67	293,566	0.29
Vena A/P Jaganathan	1,585,849 *	1.55	742,915	0.73
Lim Soon Seng	839,844 *	0.82	369,922	0.36
Compquest	52,847,913	51.73	44,567,247	43.62
<b>Total</b>	<b>55,960,738</b>	<b>54.77</b>	<b>45,973,650</b>	<b>45.00</b>

*Note:*

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

**10. APPROVALS AND CONDITIONS (Cont'd)**

In addition to the required moratorium shares to be provided by the Promoters, the Company's other existing shareholders have agreed to include part of their respective shareholdings in the Company to be placed under moratorium ("Moratorium Shareholders") which are as follows:

Shareholders	<----- After the Public Issue ----->			
	No. of Shares held	% of share capital	No. of Shares under moratorium	% of share capital
Usains Holding Sdn Bhd	3,664,103	3.58	1,117,708	1.09
Dr Omar Amer Abouabdalla	1,899,518 *	1.86	924,759	0.91
Saravanan A/L. Kulanthaivelu	532,773	0.52	266,387	0.26
Azlan Bin Osman	704,002 *	0.69	327,001	0.32
<b>Total</b>	<b>6,800,396</b>	<b>6.65</b>	<b>2,635,855</b>	<b>2.58</b>

Note:

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

The Promoters and Moratorium Shareholders will not be allowed to sell, transfer or otherwise dispose of any part of their interest in our shares under the moratorium within one (1) year from the date of the admission of MLABS to the Official List of the MESDAQ Market. Thereafter, they are permitted to sell, transfer or otherwise dispose of up to maximum of one-third per annum of their respective shareholdings under the moratorium on a straight line basis.

The restriction is specifically endorsed on the notices of allotment and our share certificates representing the respective shareholdings of the Promoters and Moratorium Shareholders which are under moratorium, to ensure that the trading of these shares is not allowed, in compliance with the restriction imposed by the Securities Exchange or the SC. You are deemed to have notice of this restriction.

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## 11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST

### 11.1 INTERESTS IN SIMILAR BUSINESSES

None of the Directors or substantial shareholders has any interest, direct or indirect, in any business carrying on a similar trade as the Group.

### 11.2 RELATED-PARTY TRANSACTIONS WITH DIRECTORS, SUBSTANTIAL SHAREHOLDERS, KEY MANAGEMENT AND KEY TECHNICAL PERSONNEL

Save as disclosed below, Section 11.5 and Sections 16.6(i), (ii) and (iii), there are no existing or proposed related-party transactions or contracts or arrangements between the Group and the Directors, substantial shareholders, key management and/or key technical personnel.

Company involved	Transacting related-party Involved	Nature of transactions	Interested Director/ substantial shareholder	Aggregate transacted values for the financial year ended 31.12.2004 RM	Estimated transacted values for the financial year ending 31.12.2005 RM
MSB	Compquest <sup>(iii)</sup>	(i) Sale of MCS Server Systems and maintenance services by MSB	Dr Sureswaran <sup>(i)</sup> Ramadass and Vena A/P Jaganathan <sup>(ii)</sup>	-	100,000
		(ii) Purchase of IT related software and hardware by MSB		-	100,000
	Inetmon Sdn Bhd <sup>(iv)</sup>	(i) Sale of MCS Server Systems by MSB	Dr Sureswaran Ramadass <sup>(i)</sup> , Vena A/P Jaganathan <sup>(ii)</sup> , Compquest <sup>(iii)</sup> and Lim Soon Seng <sup>(v)</sup>	130,000	300,000
		(ii) Purchase of IT related software and hardware by MSB		-	100,000
	Mlabs Global Inc. <sup>(vi)</sup>	(i) Novation of debt	Dr Sureswaran Ramadass <sup>(i)</sup> , Vena A/P Jaganathan <sup>(ii)</sup> , Compquest <sup>(iii)</sup> and Lim Soon Seng <sup>(v)</sup>	2,700,000	-

*Notes:*

- (i) Dr Sureswaran Ramadass is the Chairman/Non-Independent Non-Executive Director of MLABS. He is the husband of Vena A/P Jaganathan.
- (ii) Vena A/P Jaganathan is the Managing Director and substantial shareholder of MLABS, a Director and substantial shareholder of Compquest and a Director of Inetmon Sdn Bhd.
- (iii) Compquest is the substantial shareholder and a party connected to Vena A/P Jaganathan.
- (iv) Lim Soon Seng is the Executive Director of MLABS and was a Director of Inetmon Sdn Bhd.
- (v) Inetmon Sdn Bhd is a wholly-owned subsidiary company of Comquest.
- (vi) Mlabs Global Inc. has ceased to be the immediate holding company of Mlabs effective 9 June 2004.



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**11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)**

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In order to ensure arms' length transactions, certain procedures will be carried out, amongst others, are as follows:

- (i) related parties interested in the transaction will abstain from the decision making process in the Group.
- (ii) for every related party transaction, the Group will endeavour to procure the terms for similar transactions from third parties for comparison and to ensure the terms given to connected parties do not involve favourable terms which exceed normal commercial terms which are detrimental to the Group.
- (iii) the Audit Committee shall review all related party transactions and ensure that the relevant control procedures have been complied with.

Furthermore, in the normal course of businesses, the Group carries out recurrent transactions of a revenue or trading nature with related parties. The recurrent related party transactions are entered into at arms' length based on the Group's normal commercial terms. The Directors will ensure that any future recurrent related party transactions carried out are not prejudicial to the Group and to its shareholders nor on terms more favourable to the related parties than those generally available to the other customers/suppliers and are also not to the detriment of the minority shareholders.

**11.3 TRANSACTIONS THAT ARE UNUSUAL IN THEIR NATURE OR CONDITIONS**

There are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which the Group was a party in respect of the past one (1) financial year ended 31 December 2004 and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

**11.4 LOANS MADE BY THE GROUP TO OR FOR THE BENEFIT OF RELATED PARTIES**

As at the date of this Prospectus, there are no outstanding loans, including guarantees of any kind, made by the Group to or for the benefit of the related parties.

**11.5 PROMOTION OF MATERIAL ASSETS**

Save as disclosed below, none of the Directors or substantial shareholders has any interest, direct or indirect, in the promotion of or in any assets which have, within the two (2) years preceding the date of this Prospectus, been acquired or proposed to be acquired or disposed of or proposed to be disposed of or leased to or proposed to be leased to the Group.

- (i) Agreement dated 28 August 2003 between Mlabs Global Inc. and MSB whereby Mlabs Global Inc. agreed to transfer its rights to the MCS version 4 video conferencing software (which Mlabs Global Inc. jointly owns with MSB) to MSB for a cash consideration of RM1,575,000.90 based on the NBV of the said software in the accounts of Mlabs Global Inc. The intellectual property rights to the components of the MCS version 4 which were owned by Mlabs Global Inc. were assigned by Mlabs Global Inc. to MSB in a deed of assignment dated 30 December 2003 (see paragraph (iv) below). Mlabs Global Inc. was the holding company of MSB as at the date of the above agreement.

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**11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)**

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- (ii) Agreement dated 28 August 2003 between Mlabs Global Inc. and MSB whereby Mlabs Global Inc. agreed to transfer its rights to the MCS version 5a video conferencing software (which Mlabs Global Inc. jointly owns with MSB) to MSB for a cash consideration of RM500,000 based on the NBV of the said software in the accounts of Mlabs Global Inc. The intellectual property rights to the components of the MCS version 5a which were owned by Mlabs Global Inc. were assigned by Mlabs Global Inc. to MSB in two (2) deeds of assignment, both dated 30 December 2003 (see paragraphs (v) and (vi) below). Mlabs Global Inc. was the holding company of MSB as at the date of the above agreement.
- (iii) Agreement dated 30 December 2003 between Mlabs Global Inc. and MSB whereby Mlabs Global Inc. agreed to transfer its rights to the MCS version 5b video conferencing software (which Mlabs Global Inc. jointly owns with MSB) to MSB for a cash consideration of RM2,500,000 based on the NBV of the said software in the accounts of Mlabs Global Inc. The intellectual property rights to the components of the MCS version 5b which were owned by Mlabs Global Inc. were assigned by Mlabs Global Inc. to MSB in four (4) deeds of assignment, all dated 30 December 2003 (see paragraphs (vii) to (x) below). Mlabs Global Inc. was the holding company of MSB as at the date of the above agreement.
- (iv) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM1,575,000.90, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of the components of MCS version 4 comprising Automated Installation, Configuration Tool, Conference Monitor, Video Component, Audio Component and Chat Component. This deed of assignment is executed pursuant to the agreement dated 28 August 2003 made between the parties as set out in paragraph (i) above.
- (v) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM420,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of the components Automated Installation, Configuration Tool, Conference Monitor, Video Component, Audio Component, Chat Component and Accounting Component of MCS version 5a. This deed of assignment is executed pursuant to the agreement dated 28 August 2003 made between the parties as set out in paragraph (ii) above.
- (vi) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM80,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of MCS Camera Testing Tool which is one (1) of the components of MCS version 5a. This deed of assignment is executed pursuant to the agreement dated 28 August 2003 made between the parties as set out in paragraph (ii) above.
- (vii) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM2,230,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of the components Automated Installation, Configuration Tool, Conference Monitor, Video Component, Audio Component, Chat Component and Accounting Component of MCS version 5b. This deed of assignment is executed pursuant to the agreement dated 30 December 2003 made between the parties as set out in paragraph (iii) above.
- (viii) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM90,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of Server Licensing Module which is one (1) of the components of MCS version 5b. This deed of assignment is executed pursuant to the agreement dated 30 December 2003 made between the parties as set out in paragraph (iii) above.
- (ix) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM90,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of Server Installation and Configuration Scripts which is one (1) of the components of MCS version 5b. This deed of assignment is executed pursuant to the agreement dated 30 December 2003 made between the parties as set out in paragraph (iii) above.

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**11. RELATED PARTY TRANSACTIONS/CONFLICT OF INTEREST (Cont'd)**

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- (x) Deed of assignment dated 30 December 2003 between Mlabs Global Inc. and MSB whereby in consideration of the sum of RM90,000, Mlabs Global Inc. assigned to MSB absolutely all the intellectual property rights of Dual Display Module which is one (1) of the components of MCS version 5b. This deed of assignment is executed pursuant to the agreement dated 30 December 2003 made between the parties as set out in paragraph (iii) above.
- (xi) Share Sale Agreement dated 16 June 2004 between the shareholders of MSB of the one (1) part as vendors, and the Company of the other part as purchaser, to acquire the entire issued and paid-up share capital of MSB comprising 5,000,000 ordinary shares of RM1.00 each in MSB for a total consideration of RM7,600,613 based on the adjusted audited shareholders' fund of MSB as at 31 December 2003 satisfied by the issuance of 76,006,130 new Shares at par. The acquisition of MSB by the Company which is part of the restructuring scheme for the Listing was completed on 31 March 2005.

**11.6 DECLARATION BY EXPERTS**

- (i) Alliance hereby confirms that there is no existing or potential conflict of interests in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent.
- (ii) Messrs. KPMG confirms that there is no existing or potential conflict of interests in its capacity as the Auditors and Reporting Accountants.
- (iii) Messrs. Salina, Lim Kim Chuan & Co., Solicitors for the Listing exercise confirms that there is no existing or potential conflict of interests in its capacity as the due diligence solicitors.
- (iv) Infocredit D&B confirms that there is no existing or potential conflict of interests in its capacity as the Independent Market Researcher.

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12. DIRECTORS' REPORT



**Registered Office:**  
Suites 704 and 705  
7<sup>th</sup> Floor  
11, Lorong Kinta  
10400 Penang

Date: **18 MAY 2005**

**THE SHAREHOLDERS OF MLABS SYSTEMS BERHAD**

Dear Sir/Madam

On behalf of the Board of Directors of MLABS Systems Berhad ("MLABS"), I report that, after making due enquiry during the period from 31 December 2004, being the date to which the last audited financial statements of the Company and its subsidiary company ("Group") have been made up to **18 MAY 2005**, being a date not earlier than fourteen (14) days before the issue of this Prospectus:

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the Group, which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (e) as far as the Directors are aware, there have been no default or known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings of the Group; and
- (f) save as disclosed in Sections 13 and 5.4 of this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully  
For and on behalf of the Board of Directors of  
**MLABS Systems Berhad**

  
**Venkat Jagathan**  
Managing Director

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MLABS SYSTEMS BERHAD  
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