

1. INFORMATION SUMMARY

THE INFORMATION SUMMARY IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT THE GROUP AND INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER OR NOT TO INVEST IN THE SHARES OF THE COMPANY. THE INFORMATION SUMMARY SET OUT BELOW IS DERIVED FROM THIS PROSPECTUS AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS.

1.1 HISTORY AND BUSINESS

Elsoft was incorporated in Malaysia under the Companies Act, 1965 on 4 June 2003 as a private limited company under the name of Elsoft Research Sdn Bhd. Subsequently, on 10 August 2004 it was converted to a public limited company and since then assumed its present name. On 31 December 2003, Elsoft was granted MSC status from MDC.

Elsoft is principally involved in research, design and development of test and burn-in systems and application specific embedded systems. Elsoft mainly provides cost effective ATE solutions to the semiconductor, optoelectronic and automation industries. The Group's key product i.e. test and burn-in systems are used by its customers who manufacture optoelectronic devices such as LED, image sensors and automotive lightings to test their products before launching into the market. The name "Elsoft" consists of two elements i.e. Electronics and Software, symbolising the Group's core competency in advanced electronics design and software technology innovation.

The business was founded by Tan Cheik Eaik, Koay Kim Chiew, Tan Ai Jiew and Tan Ah Lek. With more than ten (10) years of experience in the ATE industry, the co-founders have been instrumental in the growth, success and development of the Elsoft Group. As the Chief Executive Officer, Tan Cheik Eaik has played an important role both in the business and product development.

The history of Elsoft Group can be traced back to 1996 with the incorporation of STSB, which was primarily involved in the manufacturing, retailing and designing of computer software, components and accessories. Since its inception, STSB has successfully developed various series of test and burn-in solutions for the semiconductor and optoelectronic industries and has grown considerably to become a key player in the ATE industry. Its customer base is made up of leading MNCs in the semiconductor and optoelectronic industries. In line with the management's intention to expand the Group's business and operations, the Group acquired AGS in 2003 as its automation division which focuses on mechanical design and engineering.

In 2003, pursuant to the restructuring exercise, STSB transferred its R&D and marketing operations to Elsoft and concentrates on electronic devices/modules assembly, test and burn-in system integration and customised manufacturing solutions. The restructuring exercise enables the Group to accelerate prototype development and time to market and enhance the quality and performance of its solutions. In addition, the R&D resources of Elsoft extend the Group's product to meet customers' requirements, ensuring quality and cost competitiveness throughout every stage of design.

Currently, Elsoft operates as the R&D arm of the Group. The Elsoft Group aims to be a leading one-stop ATE system solution provider. In order to achieve the aforesaid objective, the Group will continuously invest in R&D for the advancement of its design and test solutions to stay ahead of its competitors.

The Group's business activities can be divided into four (4) main divisions:-

- Test and Burn-In Systems Development;

1. INFORMATION SUMMARY (Cont'd)

- Embedded Peripherals;
- Electronics Devices/ Modules Assembly; and
- Automation Equipment/System

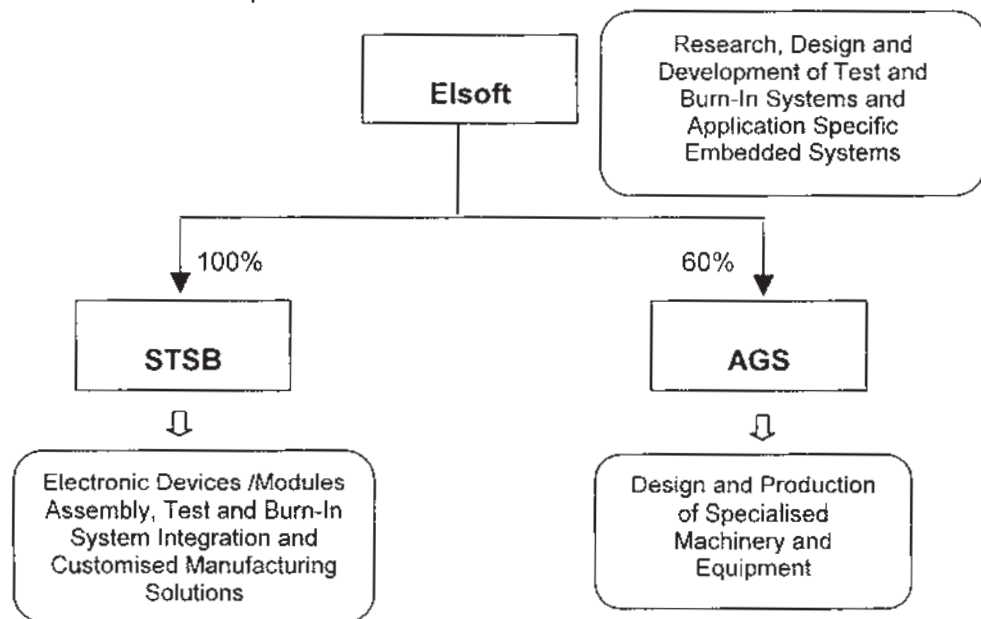
Currently, Elsoft is operating in Plot 9, Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, 11900 Penang with a built up area of 22,000 sq ft. As at 31 May 2005, the Elsoft Group has a total of 55 employees.

The details of the Elsoft Group are as follows:-

Corporation	Date/Place of Incorporation	Issued and Paid-up Share Capital RM	Effective Equity Interest %	Principal Activities
Elsoft	04.06.2003/ Malaysia	14,825,000	-	Research, design and development of test and burn-in systems and application specific embedded systems.
Subsidiaries of Elsoft				
STSB	07.05.1996/ Malaysia	500,000	100.00	Electronic devices/modules assembly, test and burn-in system integration and customised manufacturing solutions.
AGS	03.11.1999/ Malaysia	500,000	60.00	Design and production of specialised machinery and equipment namely material handling equipment and robotic factory automation equipment.

Further details on the history and business of the Group are set out in Section 4 of this Prospectus.

The structure of the Group is as set out below:



1. INFORMATION SUMMARY (Cont'd)

1.2 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT OF ELISOFT

The direct and indirect shareholdings of the Promoters, substantial shareholders, Directors and key management of the Group are as follows:-

Name	Designation	No of Shares held in Elsoft After the Public Issue ⁽¹⁾			
		Direct	%	Indirect	%
<u>Promoters</u>					
Tan Cheik Eaik	Executive Chairman/ Chief Executive Officer	48,240,000	26.80	-	-
Koay Kim Chiew	Executive Director	22,737,500	12.63	-	-
Tan Ah Lek	Executive Director	18,931,250	10.52	-	-
Tan Ai Jiew	Non-Independent Non-Executive Director	26,785,000	14.88	-	-
<u>Substantial Shareholders</u>					
Tan Cheik Eaik	Executive Chairman/ Chief Executive Officer	48,240,000	26.80	-	-
Koay Kim Chiew	Executive Director	22,737,500	12.63	-	-
Tan Ah Lek	Executive Director	18,931,250	10.52	-	-
Tan Ai Jiew	Non-Independent Non-Executive Director	26,785,000	14.88	-	-
Tan Cheik Kooi	Finance and Administration Manager	13,542,500	7.52	-	-
<u>Directors</u>					
Tan Cheik Eaik	Executive Chairman/ Chief Executive Officer	48,240,000	26.80	-	-
Koay Kim Chiew	Executive Director	22,737,500	12.63	-	-
Tan Ah Lek	Executive Director	18,931,250	10.52	-	-
Tan Ai Jiew	Non-Independent Non-Executive Director	26,785,000	14.88	-	-
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Independent Non- Executive Director	100,000	0.06	-	-
Ong Eng Choon	Independent Non- Executive Director	100,000	0.06	-	-
<u>Key Management</u>					
Tay Cheng Koon	Principal Engineer	8,955,000	4.98	-	-
Chan Hong Heng	Principal Engineer	8,955,000	4.98	-	-
Tan Cheik Kooi	Finance and Administration Manager	13,542,500	7.52	-	-
Oh Kuang Eng	Chief Technology Officer of AGS	250,000	0.14	-	-

Note:-

- (1) Including their respective entitlements for the Pink Form Shares allocation pursuant to the Public Issue.

1. INFORMATION SUMMARY (Cont'd)

Details of the Promoters, substantial shareholders, Directors and key management and technical personnel of Elsoft are set out in Section 5 of this Prospectus.

In addition, upon the Listing, the Company intends to grant the following number of Options to its Non-Executive Directors under the ESOS:-

Name	Designation	Maximum Entitlement	No. of Options to be granted under the ESOS
Tan Ai Jiew	Non-Independent Non-Executive Director	500,000	500,000
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Independent Non-Executive Director	500,000	200,000
Ong Eng Choon	Independent Non-Executive Director	500,000	200,000

Detailed information on the Options to be granted to the Non-Executive Directors is set out in Section 5.3 of this Prospectus.

1.3 TECHNOLOGY CAPABILITIES

The Elsoft Group is equipped with modern technology in its development facilities to ensure implementation of design standards. The Group has a strong development team whose talents and skills have contributed towards the design and development of various test solutions such as Optoelectronic/Semiconductor Parametric Test, Advance Electronics System Design, Photometric, Radiometric and Colorimetric Test, Burn-in Systems and Reliability Thermal Stressors, Specific Integrated Parametric and Optical Test, etc. As a result, the Elsoft Group is able to offer comprehensive test solutions which include the Group's proprietary software and hardware.

The Group applies CAD software technologies in its product design and daily development process. The Group's design team consists of technical staff who are highly trained with years of expertise in design softwares such as C Language, Visual C++, Visual Basic, Embedded Real Time Assembly Language (Machine Language), Algorithm development and in-house development proprietary test programs.

The Elsoft Group's design capabilities include competencies in advance analog, digital test, mixed signal, embedded systems, MicroP and MicroC applications and design of High Speed PCB design. The test systems are designed to cater for high speed and high performance testing with output above 10,000 units per hour, electrical measurement accuracy of +/- 0.03% and test capability to measure from range of nano-amp to amp scales. Besides, the Group's unique and self-developed proprietary, SMU, conforms to the high industry standard in the market it serves. Through the Group's SMU platform, the customers are able to cut down on the costs of development, thus reducing the test costs significantly.

The Group has also developed and possessed technologies in the area of optoelectronic metrologies and spectroscopy development, optic design, illumination, image acquisition and analysis. These capabilities position the Group in a strong position to become the test solution partner of choice of its customers.

With the rapid changes and evolution in the development of new technology, the Group always spearheads its efforts to be among the first to roll out improved test solutions based on its cutting edge technology development.

1. INFORMATION SUMMARY (Cont'd)**1.4 FINANCIAL HIGHLIGHTS**

The following table sets out a summary of the proforma consolidated financial results of the Group for the past five (5) financial years ended 31 December 2004, prepared based on the audited financial statements of all companies on the assumption that the Group has been in existence throughout the years under review.

The proforma consolidated financial results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 10 of this Prospectus.

	<----- For the Financial Year Ended 31 December ----->				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	12,882	7,954	12,406	18,474	27,095
EBIDTA and R&D	3,767	3,776	6,077	9,522	14,301
R&D expenses	-	(710)	(1,160)	(1,721)	(2,198)
EBIDTA	3,767	3,066	4,917	7,801	12,103
Interest expense	(23)	(80)	(42)	(2)	-
Depreciation	(229)	(230)	(200)	(222)	(340)
Amortisation	-	-	-	-	-
Exceptional items	-	-	-	-	-
Share of profits of associated companies	-	-	-	-	-
PBT	3,515	2,756	4,675	7,577	11,763
Taxation	(570)	(784)	(1,304)	(1,874)	(220)
PAT	2,945	1,972	3,371	5,703	11,543
Extraordinary items	-	-	-	-	-
MI	(1)	5	15	40	(166)
PAT after MI	2,944	1,977	3,386	5,743	11,377
No. of ordinary shares of RM1.00 each assumed in issue ('000) #	14,825	14,825	14,825	14,825	14,825
Gross EPS (RM) #	0.24	0.19	0.32	0.51	0.78
Net EPS (RM) #	0.20	0.13	0.23	0.39	0.77

Notes:-

- # The number of ordinary shares assumed in issue throughout the financial years under review represent the number of shares in issue after the Bonus Issue and Acquisitions but before the completion of the Sub-division into RM0.10 each, Public Issue and ESOS.
- (1) AGS's financial statements with the financial period from 3 November 1999 (date of incorporation) to 30 November 2000, for the financial years ended 30 November 2001 and 30 November 2002, for the financial period from 1 December 2002 to 31 December 2003 and for the financial year ended 31 December 2004 were deemed consolidated as financial year ended 31 December in the proforma historical consolidated financial results of Elsoft for the financial years ended 31 December 2000 to 31 December 2004.
- (2) The Group's main contributors to revenue were from Test and Burn-In Systems and Embedded Peripherals segments.

1. INFORMATION SUMMARY (Cont'd)

- (3) *The revenue of the Group plunged by approximately RM5 million in the financial year 2001 as compared to financial year 2000 mainly due to the slowdown of the world market where most of the semiconductor industries were affected.*
- In financial year 2002, revenue reflected an increase mainly because the MNCs managed to ramp and launch new products and required new application test systems. The successful qualifications from the MNCs' customers on new test solutions drove continual growth in the Test and Burn-In Systems. Towards the end of financial year 2003, the Group developed a new product known as "Test Handler Systems", a new venture into the automation equipment/systems under AGS. This development further increased the Group's revenue in financial year 2004. The significant increase in revenue for the financial year ended 31 December 2004 was due to the introduction of new test systems in optoelectronic and image sensor.*
- (4) *The PBT of the Group has improved progressively from financial year 2002 to 2003. In financial year 2000, the Group registered a lower PBT mainly due to significant capital expenditure incurred for that year but the economic benefits associated with the plant and machinery only flow into the Group after the recovery of the world market in financial year 2002. The decrease in PBT in financial year 2001 was in tandem with the decrease in revenue when the world market economy took a downturn. From financial year 2002 onwards, the increase in PBT was in tandem with the increase in revenue generated by the Group.*
- (5) *Depreciation of the Group was mainly due to charges made on the plant and machinery and the newly constructed factory building. No significant changes were noted for the financial years 2001 and 2002 as compared to financial year 2000 because the Group did not invest in any major capital expenditure. However, towards the end of financial year 2003, with further investment in plant and equipment for the new development of Test Handler Systems as mentioned above, depreciation reflected an increase in financial year 2004. Interest expense for financial year 2000 was mainly due to the term loan obtained by the Group from a financial institution for the construction of the factory building. The significant increase in financial year 2001 was due to full draw down of the said term loan. The term loan was fully repaid in financial year 2003 and thus resulted in a significant decrease in the interest expense.*
- (6) *There were no exceptional or extraordinary items noted during the financial years under review.*
- (7) *The gross EPS is calculated based on the PBT after MI and on the proforma number of ordinary shares of RM1.00 each assumed in issue after the Bonus Issue and Acquisitions.*
- (8) *The net EPS is calculated based on the PAT after MI and on the proforma number of ordinary shares of RM1.00 each assumed in issue after the Bonus Issue and Acquisitions.*

The financial statements of the Elsoft Group for the years under review were not subjected to any audit qualification.

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1. INFORMATION SUMMARY (Cont'd)

1.5 PROFORMA CONSOLIDATED BALANCE SHEETS OF ELSOFT GROUP AS AT 31 DECEMBER 2004

The Proforma Consolidated Balance Sheets as at 31 December 2004 set out below has been prepared for illustrative purposes only to show the effects on the audited balance sheet of Elsoft, had the Listing Scheme been effected on that date.

	I	II	III	IV
Audited as at 31 December 2004 RM'000	After Bonus Issue RM'000	After I and Acquisitions RM'000	After II, Sub- division, Public Issue and Utilisation of Proceeds RM'000	After III and Exercise of ESOS RM'000
NON-CURRENT ASSET				
Property, plant and equipment	3,767	3,767	8,301	14,401
Other investments	-	-	45	45
CURRENT ASSETS				
Inventories	1,072	1,072	1,952	1,952
Receivables, deposits and prepayments	1,258	1,258	2,766	2,766
Marketable investments	6,000	6,000	8,398	8,398
Deposits, cash and bank balances	3,557	3,557	4,926	16,276
	<u>11,887</u>	<u>11,887</u>	<u>18,042</u>	<u>29,392</u>
CURRENT LIABILITIES				
Payables	7,077	7,077	8,553	8,553
Amount due to Directors	1,880	1,880	1,980	1,980
	<u>8,957</u>	<u>8,957</u>	<u>10,533</u>	<u>10,533</u>
NET CURRENT ASSETS				
	2,930	2,930	7,509	18,859
	<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>
SHARE CAPITAL				
SHARE PREMIUM	100	6,225	14,825	18,000
RETAINED PROFITS	-	-	-	14,275
RESERVE ON CONSOLIDATION	6,597	472	455	455
SHAREHOLDERS' EQUITY	-	-	121	121
	<u>6,697</u>	<u>6,697</u>	<u>15,401</u>	<u>32,851</u>
NON-CURRENT LIABILITIES				
Minority interest	-	-	308	308
Deferred taxation	-	-	146	146
	<u>6,697</u>	<u>6,697</u>	<u>15,855</u>	<u>33,305</u>
No. of ordinary shares in issue ('000)				
	⁽¹⁾ 100	⁽¹⁾ 6,225	⁽¹⁾ 14,825	⁽²⁾ 180,000
NTA per share (RM)				
	66.97	1.08	1.04	0.18
	<u>0.24</u>	<u>0.24</u>	<u>0.18</u>	<u>0.24</u>

Notes:-

- (1) Ordinary shares of RM1.00 each.
(2) Ordinary shares of RM0.10 each.

Detailed Reporting Accountants' letter and the Proforma Consolidated Balance Sheets thereon are set out in Sections 9.5 and 9.6 of this Prospectus respectively.

1. INFORMATION SUMMARY (Cont'd)

1.6 LISTS OF MATERIAL RISK FACTORS

Prospective investors, prior to making an investment in the Company, should carefully consider the risk factors inherent in and affecting the business of the Group and this offering. In addition, this Prospectus contains forward-looking statements that involve risks and uncertainties. As such, the Group's actual results could differ substantially from those disclose hereon. Factors that could cause or contribute to such differences include, but are not limited to those disclosed in Section 3 and throughout this Prospectus.

The key risk factors that may affect the Group's future profitability are not limited to financial, market and industry risks, but include the following:-

- (a) Business Risks;
- (b) High Development Expenditure;
- (c) Rapid Technological Changes in the ATE Industry;
- (d) Intensity of Competition;
- (e) Dependence on Directors and Key Personnel;
- (f) Absence of Long Term Contractual Agreement with Customers;
- (g) Dependence on Major Customers;
- (h) Dependence on Suppliers;
- (i) Market Acceptance of New Products;
- (j) Foreign Currency Risks;
- (k) Insurance Coverage on Assets;
- (l) Control by Promoters;
- (m) Disclosure Regarding Forward-Looking Statements;
- (n) No Prior Market for Elsoft's Shares;
- (o) Political, Economic and Regulatory Consideration;
- (p) Failure/ Delay in Listing;
- (q) Capital Market Risks;
- (r) Change in MSC Status; and
- (s) Uncertainty in the Group's Future Plans, Strategies and Prospects.

For a more detailed description on key risk factors, please refer to Section 3 of this Prospectus.

1.7 PROFIT AND DIVIDEND RECORD

No future financials are included in this Prospectus as it is difficult to forecast due to the uncertain nature and risks of the business of the Elsoft Group. Please refer to Section 3 "Risk Factors" of this Prospectus for further details.

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1. INFORMATION SUMMARY (Cont'd)**1.8 PROFORMA GROUP NTA AS AT 31 DECEMBER 2004**

	Proforma Group NTA RM'000	NTA per Share RM
After adjusting for the Bonus Issue, Acquisitions, Sub-division, Public Issue and utilisation of proceeds*	32,851	0.18

Note:-

* After deducting the estimated listing expenses of RM1.60 million. Please refer to Section 2.7 for details on the estimated listing expenses.

The above proforma consolidated NTA is based on the enlarged issued and paid-up share capital of 180,000,000 Shares in Elsoft. Detailed calculations of the proforma consolidated NTA are set out in Section 1.5 of this Prospectus.

1.9 PRINCIPAL STATISTICS RELATING TO THE PUBLIC ISSUE**1.9.1 SHARE CAPITAL**

The following statistics relating to the Public Issue are derived from the full text of the Prospectus and should be read in conjunction with the text.

	Number of Shares	Share capital RM
AUTHORISED SHARE CAPITAL	250,000,000	25,000,000
ISSUED AND FULLY PAID-UP SHARE CAPITAL:	148,250,000	14,825,000
• New Shares to be issued pursuant to the Public Issue	31,750,000	3,175,000
ENLARGED SHARE CAPITAL UPON LISTING	180,000,000	18,000,000
• New Shares to be issued pursuant to full exercise of ESOS Options	27,000,000	2,700,000
ENLARGED SHARE CAPITAL AFTER FULL EXERCISE OF ESOS	207,000,000	20,700,000

The issue price is RM0.60 per Share payable in full upon application, subject to the terms and conditions of this Prospectus.

1.9.2 CLASS OF SHARES

There is only one class of shares in the Company namely ordinary shares of RM0.10 each, all of which rank pari passu with one another. The Public Issue Shares will rank pari passu in all respects with the other existing issued and paid-up Shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

1. INFORMATION SUMMARY (Cont'd)**1.10 UTILISATION OF PROCEEDS**

The total gross proceeds arising from the Public Issue will be utilised by the Group in the following manner:-

Details of Utilisation	Timeframe for Utilisation from the Date of Listing	Amount RM'000
(i) R&D expenditure	Within 36 months	4,790
(ii) Expansion of operations and facilities	Within 36 months	4,000
(iii) Purchase of machinery and equipment	Within 36 months	2,100
(iv) Working capital	Within 36 months	6,560
(v) Estimated listing expenses	Within 6 months	1,600
Total proceeds		19,050

Further details of the utilisation are set out in Section 2.7 of this Prospectus.

1.11 WORKING CAPITAL, MATERIAL LITIGATIONS, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS**(a) Working Capital**

The Directors of Elsoft are of the opinion that, after taking into consideration the cash flow position, the banking facilities available and the net proceeds from the Public Issue, the Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

(b) Material Litigations

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), neither the Company nor its subsidiaries are engaged in any material litigation, claim and arbitration, either as plaintiff or defendant, which has a material effect on the business or financial position of the Company and/or its subsidiaries and the Board has no knowledge of any proceeding pending or threatened against the Company and/or its subsidiaries or of any fact likely to give rise to any proceeding which might materially and adversely affect the business or financial position of the Company or its subsidiaries.

(c) Borrowings

As at 31 May 2005, (being the latest practicable date prior to the issuance of this Prospectus), the Group does not have any outstanding bank borrowings.

1. INFORMATION SUMMARY (Cont'd)

(d) Contingent Liabilities

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), there are no contingent liabilities incurred by the Group.

(e) Material Commitments

As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), there are no material commitments for capital expenditure incurred or known to be incurred by the Group, which may have a substantial impact on the financial position of the Group.

Details of the working capital, material litigations, borrowings, contingent liabilities and material commitments are set out in Section 9.4 of this Prospectus.

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2. PARTICULARS OF THE PUBLIC ISSUE

This Prospectus is dated 29 June 2005.

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

The approvals of the SC and Bursa Securities shall not be taken to indicate that the SC and Bursa Securities recommends the Public Issue and that investors should rely on their own evaluation to assess the merits and risks of the Public Issue.

Approvals from the SC has been obtained for the Public Issue on 6 May 2005. Approval from Bursa Securities has been obtained for the admission to the Official List of the MESDAQ Market and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up share capital of Elsoft including the Public Issue Shares which are the subject of this Prospectus. These Shares will be admitted to the Official List on the MESDAQ Market and official quotation will commence upon receipt of confirmation from Bursa Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. The Bursa Securities and the SC assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

The SC shall not be liable for any non-disclosure on the part of Elsoft and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Bursa Securities shall not be liable for any non-disclosure on the part of Elsoft and takes no responsibility for the contents of this Prospectus, makes no representation as to its correctness or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, the Bursa Securities has prescribed Elsoft Shares as a prescribed security. In consequence thereof, the Shares offered through this Prospectus will be deposited directly with the Bursa Depository and any dealings in these Shares will be carried out in accordance with the aforesaid Act and the Rules of Bursa Depository.

Pursuant to the Listing Requirements, at least 25% but not more than 49% of the total number of shares of the Company for which listing is sought must be held by a minimum number of 200 public shareholders at the time of admission to the MESDAQ Market. In the event that the above requirement is not met pursuant to the Public Issue, the Company may not be allowed to proceed with its listing on the MESDAQ Market of the Bursa Securities. In the event thereof, monies paid in respect of all applications will be returned if the said permission is not granted.

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

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

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by Elsoft. Neither the delivery of this Prospectus nor any Public Issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Elsoft since the date hereof.

The distribution of this Prospectus and the making of the Public Issue in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

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

2.1 SHARE CAPITAL

	Number of Shares	Share capital RM
AUTHORISED SHARE CAPITAL	250,000,000	25,000,000
ISSUED AND FULLY PAID-UP SHARE CAPITAL:	148,250,000	14,825,000
• New Shares to be issued pursuant to the Public Issue	31,750,000	3,175,000
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ENLARGED SHARE CAPITAL AFTER FULL EXERCISE OF ESOS	207,000,000	20,700,000

The issue price is RM0.60 per Share payable in full upon application, subject to the terms and conditions of this Prospectus.

There is only one class of shares in the Company, namely ordinary shares of RM0.10 each, all of which rank pari passu with one another. The Public Issue Shares will rank pari passu in all respects with the other existing issued and paid-up Shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of Shares in the Company shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company, in accordance with its Articles of Association.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each Share held.

2.2 OPENING AND CLOSING OF APPLICATIONS

Applications will be accepted from 10.00 a.m. on 29 June 2005 and will remain open until 5.00 p.m. on 13 July 2005 or for such other later date or dates as the Directors and/or Promoters of Elsoft together with the Managing Underwriter may in their absolute discretion mutually decide. Late applications will not be accepted.

2.3 CRITICAL DATES OF THE PUBLIC ISSUE

Events	Tentative Date
Opening Date of the Public Issue	29 June 2005
Closing Date of the Public Issue	13 July 2005
Tentative Balloting Date	15 July 2005
Tentative Listing Date	2 August 2005

The timetable is tentative and is subject to changes which may be necessary to facilitate implementation procedures. In the event the closing date for the applications is extended, investors will be notified of the change in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia. Should the application period be extended, the dates for the balloting of the applications and the listing of and quotation for the entire enlarged issued and paid-up share capital of Elsoft on the MESDAQ Market of the Bursa Securities will be extended accordingly.

2.4 BASIS OF ARRIVING AT THE ISSUE PRICE

The issue price of RM0.60 per Share was determined and agreed upon by the Company, the Promoters and AmMerchant Bank as Adviser and Managing Underwriter and Sole Placement Agent based on various factors including the following:-

- (a) The Group's financial operating history and conditions, and financial position as outlined in Sections 1.1 and 1.4 of this Prospectus;
- (b) The prospects of the Group and industry as outlined in Section 4 of this Prospectus;
- (c) The proforma consolidated NTA of Elsoft as at 31 December 2004 of RM0.18 per Share based on the enlarged issued and paid-up share capital of 180,000,000 Shares in Elsoft; and
- (d) The Group's technology, business growth potential and revenue prospects.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

The Directors and Promoters of the Company and AmMerchant Bank are of the opinion that the Issue Price is fair and reasonable after careful consideration of the abovementioned factors.

Investors should note that the market price of Elsoft Shares upon listing on Bursa Securities are subject to the vagaries of market forces and other uncertainties which may affect the price of Elsoft Shares being traded.

2.5 DETAILS OF THE PUBLIC ISSUE**Public Issue**

The Public Issue of 31,750,000 new ordinary shares at an issue price of RM0.60 are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner:-

(a) Public

2,500,000 Public Issue Shares representing approximately 1.39% of the enlarged issued and paid-up share capital will be made available for application by the Public.

(b) Eligible Directors, Employees and Business Associates of the Group

7,500,000 Public Issue Shares representing approximately 4.17% of the enlarged issued and paid-up share capital will be reserved for the eligible Directors, employees and business associates (which include the suppliers, sales agents and customers) of the Group.

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

- (a) At least eighteen (18) years old;
- (b) Job position;
- (c) Length of service;
- (d) Confirmed employees; and
- (e) Business associates who have contributed to the success of the Group.

Details of the Pink Form Shares allocation to the eligible Directors, employees and business associates of Elsoft Group are as follows:-

Directors

Name of Directors	Designation	Pink Form Shares Allocation
Tan Cheik Eaik	Executive Chairman/ Chief Executive Officer	800,000
Koay Kim Chiew	Executive Director	500,000
Tan Ah Lek	Executive Director	400,000
Tan Ai Jiew	Non-Independent Executive Director	100,000
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Independent Director	100,000
Ong Eng Choon	Independent Director	100,000
Total		2,000,000

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**Employees and Business Associates**

Category	Number	Pink Form Shares Allocations
Management	2	500,000
Engineering/ R&D	20	1,500,000
Production/ QA	22	600,000
Sales, Finance and Administration	8	400,000
Total eligible employees	52	3,000,000
Business associates	65	2,500,000
Total eligible employees and business associates	117	5,500,000

The above Pink Form Shares allocation is subject to the eligible Directors, employees and business associates subscribing to their respective allocations.

(c) Placees

21,750,000 Public Issue Shares representing approximately 12.08% of the enlarged issued and paid-up share capital are reserved for private placement to selected investors, which have been identified who are deemed public.

Summary

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

	Public Issue Shares
Public	2,500,000
Eligible Directors, employees and business associates of the Group	7,500,000
Placees	21,750,000
Total	31,750,000

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

In the event of an under-subscription of the Public Issue Shares by the Public, the unsubscribed Public Issue Shares will be made available to identified placees.

Any Public Issue Share which are not taken up by the eligible Directors, employees and business associates of the Group will be made available for application by the Public and/or identified placees via private placement.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**2.6 PURPOSES OF THE PUBLIC ISSUE**

The purposes of the Public Issue are as follows:-

- (a) To provide the opportunity for the eligible Directors, employees and business associates of the Group and the Malaysian investing public and institutions to participate in the equity and continuing growth of the Group;
- (b) To enable the Group to gain recognition and certain stature through its listing status and to further enhance its corporate reputation and to assist the Group in expanding its customer base;
- (c) To provide additional funds to meet the present and future working capital requirements of the Group;
- (d) To enable the Group to gain access to the capital market to raise funds for future expansion, diversification, modernisation and continued growth of the Group; and
- (e) To facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Securities.

2.7 UTILISATION OF PROCEEDS

The Public Issue is expected to raise gross proceeds of approximately RM19.05 million which shall accrue to the Company.

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

Details of Utilisation	Timeframe for Utilisation from the Date of Listing	Amount RM'000
(a) R&D expenditure	Within 36 months	4,790
(b) Expansion of operations and facilities	Within 36 months	4,000
(c) Purchase of machinery and equipment	Within 36 months	2,100
(d) Working capital	Within 36 months	6,560
(e) Estimated listing expenses	Within 6 months	1,600
Total proceeds		19,050

The Company will bear all expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of Elsoft on the MESDAQ Market of the Bursa Securities, which include underwriting commission, placement fees, brokerage, professional fees, authorities fees, advertising and other fees. The aggregate is estimated to be RM1.60 million.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

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

(a) R & D expenditure

The Group plans to invest approximately RM4.79 million for R&D expenditure in line with its R&D policy. The R&D plans will focus on recruitment of software development staff as well as improvement and development of existing and new hardware and software design to further improve productivity.

(b) Expansion of operations and facilities

The Group plans to construct a new factory building to expand its operations and facilities to accommodate for the expected increase in its production capacities. The Group has acquired a piece of industrial land using internally generated funds. The allocation of RM4.00 million will be applied towards the construction of the new factory building on the new piece of industrial land acquired.

(c) Purchase of machinery and equipment

The Group plans to utilise approximately RM2.10 million of the total proceeds to purchase more advanced new machinery and equipment to increase not only its manufacturing capacity in order to support future growth projections but also to improve on output performance.

(d) Working Capital

Of the total proceeds, approximately RM6.56 million will be used as general working capital for the Group to finance the day-to-day operations of the Group including the payment of creditors, salaries, purchase of raw materials/stocks and operating expenses.

The additional working capital is also necessary to allow the Group to be more aggressive in sales and marketing efforts. The Group plans to intensify its marketing efforts by directing part of the working capital for purposes of enhancing its image and branding and participating in local and overseas exhibitions.

(e) Estimated listing expenses

The estimated listing expenses for the listing of and quotation for the enlarged issued and paid-up share capital of 180,000,000 Shares in Elsoft on the MESDAQ Market of the Bursa Securities are as follows:-

Estimated listing expenses	Amount RM
Fees to authorities	60,000
Professional fees #	600,000
Underwriting, placement fees and brokerage fees	501,000
Printing, advertising and other miscellaneous expenses @	439,000
Total	1,600,000

Notes: -

Include fees for the Adviser, Reporting Accountants, Solicitors and other professional fees.

@ Any unutilised amount shall be used for working capital purposes of the Group.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

Any variation in the actual listing expenses from the estimated amount will be adjusted via the working capital of Elsoft Group.

2.8 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS

The utilisation of the Public Issue proceeds by the Group is expected to have the following financial impact on the Group:-

(a) Increase efficiency in R&D operations

Part of the proceeds of RM4.79 million are earmarked for employment of additional software developers as well as developing new software and hardware design for launching of more products and enhancement of existing products. This would enable the Group to increase its performance output and expand its earnings.

(b) Increase efficiency in production operations

With the employment of new machineries with better production rate, higher efficiency and less breakdown/ maintenance time, it would also increase the Group's efficiency in its production operations. Higher efficiency will enable the Group to lower its cost of production.

Items (a) and (b) above are expected to enhance the earnings of the Group in the future. In addition, the Public Issue will raise RM6.56 million for working capital which is expected to improve the liquidity and cash flow position of the Group.

2.9 UNDERWRITING COMMISSION, PLACEMENT FEE AND BROKERAGE

The Underwriters as mentioned in Corporate Directory of this Prospectus, have agreed to underwrite the 10,000,000 Public Issue Shares to be issued to the Public, the eligible Directors, employees and business associates of the Group. Underwriting commission is payable by the Company to the Underwriters based on the Issue Price at the rate of 2.0% for the total 10,000,000 Public Issue Shares to be underwritten.

The Placement Agent as mentioned in the Corporate Directory of this Prospectus, will arrange for the placement of the Public Issue Shares at the rate of 2.0% of the Issue Price for the aggregate of the total value of the Public Issue Shares that have been placed by the Placement Agent.

Brokerage is payable by the Company in respect of the Public Issue Shares made available for application by the Public at the rate of 1.0% of the issue price of RM0.60 per share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of the Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

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2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**2.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT**

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

The following are some of the Clauses of the Underwriting Agreement dated 21 June 2005 ("**Agreement**"), including escape clauses, which may allow the underwriters to withdraw from obligations under the agreement after the opening of the offer:-

"Clause 3 The Company's representations, warranties and undertakings

Clause 3.1 In consideration of the Underwriters agreeing to underwrite the Underwritten Shares and on the basis of the representations, warranties and undertakings of the Company and with the intention that such representations, warranties and undertakings shall remain true and accurate in all respects up to and including the Closing Date, the Company hereby represents, warrants and undertakes to the Underwriters and each of them as follows:

3.1.1 The Prospectus shall be in form and substance satisfactory and acceptable to the Securities Commission of Malaysia, the Registrar of Companies of Malaysia and Bursa Securities and shall not contain any untrue or misleading statement or omit to state any material fact required or necessary to be stated therein.

3.1.2 The Prospectus:-

- (a) will comply in all material respects with the Act, the SC Act and/or any other applicable law and any rules, regulations and guidelines thereunder and shall be in form and substance satisfactory and acceptable to the SC, Bursa Securities and all other relevant authorities;*
- (b) will contain all information which is material in context of the Issue, and such information as contained therein will be true, complete, and accurate in all material respect;*
- (c) will not omit to state or disclose any material fact or information required or necessary to be stated therein with regard to the Issue and all statements of fact and information so made and/or disclosed, in the light of the circumstances under which they are made or disclosed, are true and accurate and not misleading in any respect.*

3.1.3 The Company shall obtain the approval of Bursa Securities for listing of and quotation for all its issued ordinary shares including the Issue Shares on the MESDAQ Market of Bursa Securities and shall comply with the conditions, if any, imposed by Bursa Securities.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- 3.1.4 *The Issue and compliance by the Company with the terms of this Agreement do not and will not conflict with, or result in a breach of any of the terms or provisions of the Memorandum and Articles of Association of the Company or any of its subsidiaries or any existing law, regulation or listing requirements applicable to or affecting the Company or any of its subsidiaries or the Issue.*
- 3.1.5 *The Issue and compliance by the Company with the terms of this Agreement do not and will not infringe the material terms of, or constitute a material default under, any judgment, order, licence, permit, approval, consent, trust deed, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which the company or any of its subsidiaries or any part of the undertakings, assets, properties or revenues of the Company or any of its subsidiaries is bound or affected.*
- 3.1.6 *Save as disclosed in the Prospectus and the documents (if any) attached thereto and as has been disclosed in writing to the Underwriters prior to the date hereof:-*
- (a) *there is no litigation, arbitration, administrative or winding-up proceedings (including investigations or inquiries by Bursa Securities and the SC), criminal charge or investigation current or pending, or to the knowledge of the Company (after due and careful enquiry), threatened against the Company or any of its subsidiaries, the effect of which would materially and adversely affect the financial condition of the Company or the Group as a whole; and after making due and careful enquiries, the Company is not aware of any facts or circumstances likely to give rise thereto; and*
- (b) *neither the Company nor any of its subsidiaries is in default or in breach of any agreement to which it is bound, or of the terms of any licence, permit, approval, directive, legislation or regulation of any relevant authority (including Bursa Securities and the SC) applicable to or affecting it, the effect of which would materially and adversely affect the financial condition of the Company or the Group as a whole.*
- 3.1.7 *No material information has been withheld from the Underwriters which may in any way affect their decision to underwrite the Underwritten Shares.*
- 3.1.8 *The Company will promptly and without any delay whatsoever notify the Managing Underwriter who shall thereafter inform the Underwriters of any facts, information, situations or circumstances which the Company believes may materially and adversely affect the success of the Issue and in particular and without prejudice to the generality of the foregoing representations, warranties or agreements at any time prior to the Closing Date take such steps as may be reasonably requested by the Underwriters to remedy and/or publicise the same.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- 3.1.9 *Prior to the Closing Date, the Company will give to the Underwriters any or all information which the Underwriters may need or require affecting the accounts or affairs of the Company.*
- 3.1.10 *All consents, approvals, authorisations or other orders required by the Company under the laws of Malaysia for or in connection with the Issue will (if not already obtained as at the date hereof) be obtained and be in force and all other actions will be taken by the Company to comply with all legal and other requirements necessary to ensure that the Issue will not infringe any existing laws or the terms of any such consent, approvals or authorisations.*
- 3.1.11 *The Issue or as the case may be, the execution and delivery by the Company, of the Prospectus and this Agreement and the performance of the obligations to be assumed thereunder and hereunder by the Company have been duly authorised by all necessary corporate action of the Company, including but not limited to the approval of the shareholders of the Company in a general meeting (if and to the extent it is required) and upon due execution of this Agreement, the obligations assumed hereunder will constitute the legally valid, binding and enforceable obligations of the Company in accordance with their terms.*
- 3.1.12 *The Directors have made all reasonable enquiries to ensure all facts material for the Prospectus have been disclosed, and have verified the completeness and accuracy of all such information and to the best of their knowledge and belief, no material fact has been omitted therefrom.*
- 3.1.13 *The Company and its subsidiaries will carry on and operate its business and affairs with due diligence and efficiency and in accordance with sound financial and commercial standard and practices.*
- 3.1.14 *Save as disclosed in the Prospectus and the documents (if any) attached thereto and as has been disclosed in writing to the Underwriters prior to the date hereof, neither the Company nor any other company in the Group has entered into any contract and/or commitment of an unusual or onerous nature, which, in the context of the Issue, might be material for disclosure.*
- 3.1.15 *All necessary consents, waivers, approvals, authorizations or other orders of all regulatory authorities required for or in connection with the execution of this Agreement and the issue and listing of and quotation for the Issue Shares and any other matters contemplated hereby:-*
- (a) have been or will be unconditionally obtained by the due date therefore; or*
 - (b) if granted subject to conditions, such conditions will be fulfilled to the satisfaction of the Underwriters by the due date thereof; and*
 - (c) are or will remain in full force and effect.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

and all other actions will be taken by the Company to comply with all legal and other requirements necessary to ensure that the foregoing actions will not infringe any existing laws or the terms of any such consent, approval or authorisations.

- 3.1.16 All information furnished or supplied or to be furnished or supplied to the Underwriters for the purpose of or in connection with the Issue is true, complete and accurate in all material respects and nothing has been furnished or supplied or omitted from such information which would or may make any of the information materially untrue, incomplete, inaccurate or misleading, or which would or may reasonably be expected to affect the willingness of the Underwriters to underwrite the Underwritten Share.
- 3.1.17 Every statement of forecast, opinion, intention and expectation (including the profit forecast) made in the Prospectus and the documents (if any) attached thereto are truly, fairly, reasonably, and honestly, held by the Directors of the Company and have been or will be made after due and careful enquiries and consideration and represent or will represent reasonable expectations based on facts known to the Company as at the date of such disclosure, and to the extent it is based on assumptions those assumptions are reasonable.
- 3.1.18 Each of the Company and each of its subsidiaries is a company duly incorporated under the laws of its place of incorporation and validly existing with full power and authority to conduct its business in the jurisdiction where it carries on business and is not in liquidation and no steps have been taken by any person for or with a view to the appointment of a liquidator, receiver and/or manager or judicial manager of the Company or any of its subsidiaries or of any of their respective assets or undertakings.
- 3.1.19 The accounts have been prepared in accordance with the law and on a basis consistently applied in accordance with accounting principles, standards and practices generally accepted in Malaysia so as to give a true and fair view of the financial results and state of affairs of the Company and the Group as a whole for the past five (5) financial years ended 31st December 2000 to 31st December 2004 as the case may be, and the Company and the Group have made adequate provisions for appropriate disclosures of all known material liabilities whether actual or contingent, of the Company and the Group as a whole as at such dates and have complied in all respects with the requirements of all relevant laws and accounting principles and practices then in force and generally accepted in Malaysia and since 31 December 2004 there has been no material adverse change in the financial position of the Company or the Group taken as a whole, save as may be disclosed in the Prospectus and the documents (if any) attached thereto, or prior to the Closing Date, in any public announcement or publicly available document or has been disclosed to the Underwriters prior to the date of this Agreement.

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- 3.1.20 *Other than indebtedness contested in good faith by the Company or any of its subsidiaries as disclosed in the Prospectus and the documents (if any) attached thereto and to the best of the knowledge and belief of the Company, no outstanding material indebtedness of the Company or any of its subsidiaries has become or is likely to become payable by reason of default by the Company or any such subsidiary and no event has occurred or is, so far as the Company is aware, impending which with the lapse of time, or the fulfilment of any condition, or the giving of any notice, may result in any such material indebtedness becoming so payable.*
- 3.1.21 *All taxes (whether income tax, property tax or otherwise) of the Company and the Group, in particular but not limited to, all taxes which are material in the context of the Issue, for which the Company and/or the Group is liable or which ought to have been paid, have been duly paid or adequately provided for in the Accounts; all the returns, notices or information which are required to be made or given by the Company or the Group for taxation, have been so made, are up to date, correct and on a proper basis, and are not subject to any dispute with any relevant or appropriate authorities and there are no present circumstances (of which the Company is ought reasonably to be aware) which are likely to give rise to any such dispute.*
- 3.1.22 *The records, statutory books and books of accounts of the Company and the Group are duly entered and maintained in accordance with all legal requirements applicable thereto and contain true, full and accurate records of all matters required to be dealt with therein and all such books and records and documents (including documents of title) are in their possession or under their control and all accounts, documents and returns required to be delivered or made to the Companies Commission of Malaysia or the Registrar of Companies (as the case may be) or other relevant authorities have been duly and correctly delivered or made.*
- 3.1.23 *All the assets of the Company and the Group which are of an insurable nature have at all material times been and are at the date hereof, adequately insured against fire and other risks normally insured against by companies carrying on similar business or owning property of a similar nature. In respect of such insurances, all premiums have been duly paid to date and all the policies are in force and are not voidable on account of any act, omission or non-disclosure on the part of the insured party.*
- 3.1.24 *There will be no variation between the Prospectus in the form attached hereto and the Prospectus in the form registered by the SC without the prior written consent of the Underwriters unless so required by the SC.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- Clause 3.2* *The commitment of the Underwriters to underwrite the Underwritten Shares is being made on the basis of the representations, warranties and undertakings of the Company in this Clause 3.1 and with the intention that such representations, warranties and undertakings shall remain true and accurate in all material respects up to and including the Closing Date, and in consideration of such commitment to underwrite, the Company irrevocably and unconditionally undertakes with the Underwriters that it shall:-*
- 3.2.1* *forthwith notify the Managing Underwriter who shall thereafter inform the other Underwriters of any misrepresentation or of anything which has or may have rendered or will or may render untrue or incorrect any of its representations, warranties or undertakings at any time prior to the Closing Date, which shall come to its notice or of which it becomes aware or which shall occur at any time prior to the Closing Date, but the giving of any such notice shall not affect or prejudice any of the rights of the Underwriters hereunder;*
- 3.2.2* *not publish any amendment or supplement to the Prospectus which the Underwriters have not previously been notified in writing of or to which the Underwriters or their legal advisers shall reasonably object but the giving of any such notice shall not affect or prejudice any of the rights of the Underwriters hereunder;*
- 3.2.3* *notify in writing and discuss with the Underwriters any announcement proposed to be made to the public which would conflict in any material respect with any statement in the Prospectus but the giving of any such notice and any such discussion shall not affect or prejudice any of the rights of the Underwriters hereunder;*
- 3.2.4* *to the extent permitted by law, not make public any information which will or is likely to affect the market price of the Issue Shares without prior written notice to and the prior written consent of the Underwriters unless required to do so by law.*
- Clause 3.3* *If any action, proceeding, claim or demand shall be brought or asserted against the Underwriters in respect of which indemnity is sought from the Company, then the Underwriters and/or the Managing Underwriter (as the case may be) shall notify the Company in writing thereof, and the Company shall to the extent required by the Underwriters and permitted by law assume the defence thereof on behalf of and/or in the name of the Underwriters, including the employment of legal advisers selected by the Managing Underwriters and/or the Underwriters (as the case may be), and the Company shall bear all fees and expenses in relation thereto or arising therefrom. The Managing Underwriter and/or the Underwriters (as the case may be) shall have the right to select separate legal advisers to assume such legal defence and otherwise to participate in the defence of such action, proceeding, claim or demand on behalf of the other Underwriters, and the Company shall bear all fees and expenses of such separate legal advisers in relation thereto and arising therefrom.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- Clause 3.4* At any time prior to the Closing Date, the Company shall at the request of the Managing Underwriter and/or the Underwriters furnish or deliver to the Managing Underwriter and/or the Underwriters (as the case may be) all information and documents which the Underwriters may reasonably request for, for the purpose of verifying the truth completeness or accuracy of the representations, warranties and undertakings contained herein.
- Clause 3.5* Unless waived by the Underwriters (in which case any condition precedent or any part thereof so waived shall be deemed to have been satisfied), the obligations of the Underwriters under this Agreement shall be conditional upon the following:-
- (a) this Agreement having been duly executed by all the parties hereto and duly stamped;
 - (b) the Issue having been approved by the Securities Commission and or any other relevant authority and the shareholders of the Company in General Meeting (if applicable);
 - (c) the listing of and quotation for the enlarged issued and paid up capital of the Company on the Mesdaq Market of the Bursa Securities having been unconditionally approved-in-principle by the Bursa Securities or subject to such conditions which are acceptable to the Managing Underwriter and such approval is not withdrawn;
 - (d) the Prospectus having been registered with the Securities Commission and lodged with the Companies Commission of Malaysia;
 - (e) there has not occurred, on or prior to the Closing Date, in the reasonable opinion of the Underwriters, any event rendering untrue, inaccurate or incorrect any of the representations or warranties contained in Clause 3.1 hereof;
 - (f) there has not been, on or prior to the Closing Date, in the reasonable opinion of the Underwriters, any breach of and or failure to perform any of the undertakings contained in Clause 3.1 hereof;
 - (g) the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 11;
 - (h) the Issue not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
 - (i) there has not been, on or prior to the Closing Date, in the reasonable opinion of the Underwriters, any material adverse change or any development reasonably likely to involve a prospective material adverse change in the condition (financial or otherwise) of the Group from that existing as at the date of this Agreement which is material in the context of the Issue and the listing of and quotation for the Underwritten Shares;

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- (j) *there has not been, on or prior to the Closing Date, in the reasonable opinion of the Underwriters any adverse change in national or international monetary, political, financial or economic conditions or exchange control or currency exchange rates (including but not limited to conditions on the stock market in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) and or national disorder, outbreak of war, Act of God or the declaration of a state of national emergency or the occurrence of any combination of any of the foregoing that would prejudice materially the success of the Issue;*
- (k) *the Underwriters receiving a copy certified by a director or secretary of the Company to be a true resolution of the Board of Directors of the Company approving the Prospectus and this Agreement and authorizing a person or persons to sign on behalf of the Company this Agreement; and*
- (l) *the Prospectus having been issued within two (2) months from the date hereof or such extended period as may be consented to by the Majority of the Underwriters.*

Clause 4 Remedies of the Underwriters

- Clause 4.1 *Upon any breach of the said representation or warranties or any failure to perform any of the said agreements or undertakings or any change rendering any of the said warranties, representations or agreements inaccurate, or the Company shall decide not to proceed with the Issue or there is a failure on the part of the Company to perform any of its obligations herein contained the Managing Underwriter, the Underwriters or any of them shall be entitled by notice to the Company to elect to treat such breach, failure or change as releasing or discharging the Managing Underwriter, the Underwriters or any of them from their respective obligations hereunder PROVIDED THAT the Company shall remain liable for the payment of the respective costs and expenses referred to in Clause 11 hereof which are incurred prior to and in connection with such release and discharge and for the payment of the Underwritten Commission and for any antecedents breaches.*
- Clause 4.2 *The agreement of the Underwriters to underwrite the Underwritten Shares, is entered into on the basis of the aforesaid representations, warranties and agreements. Without prejudice to the other rights and remedies of the Underwriters, the Company undertake with each of the Underwriters, that it will hold the Underwriters and each of them fully and effectually indemnified from and against any and all liabilities, costs, charges, actions, proceedings, damages and expenses which the Underwriters may incur or which may be made against the Underwriters as a result of or arising out of or in relation to any misrepresentation by the Company or any breach of any of the aforesaid representations, warranties or agreements and such indemnity shall extend to include all costs, charges and expenses which the Underwriters or any of them may pay or incur in disputing or defending any claim or action or other proceeding in respect of which indemnity may be sought against the Company under this Clause.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- Clause 4.3* *The rights and remedies conferred upon the Underwriters by the aforesaid representations and warranties, agreements and indemnities, shall continue in full force and effect unless and until the same is rendered unenforceable under the Contracts Act, 1950 notwithstanding the completion of the Issue and notwithstanding any investigations by or on behalf of the Underwriters.*
- Clause 4.4* *The representations, warranties and undertakings set out in this Agreement shall survive the execution of this Agreement and shall be deemed to be repeated on each day up to the date of delivery of the notice of allotment in respect of the Underwritten Shares subscribed for by the Underwriters as if made on each such day with reference to the facts and circumstances existing on each such day.*
- Clause 5** **Obligations of the Underwriters and Managing Underwriter**
- Clause 5.1* Underwritten Shares
- 5.1.1 *If on or before the Closing Date the whole of the Underwritten Shares shall be subscribed for in full, no obligation shall arise on the part of the Underwriters to apply for any of the Underwritten Shares under this Agreement.*
- 5.1.2 *If on the Closing Date any of the Underwritten Shares shall not have been subscribed for in full by the public ("Unaccepted Underwritten Shares"), the Underwriters shall be bound to apply for take up and purchase such number of the Unaccepted Underwritten Shares which have not been applied for by the public in accordance with the numbers and the proportions set out opposite their respective names in the Second and Third Column of the First Schedule hereto, respectively.*
- 5.1.3 *The Company shall within 14 days after the Closing Date, give notice in writing to the Underwriters of the number of Underwritten Shares required to be applied for taken up and purchased by the Underwriters. Such notice shall be delivered by hand by the Company to the Managing Underwriter at its business address hereinabove stated.*
- Clause 5.2* *The Underwriters, shall forthwith and in any case not later than 3 clear business days after receipt of the notices referred to under sub-clause 5.1.3 (the "Underwriting Notice"), deliver to Malaysian Issuing House Sdn. Bhd. (Company No.: 258345-X) (in their capacity as issuing house) application(s) in the appropriate form(s) for the number of shares which the Underwriters are required to apply for together with the remittance for the amounts payable on such application(s) in respect of the shares so applied for as stipulated in the Prospectus less the amount of the Underwriting Commission payable to the respective Underwriters. If any Underwriter(s) shall fail, within 3 business days after the delivery of the Underwriting Notice, to deliver the application(s) or remittance, then the Company shall with the consent of the Managing Underwriter (which consent shall not be unreasonably withheld or delayed) sign and lodge such application(s) on behalf and in the name of such Underwriter or Underwriters, and this authority and any application(s) made thereunder shall be irrevocable.*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- Clause 5.3* *The application(s) of the Underwriters shall be on the terms and conditions of the Prospectus and in the form lodged for registration with the Companies Commission of Malaysia notwithstanding any variation between the Prospectus so lodged and the draft Prospectus in Appendix I PROVIDED ALWAYS that no variations shall have been made in the draft Prospectus without the prior written consent of the Underwriters and the Managing Underwriter with regard to the matters following, namely:-*
- 5.3.1* *the authorised and issued share capital of the Company;*
 - 5.3.2* *the number of shares comprised in the Issue, the par value of such shares and the Issue Price thereof;*
 - 5.3.3* *the remuneration of the directors of the Company unless approved by the members at a general meeting; and*
 - 5.3.4* *the intention of the Company to apply to Bursa Securities for permission to deal in and for quotation of all the issued ordinary shares amounting to 180,000,000 Shares of the Company, inclusive of the Issue Shares, on the MESDAQ Market of Bursa Securities;*
- Clause 5.4* *For the purpose of Section 44 of the Companies Act, 1965 the said application and any acceptance thereof shall be deemed to be made pursuant to the Prospectus.*
- Clause 8 Force Majeure and Termination**
- Clause 8.1* *No party shall be liable in any manner for failure to perform or delay in performing all or any part of this Agreement which is directly due to any cause or circumstances beyond the control of such party including without limitation, acts of God, fire, flood, storm, earthquake, typhoon, tidal wave, plague or other epidemics, governmental laws, orders, regulations, sanctions or restrictions, war, armed conflict or serious threat of the same, hostilities, mobilization, blockade, or severe economic dislocation or change in national or international monetary, financial, political or economic condition that will directly and materially affect the financial position of the Company or the listing and quotation of the Issuer Shares on the Bursa Securities.*
- Clause 8.2* *Subject to Clause 8.3 below but notwithstanding any other provision herein contained, the Majority of the Underwriters may by notice in writing to the Company given at any time before the Closing Date, terminate and cancel and withdraw the commitment of the Underwriters to underwrite the Underwritten Shares if:-*
- (a)* *any of the conditions in Clause 3.5 are not satisfied by the Closing Date; or*
 - (b)* *there is any breach by the Company of any of the representations, warranties or undertakings contained in Clause 3, which is not capable of remedy or, if capable of remedy, is not remedied within ten (10) Market Days from the date the Company is notified by the Underwriters of such breach; or*

2. PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

- (c) *there is failure on the part of the Company to perform any of its obligations herein contained; or*
- (d) *there is withholding of information of a material nature from the Underwriters which is required to be disclosed pursuant to this Agreement which, in the reasonable opinion of the Majority of the Underwriters, would have a material adverse effect on the business or operations of the Group, the success of the Issue; or*
- (e) *there shall have occurred, or happened any material and adverse change in the business or financial condition of the Company or the Group; or*
- (f) *there shall have occurred, or happened any of the following circumstances:-*
 - (i) *any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions or exchange control or currency exchange rates (including but not limited to conditions on the stock market in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or the occurrence of any combination of any of the foregoing; or*
 - (ii) *any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Underwriters (including without limitation, acts of God, national disorder, declaration of a state of national emergency, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents);*

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

Clause 8.3 In the event that this Agreement is terminated pursuant to Clause 8.2(f), the Underwriters and the Company may confer with a view to deferring the Issue by amending its terms or terms of this Agreement and enter into a new underwriting agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to enter into a fresh agreement.

Clause 8.4 Upon any such notice(s) being given pursuant to Clause 8.2, the Underwriters shall be released and discharged from their obligations hereunder whereupon this Agreement shall be of no further force and effect and no party shall be under any liability to any other in respect of this Agreement, save and except that the Company shall remain liable in respect of its obligations and liabilities under Clause 11 for the payment of all costs and expenses already incurred prior to or in connection with such termination and for any antecedent breach.

3. RISK FACTORS

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

(a) Business Risks

The Group is subject to certain risk inherent to the ATE industry. These may include entry of new players, shortage in skilled workforce and raw materials, increase in cost of labour, cost of operations and raw materials, changes in government policies affecting the industries, changes in general economic, business and credit conditions, and introduction of new technologies.

The Group has taken steps to mitigate the risks through implementing various strategies, such as increasing its product range and value added services to its customers by providing integrated test and automation systems. Efforts have been made to expand its market base and R&D to strengthen and enlarged its business activities. However, no assurance can be given that any change in the market forces will not have a material adverse effect on the Group.

(b) High Development Expenditure

Although Elsoft Group is a highly intellectual based company, high development expenditure is required to keep abreast with new CAD technologies in order to develop its solution design capabilities and compete effectively. In addition, the trend of the test development industry is moving along with the trend of product miniaturisation with high emphasis on design for test capability. Thus, strategic investments need to be made on high-end design tools. High performance machine languages need to be upgraded for digital test development. The Group would need to continuously invest in its R&D facilities to enhance its technological competitiveness. Should the Group fail to consistently invest in the capital expenditure, the Group's operation may be rendered less efficient, resulting in a compromise in quality or losing an edge in technological competitiveness. This may adversely affect the operating and financial performance of Elsoft Group.

The Group has invested significantly in its R&D facilities since its incorporation. As at to date, the Group has invested over RM5 million in its R&D expenses over the last three (3) years to position and ensure that it remains as a leading ATE solution provider.

The Directors and management team of the Group constantly update themselves with the technological changes and requirements through discussions with vendors and its MNCs customers to understand the latest manufacturing trends and requirements. This enables the Directors to plan the Group's latest capital expenditure to be in line with the customers' requirements and the technical know-how of the Group.

(c) Rapid Technological Changes in the ATE Industry

The ATE industry is dynamic, characterised by rapid technological changes and frequent introduction of new and more advanced test solutions, changes in customer demands and evolving industry trends. Hence, the Group would need to keep abreast with the latest technologies in order to compete successfully with its competitors. The Group will be subject to the risks, uncertainties and problems frequently encountered by companies in the ATE industry, which include, amongst others, the following:-

- (i) failure to keep abreast with changing technological standards and requirements;
- (ii) failure to anticipate and adapt to developing market trends and requirements; and

3. RISK FACTORS (Cont'd)

- (iii) inability to maintain, upgrade and develop its systems and infrastructure to cater to rapidly expanding operations.

Recognising this, the Group's R&D team constantly keeps abreast with new technologies and market trends wherein the business development team works closely with the R&D team to provide feedback on market trends and client requirements. Elsoft Group is confident that with the on-the-job training and development programmes conducted by the Group for its employees coupled with its experienced management team, it will be able to keep abreast with the changing market demand for the wide range of services the Group provides. However, there can be no assurance that the Group's development policy will be successful to procure the latest technologies and technical know-how.

(d) Intensity of Competition

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

Competitors from overseas who are large conglomerates with greater financial resources and global presence are among the risks associated with the highly competitive market for ATE industry. Given the intense competition and the dynamics of the industry wherein technology changes rapidly, the Group's focus on R&D to enhance existing products and develop new products that maximise the price and operational acceptance of new technologies. The Group believe that its principal competitive advantages, namely integrated synergistic operations, experienced management team, prompt completion and timely delivery of customers' orders, consistent quality and ability to offer competitive pricing will help to ensure that risks from competition is minimised.

(e) Dependence on Directors and Key Personnel

The Group's continued success will depend substantially upon the abilities and continued efforts of its existing Directors and key personnel. The Group will strive to continue attracting and retaining skilled personnel to support its business operations and has made efforts to train its personnel. The loss of any key personnel may adversely affect the Group's performance.

The Group's future success will also depend upon its ability to attract and retain a sufficient number of highly skilled employees. The Group mitigates this by continuing to hire personnel as and when necessary to accommodate any increase in the size of the Group's operations. The Board believes that by offering a competitive salary package, training and conducive working environment should mitigate this risk further. Recognising the importance of its human resource, efforts have been taken to groom younger members of the senior management team to ensure smooth transition in the management team.

The Group will also be implementing an ESOS in conjunction with the listing on the MESDAQ Market to allow employees of the Group to participate in the Group's future growth and success. By becoming shareholders, employees will hopefully have a different view of the Group and work with the Group and its activities with even more vigor and passion in the years ahead.

3. RISK FACTORS (Cont'd)

(f) Absence of Long Term Contractual Agreement with Customers

Elsoft Group does not have any formal long term contract with its customers. Although there are no formal contractual agreements with its customers, Elsoft Group has established a close working relationship with most of its customers. For the financial year ended 31 December 2004, most of its major customers have been dealing with the Group for more than four (4) years. As at 31 May 2005 (being the latest practicable date prior to the issuance of this Prospectus), there is no legal redress taken by Elsoft Group against its customers for termination of orders.

The Group believes that by providing quality products, on-time delivery, competitive pricing and value added services, it will be able to maintain a firm relationship with its customers. The Group seeks to limit this risk by working closely with its existing customers and also by employing various strategies to broaden its customer base which includes, inter-alia, venturing into new markets and developing new products and services.

(g) Dependence on Major Customers

The Group's customer base is made up of leading corporations and MNCs in the semiconductor and optoelectronic industries. The Group's top customer, Agilent Industries Technology (M) Sdn Bhd accounted for approximately 34.5% of the Group's total turnover for the financial year ended 31 December 2004. However, this customer has been with the Group for approximately eight (8) years and this indicates a long-term and stable customer relationship.

To reduce over-dependency on any single customer, the Group has broaden its customer base, which mainly consists of large corporations and MNCs such as ASE Electronics (M) Sdn Bhd and Lumileds Lighting (M) Sdn Bhd in Malaysia, Manjer Engineering Co Ltd and Universal Scientific Industrial Co Ltd in Taiwan and some local medium-sized enterprises. To date, the Group has a clientele base of approximately 52 customers. In addition, the Elsoft Group will also continue to enhance its value added services propositions, improve its service level and maintain its competitiveness including broadening its product range and to develop a more diversified portfolio of customers and markets in the future, both locally and overseas.

The semiconductor and optoelectronic industries are dominated by large established MNC players which subject new vendors to laborious screening and pre-qualification procedures. This is a lengthy and time-consuming process which may take up to nine (9) months or more. Such stringent screening makes it difficult for new entrants who lack the necessary track record to qualify as approved vendors. Likewise, the rigid and time-consuming accreditation or qualification process by MNCs give rise to high switching costs, making it less desirable for MNCs to frequently change vendors unless there are compelling reasons to do so. Being the approved vendor for these major customers, the Group has built a strong relationship with these major customers by proving its capability to produce competitive and quality products over the years.

(h) Dependence on Suppliers

All the raw materials used by the Group are sourced directly from the suppliers. PCB boards, IC components, computer peripherals and consumable tools are the main raw materials consumed. For the financial year ended 31 December 2004, approximately 45.0% of the raw materials are sourced locally whilst the remaining 55.0% are imported.

The Group has not encountered any major problems in sourcing its raw material requirements. The Group has established a working relationship with its suppliers. For the financial year ended 31 December 2004, most of its major suppliers have been dealing with the Group for more than 5 years. The Group has not encountered any problem in procurement of raw materials for its operations with many sources readily available. However, no assurance can be given that any future change in the relationship with the suppliers will not have an impact on the Group's business.

3. RISK FACTORS (Cont'd)

(i) Market Acceptance of New Products

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

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

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

However, with the continuous emphasis placed by the Group on R&D activities, the Company is confident to mitigate the abovementioned risk factor.

(j) Foreign Currency Risks

For the financial year ended 31 December 2004, approximately 74.0% of the Group's revenue was transacted in RM whilst the remaining 26.0% of the Group's revenue was transacted in USD. Meanwhile approximately 55.0% of its raw materials requirements were imported from overseas and transacted in USD. This exposes the Group to foreign currency risk. However, the pegging of the RM against the USD has allowed the Group to minimise the foreign currency risk. Nonetheless, the Group has adopted a more prudent approach for foreign currency transactions such as performing continuous monitoring of foreign currency movements and undertaking hedging to mitigate foreign currency risk, if necessary.

However, there can be no assurance that the existing currency pegging or currency controls will remain and that future foreign exchange fluctuation arising from the changes in the currency pegging or lifting of the currency controls will not have any impact on the Group's business.

(k) Insurance Coverage on Assets

The Group is aware of the adverse consequences arising from inadequate insurance coverage that could affect its business operations. In ensuring such risks are minimised, the Group reviews and ensures adequate coverage for its assets on a continuous basis.

Although the Group has taken necessary measures to ensure that its building, plant and machinery and all its other assets are adequately covered by insurance, there can be no assurance that the insurance coverage would be adequate for the replacement cost of the other assets of Elsoft Group, including but not limited to, the building, plant and machinery, raw materials, finished products or any consequential costs arising therefrom.

3. RISK FACTORS (Cont'd)**(l) Control by Promoters**

After the Public Issue, the Promoters, as set out in Section 5.1 of this Prospectus will collectively control approximately 64.8% of Elsoft's enlarged issued and paid-up share capital. As a result, these Promoters will be able to exercise some extent of influence on the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by laws, covenants and/or by the relevant authorities.

(m) Disclosure Regarding Forward-Looking Statements

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

(n) No Prior Market for Elsoft's Shares

Prior to this Public Issue, there has been no public market for Elsoft's Shares. There can be no assurance that an active market for Elsoft's Shares will develop and continue to develop upon or subsequent to its listing on the MESDAQ Market of the Bursa Securities or, if developed, that such a market will be sustained. The issue price of RM0.60 for the Public Issue Shares has been determined after taking into consideration a number of factors, as mentioned in Section 2.4 of this Prospectus.

The Group believes that a variety of factors could cause the price of the Shares to fluctuate, including sales of substantial amounts of the Shares in the public market in the immediate future, announcements of developments relating to the Group's business, fluctuation in the Group's operating results and sales levels, general industry conditions or the world wide economy.

(o) Political, Economic and Regulatory Consideration

Adverse developments in political, economic and regulatory conditions in Malaysia and the other countries where the Group may operate, source its supplies or market its products could materially and adversely affect the financial and business prospects of the Group. Political and economic uncertainties, include (but are not limited to) risks of war, expropriation, nationalisation, methods of taxation and currency exchange controls.

Whilst Elsoft Group will continue to take effective measures such as financial management and efficient operating procedures, there is no assurance that the adverse political, economic and regulatory conditions will not materially affect the Group.

(p) Failure/ Delay in the Listing

The success of the listing exercise is also exposed to the risk that it may fail or be delayed should any of the following event occurs:-

- (i) The underwriters of the Public Issue fail to honour their obligations under the Underwriting Agreements;

3. RISK FACTORS (Cont'd)

- (ii) The placees under the private placement fail to subscribe the Public Issue Shares allocated to them; and
- (iii) Elsoft is unable to meet the public spread requirements i.e. at least 25% but not more than 49% of the total number of shares of Elsoft for which listing is sought must be held by a minimum of 200 public shareholders holding no less than 100 Shares each at the time of Listing.

(q) Capital Market Risks

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

(r) Change in MSC Status

Elsoft was granted MSC status on 31 December 2003 by MDC. As a MSC status company, Elsoft enjoys certain financial and non-financial incentives, which are guaranteed under the Malaysian Government's Bill of Guarantees for MSC status companies. Among the financial incentives entitled is the tax exemption on all profits derived from its MSC-qualifying activities.

MDC is the body responsible for monitoring all MSC status companies. MDC has the right to revoke any company's MSC status at any time if it does not comply with the conditions of grant of MSC status as imposed by the MDC. As such, there can be no assurance that the Company will continue to retain its MSC status or that the Company will continue to enjoy or not experience delays in enjoying the MSC incentives, all of which could materially and adversely affect the Group's business, operating results and financial condition. There can also be no assurance that the MSC incentives will not be changed or modified in any way in the future.

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

(s) Uncertainty in the Group's Future Plans, Strategies and Prospects

The Group's future plans and strategies and materialisation of its future prospects will be dependent upon, amongst others, the Group's ability to enter strategic marketing or other arrangements on a timely basis and on favourable terms; hire and retain skilled management as well as financial, technical, marketing and other personnel; successfully manage growth; and obtaining adequate financing as and when needed. As a mitigating factor, the Group has been in operations since 1997 and its management is experienced in the supporting industry for semiconductor, optoelectronic and automation industries. Nevertheless, there can be no assurance that the Group will be able to successfully implement its business plan or that unanticipated expenses or problems or technical difficulties will not occur which would result in material delays in its implementation or even deviation from its original plans. In addition, the actual results may deviate from the business plan due to rapid technological changes, market as well as competitive pressures.