

5. INFORMATION ON THE SOLUTION GROUP

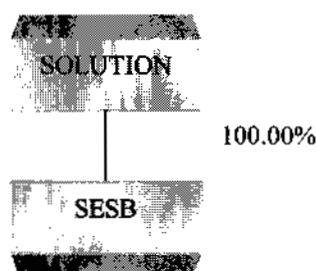
5.1 History and Business Activities

Solution was incorporated in Malaysia under the Act on 1 June 2004 as a private limited company under the name of Solution Engineering Holdings Sdn. Bhd. On 22 June 2004, Solution converted into a public limited company and adopted its present name

The Company is principally an investment holding company and provider of management services whilst the principal activities of its subsidiary, SESB are as follows: -

| Name of Subsidiary | Date/ Place of Incorporation | Issued and Fully Paid-Up Share Capital | Effective Equity Interest (%) | Principal Activities |
|--------------------|------------------------------|--|-------------------------------|---|
| SESB | 13 October 1988 Malaysia | RM1,000,000 | 100.0 | <ul style="list-style-type: none"> • Design and development of equipment for engineering education and research; and • Training and curriculum content development. |

The structure of the Solution Group is set out as follows: -



The history of the Solution Group may be traced to the establishment of SESB in 1988. SESB was established by Mr. Lim Yong Hew, its founder and now the Group's Managing Director, to provide automation solutions (utilizing affordable IT solution based on personal computers) to process industries, hence the company name of Solution.

In 1992, leveraging on SESB's expertise in instrumentation and implementation of personal computer-based process control, the Group ventured into new markets, particularly the education market, where the acceptance and usage of personal computers was positive and expected to improve further.

During the formative years of the Solution Group, the Malaysian Government's focus on building a manufacturing based economy and increasing the productivity of the SME sector was reflected in the public education sector's increasing need for engineering laboratory equipment with electronic instrumentation and computer data acquisition systems.

As the Malaysian public education institutions' demand grew for more sophisticated data acquisition solutions, the Solution Group expanded their product range and services. SESB had acquired extensive knowledge on the workings of engineering laboratory equipment (which were at that time largely imported) through its close client collaboration during the initial product development and implementation stage as well as the subsequent stages of upgrading, process modification, repairs and maintenance.

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Subsequently, when SESB's customers sourced for new equipment, SESB was well placed to naturally evolve up the value chain to the development and offering of its own products. SESB's initial product range focused primarily on fluid mechanics. At this point, SESB sought to create its own product identity and branded its products under the name 'SOLTEQ', now a registered trademark.

In the mid 1990's with the Government's 'Buy Malaysian' policy, public educational institutions were encouraged to primarily purchase local products for their teaching equipment. During this period, the Solution Group commenced equipping engineering laboratories with the Group's locally designed and developed SOLTEQ products on a larger scale. Further, the Government's push towards a knowledge based economy with, inter-alia, the creation of TPM, and subsequently the MSC, increased the demand for SESB's products, which utilised technology as a tool for knowledge transfer.

In 1996, based on its R&D focus, SESB was approved to be located in the incubator category in TPM. In recognition of SESB's knowledge based activities in engineering education, SESB was accorded MSC status on 6 December 1999.

With the Government's MSC incentives and TPM's R&D infrastructure acting as catalysts, the Group has accelerated its R&D and product development efforts. Currently, the Group has successfully developed over 100 products under several categories for engineering education including process control, heat transfer and thermodynamics, fluid mechanics, automation and advanced manufacturing, unit operations, environmental engineering, reaction engineering, biotechnology, and wood technology.

In 2001, the Government's initiative to set up more specialized engineering institutes and university colleges with emphasis on a hands-on approach to engineering education, has expanded the market for well-equipped specialised laboratories. One such example was the MICET set up by MARA. With its expertise and experience in unit operations, the Group was well positioned to tap into this market expansion and has since developed an extensive range of pilot plants under the unit operations category.

Further, in 2001, SESB received a grant of RM1 million from MTDC to develop the CIM system for teaching purposes. SESB is currently the only Malaysian company that has developed a CIM system for teaching purposes. The CIM System is a manufacturing model for the unmanned factory of the future. It is used for teaching and training of manufacturing engineering students in areas related to automation, material handling, system integration, CNC machining and robotics. It is the flagship product for SESB's advanced manufacturing product range and was commercialised in 2002. The CIM system is used in polytechnics and universities.

As part of its efforts to further enhance the teaching value of the equipment, SESB has developed a data acquisition software under the trademark of SOLDAS. SOLDAS is a product of the Group's R&D in its aim to complement its range of engineering teaching equipment. SOLDAS allows users to perform control and monitoring operations on the experiment processes and also accumulate experimental data analysis through its data acquisition functionality.

SESB has also developed an e-Learning software under the trademark of SOLCAL, which is designed to accelerate the learning curve of students via interactive multimedia. The Group's emphasis on providing better understanding of both the curriculum content and the functionality of their equipment led to the creation of SOLCAL which is essentially a teaching manual in an electronic format. With SOLCAL, lecturers and students can learn about the equipment in an interactive manner and allows the user to see an animated sample experiment process flow.

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SOLTEQ, SOLDAS and SOLCAL are developed and marketed as an integrated package to educational institutions. In addition to these integrated products, one of the key differentiators of Solution from its competitors in the local market is the extensive training and laboratory curriculum content development provided to the faculties of the various educational institutions that SESB services. This further solidifies SESB's position as an integrated solution provider to the field of engineering education.

Going forward, it is envisaged that the Group will experience good growth due to its plans to extend its product range by developing new products in existing categories and enhancing its existing products, which will consolidate its position domestically. Furthermore, the Group plans to expand in foreign markets, which will further contribute to this positive growth.

5.2 Changes in Share Capital

As at the date of this Prospectus, the authorised share capital of Solution is RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each, of which 92,522,000 ordinary shares of RM0.10 each are issued and fully paid-up.

Details of the changes in the issued and fully paid-up share capital of Solution since its incorporation are as follows:

| Date of Allotment/ Share Split | No. of Solution Shares Allotted/ Split | Par Value | | Consideration | Total Issued and Fully Paid-Up Share Capital |
|-----------------------------------|---|-----------|----|--|--|
| | | RM | RM | | RM |
| 1 June 2004 | 95 | 1.00 | | Subscribers shares | 95 |
| 10 June 2004 | 950 | 0.10 | | Subdivided into ordinary shares of RM0.10 each | 95 |
| 27 May 2005 | 92,521,050 | 0.10 | | Issued pursuant to the Acquisition | 9,252,200 |

Upon completion of the Public Issue, the issued and paid-up share capital of Solution will be increased to RM12,652,200 comprising of 126,522,000 ordinary shares of RM0.10 each.

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5.3 The Listing Scheme

5.3.1 Acquisition of SESB

On 28 June 2004, Solution entered into the Agreement with the Vendors of SESB to acquire the entire equity interest of SESB comprising 1,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM9,252,105 to be satisfied by the issuance of 92,521,050 new Solution Shares at an issue price of RM0.10 per Solution Share.

The purchase consideration of RM9,252,105 for the Acquisition was arrived at on a willing-buyer-willing-seller-basis after taking into account the audited NTA of SESB of RM9,252,105 as at 31 December 2003. The audited NTA of SESB as at 31 December 2004 was RM10,142,482.

Pursuant to the Agreement, dividends of RM1,500,000 and RM927,647 had been declared on 31 December 2004 and 6 May 2005 respectively to the Vendors of SESB as the shareholders of SESB as at that time.

The Acquisition was completed on 27 May 2005. Upon completion of the Acquisition, the issued and fully paid-up share capital of Solution increased from RM95 comprising 950 Solution Shares to RM9,252,200 comprising 92,522,000 Solution Shares.

5.3.2 Public Issue

To facilitate the listing of and quotation for the entire issued and paid-up share capital of Solution on the MESDAQ Market and to comply with the Listing Requirements with regards to the shareholding spread, Solution is undertaking a public issue and placement of 34,000,000 new Solution Shares, representing approximately 26.87% of enlarged share capital of the Company at the Issue Price of RM0.25 per ordinary share.

The Public Issue will be allocated in the manner as set out in Section 3.5 of this Prospectus.

Upon completion of the Public Issue set out above, the issued and paid-up share capital of Solution will increase from RM9,252,200 comprising 92,522,000 ordinary shares of RM0.10 each to RM12,652,200 comprising 126,522,000 ordinary shares of RM0.10 each.

The new ordinary shares of RM0.10 each in Solution to be issued pursuant to the Public Issue shall, upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up ordinary shares of Solution.

5.3.3 Listing on the MESDAQ Market

The listing of and quotation for the entire share capital of the Company comprising 126,522,000 ordinary shares of RM0.10 each on the MESDAQ Market 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 issued and fully paid-up Solution Shares including the Public Issue Shares that are the subject of this Prospectus.

The entire issued and fully paid-up Solution Shares will be admitted to the Official List of the MESDAQ Market and official quotation will commence after 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.

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5.4 Subsidiary Company

(i) SESB

History and Business

SESB, a wholly-owned subsidiary of Solution, was incorporated as a private limited company in Malaysia under the Act on 13 October 1988.

The business activities of SESB are as follows: -

- o design and development of equipment for engineering education and research; and
- o training and curriculum content development.

SESB has a total of 20 employees as at 16 June 2005.

Share Capital

The existing authorised share capital of SESB is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, of which RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up, comprising 1,000,000 ordinary shares of RM1.00 each.

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value RM | Consideration | Total Issued and Fully Paid-up Share Capital RM |
|-------------------|---------------------------------|--------------|-----------------------|---|
| 13.10.1988 | 4 | 1.00 | Cash | 4 |
| 05.11.1988 | 59,996 | 1.00 | Cash | 60,000 |
| 24.09.1990 | 30,000 | 1.00 | Cash | 90,000 |
| 12.01.1992 | 10,000 | 1.00 | Cash | 100,000 |
| 15.05.1997 | 100,000 | 1.00 | By way of bonus issue | 200,000 |
| 18.01.1999 | 72,000 | 1.00 | Cash | 272,000 |
| 29.01.1999 | 528,000 | 1.00 | By way of bonus issue | 800,000 |
| 07.06.2000 | 200,000 | 1.00 | By way of bonus issue | 1,000,000 |

As at 16 June 2005, SESB does not have any outstanding warrants, options, convertibles or uncalled capital.

Major Shareholder

SESB is a wholly-owned subsidiary of Solution.

Subsidiaries and Associated Company

As at the date of this Prospectus, SESB has no subsidiary or associated company.

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5.5 Industry Overview

5.5.1 Overview of the Global Economy

World output, project to grow by 4.6% in 2004, is close to matching the strong global growth of 4.7% at the beginning of the new millennium, the highest in the last two decades. The global economy recovered from the adverse effects of the 11 September incident, which drove the world into recession in 2001, and the subsequent fallout from the Severe Acute Respiratory Syndrome (SARS) epidemic, as well as the war in Iraq to attain broad-based growth. This recovery was supported by the accommodative monetary and fiscal policies pursued by major economies, which revived confidence to fuel global growth.

The continued strengthening of the global economy is mainly driven by sustained consumption and export growth in the United States (US) and Japanese economies. Elsewhere, the vibrant economies in the Asia-Pacific region, in particular China and to a lesser extent India, further supported the strengthening of global growth. Amidst this optimistic development, world inflation continued to remain benign despite concerns over rising oil prices. East Asian economies are expected to register GDP growth of 7.3% in 2004 (2003: 6.5%), benefiting from the more diversified growth in both the US and Japan. The region's strong macroeconomic fundamentals, as reflected in the healthy balance of payments position and record level of foreign exchange reserves in excess of USD1.3 trillion, as well as stronger banking and corporate sectors following their successful restructuring after the financial crisis, have also lent credence to the optimistic forecast.

(Source: Bank Negara Malaysia Economic Report 2004/2005)

5.5.2 Overview of the Malaysian Economy

The Malaysian economy accelerated its growth momentum in the first half of 2004, after a strong take-off in 2003, and is expected to surpass earlier expectations with higher growth of 7% for the whole year. Positive signs of a firm economic recovery at the global front, particularly in the first six months as well as higher commodity prices, reinforced the "feel-good" factor that contributed to further improvement in consumer and business sentiments. Growth has become more broad based with all sectors registering positive growth. Domestic demand, particularly private consumption, continued to sustain growth for five consecutive years, while private investment, which picked up in 2003, became more entrenched resulting in a private sector-led growth.

The broad-based growth is evident of the effective measures implemented by the Government to develop new sources of growth to reduce the nation's vulnerability to the external environment. Expanding at 10.5%, the manufacturing sector, which has become more diversified with higher-end, value-added and new emerging industries and products, remains a major contributor to growth. New growth areas in information and communication technology (ICT), strong expansion in financial services and revival in tourism activities supported growth in the services sector, enabling it to maintain its premier position in terms of share to gross domestic product (GDP) at 57%. Meanwhile, the Government's commitment to revitalize the agriculture sector as the third engine of economic growth, particularly in food production, has resulted in the expansion in output of fruits, aquaculture and livestock.

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The synchronized upswing in the global economy and upsurge in electronics demand, as well as high prices for palm oil and crude oil, continued to propel export volume and earnings. Import growth was strong, particularly for intermediate and capital goods, reflecting robust domestic economic activities, fuelled by recovery in private investment and higher disposable income. The trade balance in July 2004 remained in surplus for 81 consecutive months since November 1997. Better export earnings and inflow of foreign funds increased the international reserves to USD 54.4 billion as at 14 August 2004, sufficient to finance 7.2 months of retained imports and five times the short-term external debt. The national resource position remains strong with gross national savings at 36.5% of gross national product (GNP), providing ample liquidity to finance both public and private sector initiatives.

The banking system continues to strengthen along with improvements in loan repayments amidst higher disbursements. The risk-weighted capital ratio (RWCR) increased further, while the net non-performing loans (NPLs) ratio improved in tandem with higher corporate earnings and productivity. In the equity market, Bursa Securities was more active in the first half of the year and is expected to sustain its performance for the remainder of the year. Inflation remains low at 1.5% despite strong domestic demand and higher commodity prices. Labour market conditions continue to be stable with the unemployment rate remaining low at 3.5%. With stronger growth in the economy, per capital national income is expected to increase to RM16,098 while purchasing power parity (PPP), is higher at USD10,163 in 2004. Concomitantly, socio-economic indicators improved further. Reflecting the better standard of living and quality of life of the population, the overall poverty rate declined to 5.1% while average life expectancy and the literacy rate improved to 73 years and 94.1% respectively.

(Source: Bank Negara Malaysia Economic Report 2004/2005)

5.5.3 Overview of the Malaysian Education System

The Mission Statement of the MOE is "to develop a world class quality education system which will realise the full potential of the individual and fulfill the aspiration of the Malaysian nation".

(Source: MOE website, <http://www.moe.gov.my/>)

Since independence in 1957, the national education system has undergone tremendous changes for development and progress. In the 21st century, the impact of globalisation, liberalisation, and the advancement of Information and Communication Technology (ICT) has brought about internal and external challenges. One of the challenges faced by the nation is to build a knowledge-based economy or K-economy that will enable the nation to be at the cutting-edge and also to withstand competition from other countries.

(Source: Education Development Plan 2001-2010, MOE, 2001)

The following chart illustrates the education and assessment system in Malaysia:-

| PRIMARY YEAR 1-6 (6+ - 11+) | LOWER SECONDARY FORM 1-3 (12+ - 14+) | UPPER SECONDARY FORM 4 - 6 (15+ - 16+) | SECONDARY | HIGHER EDUCATION COLLEGE & UNIVERSITY |
|---|---|--|---|--|
| <ul style="list-style-type: none"> • NATIONAL • NATIONAL TYPE <ul style="list-style-type: none"> - CHINESE - TAMIL | <ul style="list-style-type: none"> • ACADEMIC • RELIGIOUS | <ul style="list-style-type: none"> • TECHNICAL • ACADEMIC • RELIGIOUS | <ul style="list-style-type: none"> • MATRICULATION • FORM 6 • COLLEGE • POLYTECHNIC | UNIVERSITY / COLLEGE/ EMPLOYMENT |

(Source: "The Development of Education – National Report of Malaysia", MOE, 31 July 2004)

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In the mid-90's, the Government in its effort to expand accessibility into tertiary education and minimise movement of funds out of the domestic market, has encouraged private organisations to venture into the education sector. The Government since 1996 has also improved the regulatory framework for the establishment of private universities, and expansion of existing capacity or setting up new campuses. This was vigorously pursued especially during the financial crises of 1997. The depreciation of the local currency has affected students' financial capacity to pursue tertiary education overseas. These efforts and regulatory framework in place have increased the involvement of private organisations in the education sector.

Subsequently, enrolment at private education institutions offering courses at post secondary to university levels has increased from 168,489 in 1998 to 294,600 in 2002. The 42.81 per cent increase in enrolment within a five-year period shows the strong support given by the private sector to complement the Government's efforts in increasing participation of youths and adults between ages 17+ to 24+ at tertiary level. Combining enrolments at public and private education institutions at post secondary to university levels records participation rates of youths between ages 17+ to 24+ years for the same period at 40.39 per cent in 1998 and increased to 50.61 per cent in 2002.

The following table shows the participation rate at all levels of education for 1993, 1998 and 2003 in public educational institutions.

| Level of Education | Age Group | Participation Rate (%) | | |
|--------------------------|-----------|------------------------|-------|-------|
| | | 1993 | 1998 | 2003 |
| Primary | 6 – 11 | 98.57 | 95.06 | 98.49 |
| Lower Secondary | 12 – 14 | 85.7 | 85.61 | 84.40 |
| Upper Secondary | 15 – 16 | 55.74 | 66.68 | 73.52 |
| Post Secondary / College | 17 – 18 | 19.27 | 20.95 | 24.05 |
| University | 19 – 24 | 5.9 | 14.5 | 18.7 |

(Source: "The Development of Education – National Report of Malaysia", MOE, 31 July 2004)

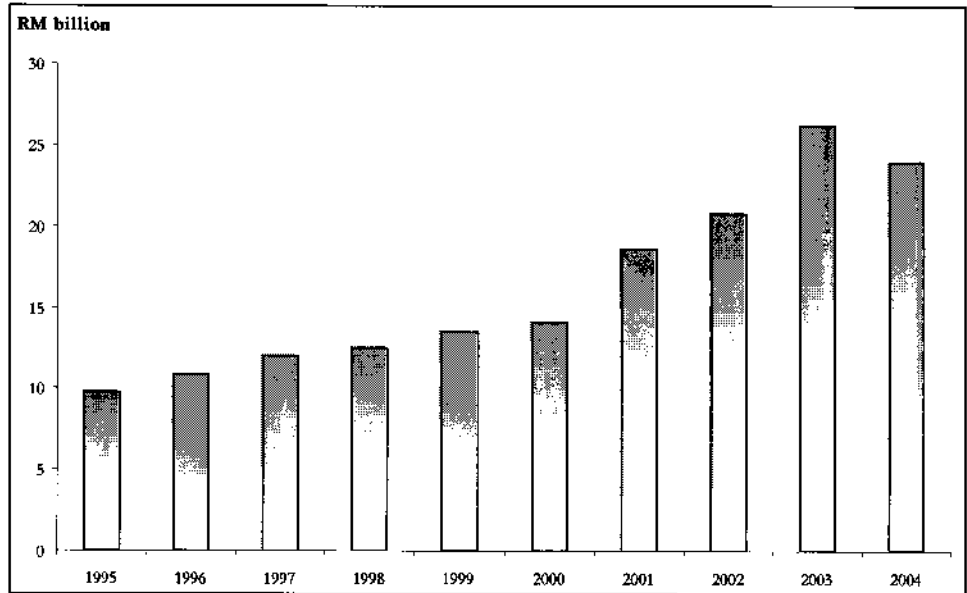
The Government's strong support in the country's education development is evident from the large portion of federal budget allocated over the years to the education sector. Under the 8th Malaysia Plan, a total of RM105.6 billion has been allocated to the education sector, as compared to RM70.2 billion under the 7th Malaysia Plan ("7MP").

Over the past ten (10) years, an average of 20% of the total federal government expenditure was on education. In 1994, the Government's educational expenditure was RM9.7 billion and the amount doubled to over RM20 billion by 2002. The ten (10) year Compounded Annual Growth Rate ("CAGR") from 1995 to 2004 was over 10%.

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Government's Educational Expenditure, 1995 – 2004



Total Educational Expenditure and Total Federal Government Expenditure, 1995-2004

| Year | Total Educational Expenditure (RM) | Total Educational Expenditure/ Total Federal Expenditure (%) |
|------|------------------------------------|--|
| 1995 | 9,734,107,320 | 20.0 |
| 1996 | 10,846,486,650 | 20.0 |
| 1997 | 12,031,102,900 | 20.1 |
| 1998 | 12,510,391,200 | 19.5 |
| 1999 | 13,462,340,030 | 20.7 |
| 2000 | 14,079,737,820 | 18.1 |
| 2001 | 18,601,959,600 | 20.4 |
| 2002 | 20,719,036,710 | 20.6 |
| 2003 | 26,194,824,940 | 23.9 |
| 2004 | 23,937,604,060 | 21.3 |

(Source: Infocredit D&B Report)

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5.5.4 The Education Industry in Malaysia and The Outlook

Malaysia's Focus on Education

As Malaysia enters the 21st century, human resource development will continue to remain a key strategy in ensuring that all Malaysians share in the nation's prosperity and develop a dynamic labour force that is globally competitive. The development of a knowledge-based economy coupled with emerging technologies and globalization will influence future growth trends in the demand for skills and expertise as well as creating new economic opportunities that can be translated into income improvements for all Malaysians. Priority will, therefore, be given to increase accessibility to quality education and training as well as strengthening the human resource base to support the development of a knowledge based economy during the OPP3 period.

(Source: Chapter 6, OPP3)

Government Initiatives for Human Resource ("HR") & Education Development

The Human Resource Policy Thrusts in the 8th MP (among others):

- To expand the supply of highly skilled and knowledge manpower to support the development of knowledge based economy;
- To increase the accessibility to quality education and training to enhance income generation capabilities and quality of life;
- To improve the quality of education and training delivery systems to ensure that manpower supply is in line with technological change and market demand;
- To promote lifelong learning to enhance employability and productivity of the labour force;
- To optimise the utilisation of local labour;
- To increase the supply of science and technology ("S&T") manpower; and
- To intensify efforts to develop and promote Malaysia as a regional centre of educational excellence

Increasing Accessibility to Higher Education

To support manpower requirements of the knowledge based economy, a larger proportion of the population and labour force will need to have a higher level of educational attainment, especially at the tertiary level. Increased emphasis will continue to be given to expand tertiary education so that the enrolment of the age cohort of 17-23 years in education will be 40%, and at least 35% of the labour force will have attained tertiary education by 2010. In 2003, the percentage of enrolment by the 17-23 age cohort stood at 27.9% whilst 17.1% of the labour force has tertiary level education.

(Source: Chapter 4, 8th Mid-Term Review and Chapter 6, OPP3)

Increasing the Supply of S&T Manpower

Precision manufacturing, biotechnology, electronics, information technology and energy are areas where Malaysia is building a comparative advantage. These sectors will need to be supported by a large reservoir of skilled personnel in the next decade. At the post-secondary level, polytechnics and technical colleges turn out technically competent young Malaysians. These efforts, supported by other ministries and Government agencies, are developing market-driven skills and expertise.

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To remain competitive, Malaysia will intensify R&D activities in these new areas and more concrete measures will be implemented to increase the supply of R&D scientists and technologists from 7 per 10,000 labour force in 2000 to 60 per 10,000 per labour force by 2010. This translates to 77,640 R&D scientists and technologists.

Universities will not only be developing the future workforce but also become centres for the creation of intellectual capital and new knowledge. The number of graduates with post-graduate degrees will be increased to 25% of the total output by 2010.

(Source: OPP3)

Education as an Export Industry and Source of Foreign Exchange Earnings

A total of 36,466 foreign students from 150 countries enrolled in local institutions of higher learning in 2002 compared to 26,469 in 2000, a significant increase of 37.8%. The preferred fields of study by foreign students were business administration, ICT and engineering. Students from China and Indonesia formed the highest percentage with 38.8% and 19.4% respectively. The number of foreign students is expected to increase to 45,000 by the end of 2005.

(Source: 8th Mid-Term Review)

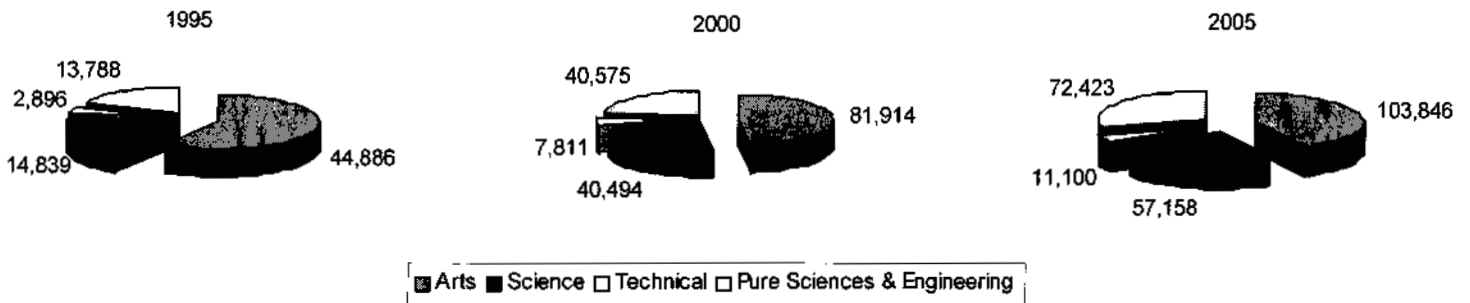
Enrolment Growth Trends

Growing population, the increasing need for skilled labour force and continuous pursuit of enhancing productivity, have reflected in a robust growth in the enrolment of students in the institutions of higher education, both public and private.

First Degree Courses

In 1995, the total student enrolment for first degree courses in local public universities alone totaled 75,709 students with arts based degrees forming the majority (59.3%) of enrolments. Total enrolments further grew by 30% by the year 2000, and the shift in focus towards technical and science based degrees was evident accounting for 56.6% of the enrolments. Engineering and pure sciences accounted for 63,847 enrolments constituting 28.7% of total enrolments.

Enrolment for First Degree Courses in Local Public Universities

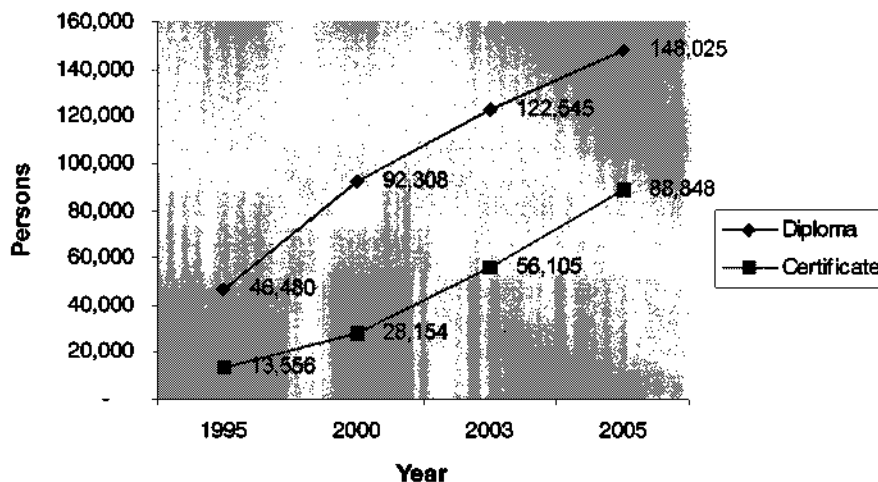


(Source: 8th Malaysia Plan and 8th Mid-Term Review)

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Diploma & Certificate Courses

For non-degree courses, i.e. diploma and certificate courses, enrolments in public higher education institutions have also shown substantial increases over the periods shown below. Enrolments in 2003 for diploma courses have almost tripled whilst enrolment in certificate courses have more than quadrupled from 1995. Science and technical courses account for 59.5% and 76.4% of enrolments in diploma and certificate courses respectively.



The Government estimates a further 20.8% and 58.4% growth in enrolments in the diploma and certificate type courses from year 2004 to 2005.

(Source: 8th Malaysia Plan and 8th Mid-Term Review)

5.5.5 Private Higher Education Institutes Industry and the Outlook

With the implementation of the Private Higher Educational Institutions Act 1996, the private sector increased its involvement in the provision of tertiary education. Six (6) private universities, namely *University Multimedia*, *University Tenaga Nasional*, *Universiti Teknologi Peteronas*, *Universiti Tun Abdul Razal*, *International Medical University* and *Universiti Industri Selangor* offered courses in engineering, business studies, medicine and multimedia at the degree level.

In 2003, 462 degrees, 872 diplomas and 641 certificate level programmes were offered. To sustain the development of private higher education, a strategic plan, the *Perancangan Strategik Pendidikan Tinggi Swasta 2001-2010* was formulated. The plan provides the direction and guidance for the development of private higher education focusing on four (4) areas, namely, accessibility, equitable provision of services and facilities, quality assurance and internationalization of private higher education.

(Source: 8th Malaysia Plan and 8th Mid-Term Review)

Trends in PHEI

The private sector will complement the Government's efforts in the provision of education and training, especially in tertiary education and vocational training.

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At the tertiary level, the private sector will be encouraged to expand their capacity and set up new campuses to cater for the increasing number of students. The provision of loans to students in private colleges and universities will be reviewed to expand its coverage so as to ensure that the quantum commensurates with the cost of pursuing their studies.

Private sector institutions will be encouraged to offer courses relevant to the needs of industry and undertake R&D activities. To address the shortage of lecturers, private institutions will be encouraged to develop staff development programmes. Steps will also be taken to facilitate the recruitment of foreign lecturers by private institutions, while the recruitment of lecturers on a contract basis for public institutions will be continued.

Public and private institutions will continue to be allowed to establish franchise arrangements to increase the number of places offered at the tertiary level. These arrangements will provide 45,000 additional places of which 25 per cent will be at degree level and 75 per cent at diploma level. In addition, incentives will be provided to reputable institutions to set up branch campuses, especially those offering S&T courses.

(Source: 8th Malaysia Plan and 8th Mid-Term Review)

5.5.6 Prospects of Engineering Education Sub-sector**Increased Demand for Technical Expertise**

The increasing sophistication of production processes due to technological advances will generate demand for an additional 72,824 engineers and 193,634 engineering assistants by the year 2010, from the existing 64,376 engineers and 139,066 engineering assistants as at year 2000. These engineers and engineering assistants will be trained in chemical, mechanical, and electrical and electronics fields as well as ICT and other cutting edge technologies such as photonics and nanotechnology.

There will also be increased demand for scientists and technologists in R&D, particularly in new technologies such as fuel-cell technology, biotechnology and genetic engineering. Efforts to expand the existing pool of R&D scientists and technologists will be taken through instituting more attractive schemes of service as well as extending the service of outstanding R&D personnel beyond their retirement age.

(Source: 8th Mid-Term Review and OPP3)

Currently, it is estimated that more than 55% of the manpower working in the manufacturing sectors are technical/supervisory, skilled and semi-skilled workers. This is an improvement compared to 1990 where only about 45% of the workers are from these categories.

Reviewing a fifteen (15) year period from 1990 to 2005, the total employed engineers and engineering assistants have increased by closed to six (6) times from about 60,000 in 1990 to an estimated number of more than 350,000 by the year 2005. The country's continuous thriving industrial and manufacturing activities has created and will continue to create long term demand for engineers and technical expertise including both skilled and semi-skilled manpower. The demand for engineering education and training solutions for use in physical laboratories, are in turn driven by the increasing engineering and technical related courses where additional laboratory facilities and equipment would be required.

(Source: Infocredit D&B Report)

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Growth Trends

The continuous efforts of the country's industrialisation and striving towards a knowledge-based ("K-based") economy have created strong demand for engineering professionals in various fields of industries in both the brick-and-mortar manufacturing industry and fast evolving high-technology industry. For the past fifteen (15) years from 1990 to 2005, the number of engineering graduates from the local public education institutions has increased by 17% on Compounded Annual Growth Rate ("CAGR") from about 18,000 in 1990 to an estimate of more than 165,000 in 2005.

On average, the number of students attending engineering courses for both degree/diploma level and certificate level doubled in every five (5) years from the period under review of 1990 to 2005. The engineering certification has particularly shown a strong CAGR of 33% from 2000 of about 20,000 students to an estimate of over 60,000 students in 2005.

| Year | Degree & Diploma | Certificate | Total |
|------------------|------------------|-------------|---------|
| 1990 | 11,530 | 6,450 | 13,520 |
| 1995 | 21,470 | 10,880 | 23,465 |
| 2000 | 58,915 | 20,396 | 60,915 |
| 2005 | 100,563 | 64,516 | 102,568 |
| CAGR (1990-2005) | 16.7% | 17.9% | 17.2% |

(Source: Infocredit D&B Report)

The robust growth of the engineering education sector is in line with the growing requirements of skilled and semi skilled labour force that is required to serve the Malaysian economy. In order to cater for the increased demand for engineers and engineering assistants, both public and private institutions of higher education will have to expand their installed capacity. This expansion may be in the form of expanding the current infrastructure of these institutions and the creation of new institutions of higher learning. There will also arise the need to equip these institutions with the requisite training facilities to support the programs offered.

(Source: 8th Malaysia Plan)

Engineering Education Equipment

Imports of engineering education and training solutions, which mainly constitute sales from hardware equipment, are estimated to be worth about RM130 million in 2004, representing an increase of close to 40% compared to 2003 of which the total import was estimated to be around RM95 million. Over a five (5) year period from 2000 to 2004, the CAGR of import values was estimated at 20.6%. In terms of import value in absolute term, the amount has increased by more than double from RM62.0 million in 2000 to RM131.1 million in 2004. The major origin of import countries for engineering education and training hardware equipment are:

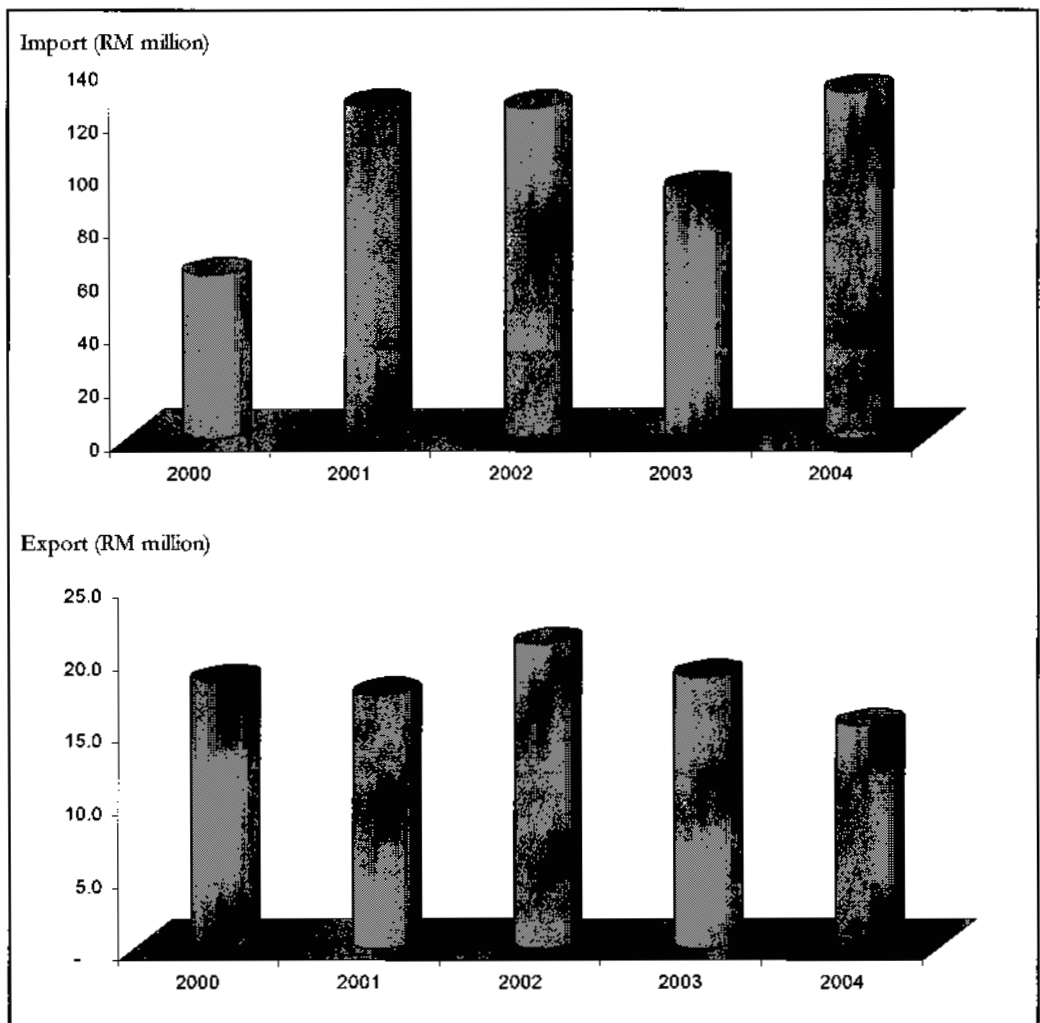
- Germany;
- the USA;
- UK;
- Italy; and
- Japan.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

In terms of export, the estimated value for 2004 was about RM15 million, which represented an estimated drop of about 18% compared to 2003. Over the past five (5) years from 2000 to 2004, the export value of hardware equipment for engineering education and training has been hovering around RM15 million to RM20 million in total. The engineering education and training hardware equipment are mainly exported to:

- Taiwan;
- Singapore;
- Cote D'Ivoire;
- the Philippines; and
- Myanmar.

Import & Export of Engineering Education & Training Equipment, 2000 – 2004



The industry of designing and producing engineering education and training solutions has grown strongly in the past three (3) years. Such solutions are estimated to value at RM31.7 million in 2003. For 2001 and 2002, the values were estimated at RM23.4 million and RM14.5 million respectively. Prior to 2001, the value was estimated to be single digit at RM7.8 million in 2000 and RM3.2 million in 1999.

(Source: Infocredit D&B Report)

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

In Malaysia, Solution Group is competing with both distributors which import the equipment from overseas and players which develop hardware equipment and software solutions for engineering education and training. All the competitors are distributing their solutions to the whole of Malaysia, servicing both the private and public education sector. The distributors import engineering education and training solutions from various overseas countries of which the major ones include Germany, the US, UK, Italy, Japan, Australia, Spain and Korea.

Besides, there are competitors that are involved in the full value chain of design and development of the hardware and/or software, deploying the solutions to the clients' sites with services of installation, system integration, commissioning and testing; as well as provide the support services namely training, customer service and after sales service.

(Source: Infocredit D&B Report)

e-Learning

Computer-aided e-Learning has become a mainstream for learning contents delivery in industrialised countries. For developing countries like Malaysia and most Asian countries, the industry is still in its infancy stage but there are tremendous opportunities in this area. Engineering educators could explore the options of adopting computer-aided e-Learning to supplement classroom teaching or as a tool to prepare students for physical laboratory training. Simulation is most suitably used to provide illustrations of phenomena that are not easily visualised, such as electromagnetic fields, laminar flow in pipes, heat transfer through materials, and electron flow in semiconductors or beam loading.

The adoption of computer-aided e-Learning methodology in engineering education and laboratory training could be driven by the advantages of such software programmes. Simulations can be used to familiarise students with the equipment before actually using it to give students some idea of what they will encounter in an actual experiment. This can improve laboratory safety and could also result in financial savings by reducing the time a student spend on laboratory equipment, thereby reducing the number of laboratory stations required. Simulations could be useful for experimental studies of systems that are too large, too expensive, or too dangerous for physical measurements by students. In addition, laboratory simulation software could be useful for universities and colleges that offer distance learning courses including web-based delivery and distance learning which are increasingly used to reach a geographically-distributed student population.

In summary, the offering of laboratory simulation software solutions could be attractive to engineering educators in their efforts to nurture future engineers and technical manpower who can be anticipated to function in a global market mediated by ICT advances. The growing national information and communication infrastructure in the country provides an exciting range of opportunities to improve educational technology.

(Source: Infocredit D&B Report)

In developing SOLSIM, Solution hopes to provide an e-Learning software substitute to costly engineering laboratories. SOLSIM will allow both local and foreign institutions to develop their engineering faculties by conducting virtual engineering laboratory experiments using the computer-aided engineering education tool.

5. INFORMATION ON THE SOLUTION GROUP *(Cont'd)*

5.6 Business Overview

SESB's business is driven by two core activities:-

- Design and development of equipment for engineering education and research; and
- Training and curriculum content development.

The Solution Group is involved in the full value chain activity in the solutions for engineering education and training industry, which encompasses the following: -

- Design and development of hardware and/or software;
- Deploy the solutions to the clients' sites with services of installation, system integration, commissioning and testing; and
- Provide the support services namely training, customer service and after sales service.

Market coverage, position and share

There are only a limited number of such players and their revenues for the latest available financial years are listed in the following table. Collectively, these players generated a total revenue of about RM31.7 million in the FYE 2003. Among them, Solution Group is the largest player with over 65% market share of the locally-produced engineering education and training solutions. The remaining 35% is generated by three (3) other companies namely, My Robotics & Machines Tools Sdn Bhd, Syntek Engineering (M) Sdn Bhd and Lotus Scientific (M) Sdn Bhd.

In terms of the total local market of engineering education and training solutions which is estimated to be worth around RM108 million in FYE2003, close to 30% is supplied by local players who develop the solutions and the other 70% is supplied by distributors who import the solutions from overseas. Of this total local market of RM108 million, Solution Group's market share is estimated at about 19.2%. The remaining 80.8% is serviced by other players offering solutions designed and developed locally and by distributors who import the solutions from overseas countries.

(Source: Infocredit D&B Report)

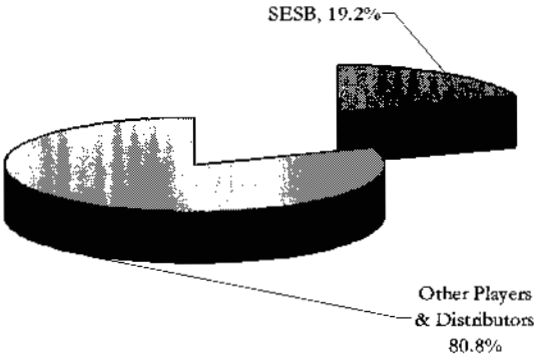
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5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

Major Players Developing Solutions for Engineering Education & Training

(i) Solution's Share of Local Market for Engineering Education & Training Solutions

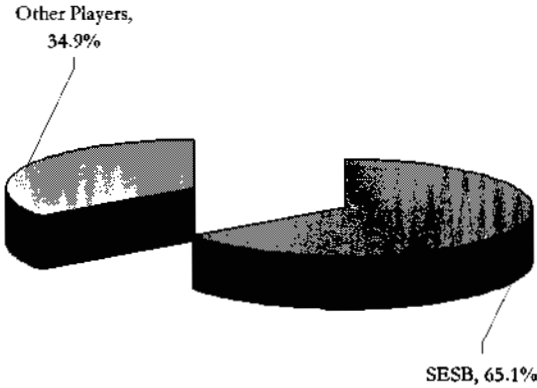
Total Market (Solutions Produced by Local Players + Imported Solutions) = RM108 million



Notes:
Other players and distributors include, among others, *Jasa Tasep Sdn Bhd, Juravic Engineering Sdn. Bhd, Kosijaya Group of Companies, Production Engineering Sdn Bhd, Seri Setia Sains (M) Sdn Bhd, TekMark Sdn Bhd, Vital Series Sdn Bhd, My Robotics & Machines Tools Sdn Bhd (a subsidiary of Kosijaya Didactic Sdn Bhd), Syntek Engineering (M) Sdn Bhd and Lotus Scientific (M) Sdn Bhd.*

(ii) Solution's Share of Locally Produced Engineering Education & Training Solutions

Total Value of Solutions Produced by Local Players = RM31.7 million



Notes:
Other players include *My Robotics & Machines Tools Sdn Bhd (a subsidiary of Kosijaya Didactic Sdn Bhd), Syntek Engineering (M) Sdn Bhd and Lotus Scientific (M) Sdn Bhd.*

(Source: Infocredit D&B Report)

5. INFORMATION ON THE SOLUTION GROUP *(Cont'd)*

5.6.1 Design and Development of Equipment for Engineering Education and Research

Design and development of equipment for engineering education and research in SESB is divided into the two following areas:-

- **Software Development**
Includes the self developed SOLDAS, SOLCAL and SOLSIM (SOLSIM is currently in the R&D stage); and
- **Hardware Development**
Includes products and equipment under the trademark of SOLTEQ integrated with the relevant self-developed software.

The objectives of SESB's R&D activities are to:

- (i) sustain and grow business through the development and commercialisation of new products and services;
- (ii) create competitive advantages through significant value-adding on existing products to better meet customers' needs; and
- (iii) increase profitability through proprietary products.

SESB has an in-house R&D facility that allows it to design, build and test prototypes and products. Some of its R&D equipment and machinery are shared with the QA and testing division.

Currently, SESB has six (6) dedicated R&D personnel, and on an ad-hoc basis, is able to call upon the technical personnel of the other divisions to assist in R&D.

The key R&D strategies of the Group are as follows:

- (i) Increase R&D manpower, training and resources;
- (ii) Keep abreast with new development tools and technologies; and
- (iii) Collaborating with strategic principals.

The initial R&D activity including the formulation and drafting of the conceptual and detailed designs of product in development takes up a major portion of the product development activity. A product is developed in consultation with the end users of the equipment. As such, these activities are critical in laying the foundation for the Group's future business.

The emphasis is on development of new and improved products in line with the end users' current requirements based on their latest curriculum content. This focus on developing products that meet the evolving requirements of end users is essential in ensuring the commercialisation of the Solution Group's R&D efforts.

At the interim stage, a conceptual study is carried out by SESB based on their understanding of the user's requirements. Once the end users affirm the concept, detailed designs are drawn up by its engineers to manufacturing standards.

Software engineers from the Solution Group will study the experimental requirements of the equipment. They will then commence writing the software that will obtain the necessary data, process the said data and present it in a graphical form.

5. INFORMATION ON THE SOLUTION GROUP *(Cont'd)*

These activities are summarized as below:

- (a) Software – SOLDAS, SOLCAL, SOLSIM (SOLSIM is currently in the R&D stage)
 - Requirements Study
 - Mapping of software against hardware
 - Writing of Software

- (b) Hardware – SOLTEQ
 - Requirements Study
 - Conceptual Study
 - Approval in Principle
 - Detailed designs

5.6.2 Training & Curriculum Content Development

At the onset, SESB works closely with the identified end users on the requirements of the teaching content of its engineering education equipment. From these discussions, the curriculum content developed and the required training methods and tools are identified.

Although training for SESB's products is carried out when the product is completed or after the said products are delivered to the end user's laboratories, the planning for training starts at the beginning of the product life cycle. The product will be used as a teaching aid as such it is important that it fulfills the criteria of end users. Hence, it is imperative that the training content matches the curriculum content of the course being taught. Only then will the full value of the equipment as a teaching aid, to teach the necessary theories and experiments of the said engineering subject, be realized.

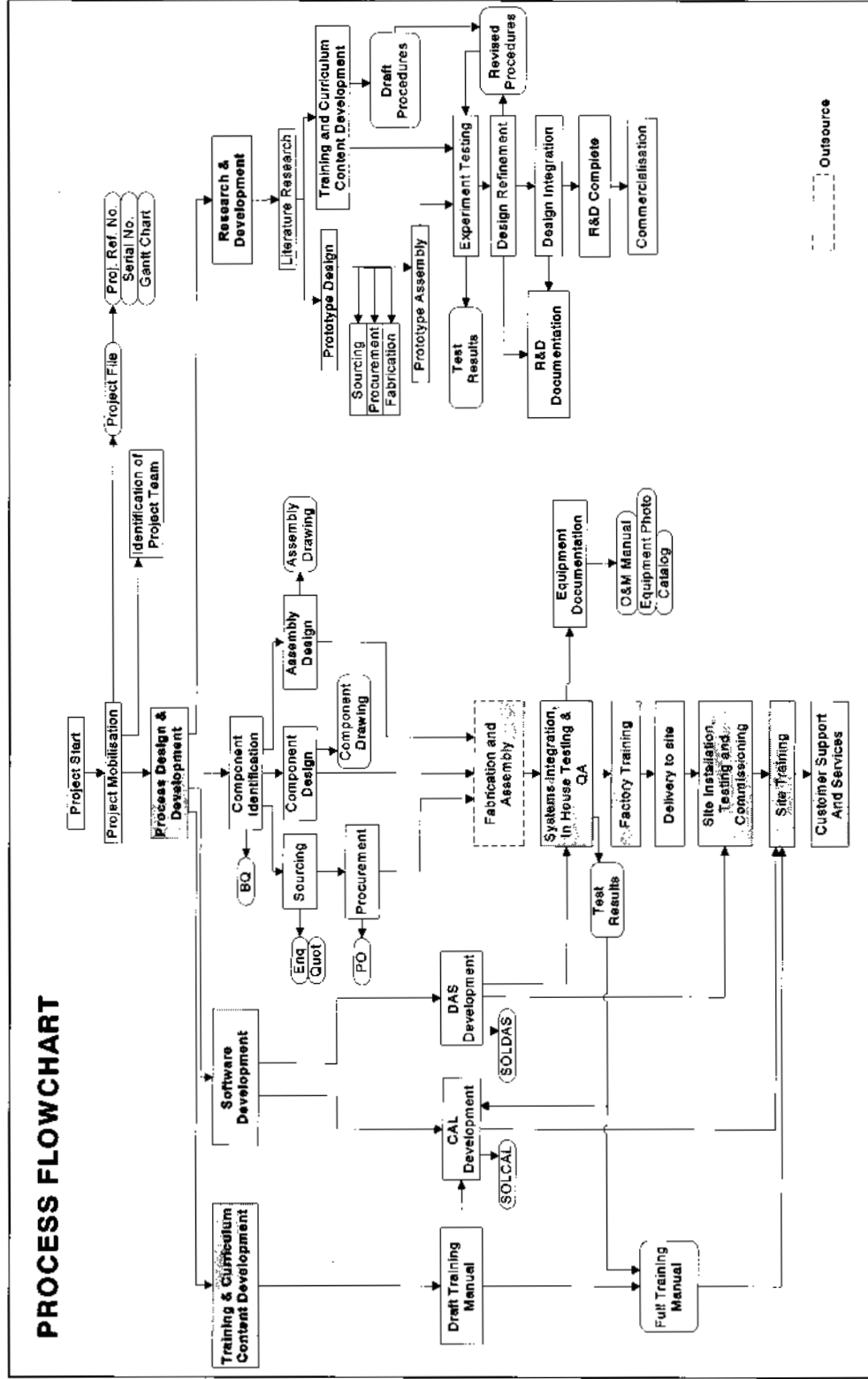
To meet this critical requirement, SESB intends to establish a dedicated department which would design, develop and implement training materials to complement new or existing curriculum for which its products cater for.

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5. INFORMATION ON THE SOLUTION GROUP

5.6.3 Process Flow

The typical process flow of operations of SESB is as follows:



5. INFORMATION ON THE SOLUTION GROUP

5.6.4 Process Design and Development

To ensure that the products supplied by the Company to its customers meets the quality standards expected, the Company conducts design reviews by comparing the design specifications against the end users requirements, verifying the design specifications with the end users project teams. The on-going reviews and checks are achieved through regular in-house meetings amongst the technical team members and meetings with the end-users in relation to their specific requirements.

5.6.5 Research and Development

Extensive research and development work is carried out when the product is a new model or requires an enhancement to the existing model. Research and development work is also undertaken upfront when the company anticipates a purchase order from a client, or when there is a market demand for such products.

5.6.6 Training and Curriculum Content Development

The training and curriculum content is developed to ensure that it meets the end user curriculum requirements. The end user will review a draft of the contents to ensure its suitability.

5.6.7 Software Development

Similarly, the software requirements of the teaching equipment are developed. SOLDAS and SOLCAL are the outputs from this process. The end user will review the software developed to ensure its suitability.

5.6.8 Fabrication and Assembly

Fabrication and assembly works are outsourced. Detailed specifications and drawings are provided to the fabrication contractor. Quality control is monitored throughout the whole process at the contractor's premises.

5.6.9 Systems Integration, In-House Testing and QA

All hardware and software components are integrated to form a complete functional equipment. This equipment is then tested in-house, together with the necessary quality control checks. Test results are documented and incorporated into the full teaching manual.

5.6.10 Factory Training

Factory training is provided to the end users to demonstrate the equipment's functionality and ability to teach the learning objectives and engineering theories for which it was designed for and to familiarize the end users with the equipment.

5.6.11 Site Installation, Testing and Commissioning

The equipment is packed and delivered to the customer's site where it is installed, tested & commissioned. All test results are verified and customer acceptance is obtained.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.6.12 Site Training

Site training is an intensive activity. Course lecturers and lab technicians will be provided with hands on operations and maintenance training. The teaching manual containing the theories and experimental procedures are followed step by step in detail to ensure that the end users thoroughly understand and familiarize themselves with the procedures. Documentation in the form of operation and maintenance manuals, lecturer and student manuals, hardware and software manuals are handed over to the client.

5.6.13 Customer Support and Services

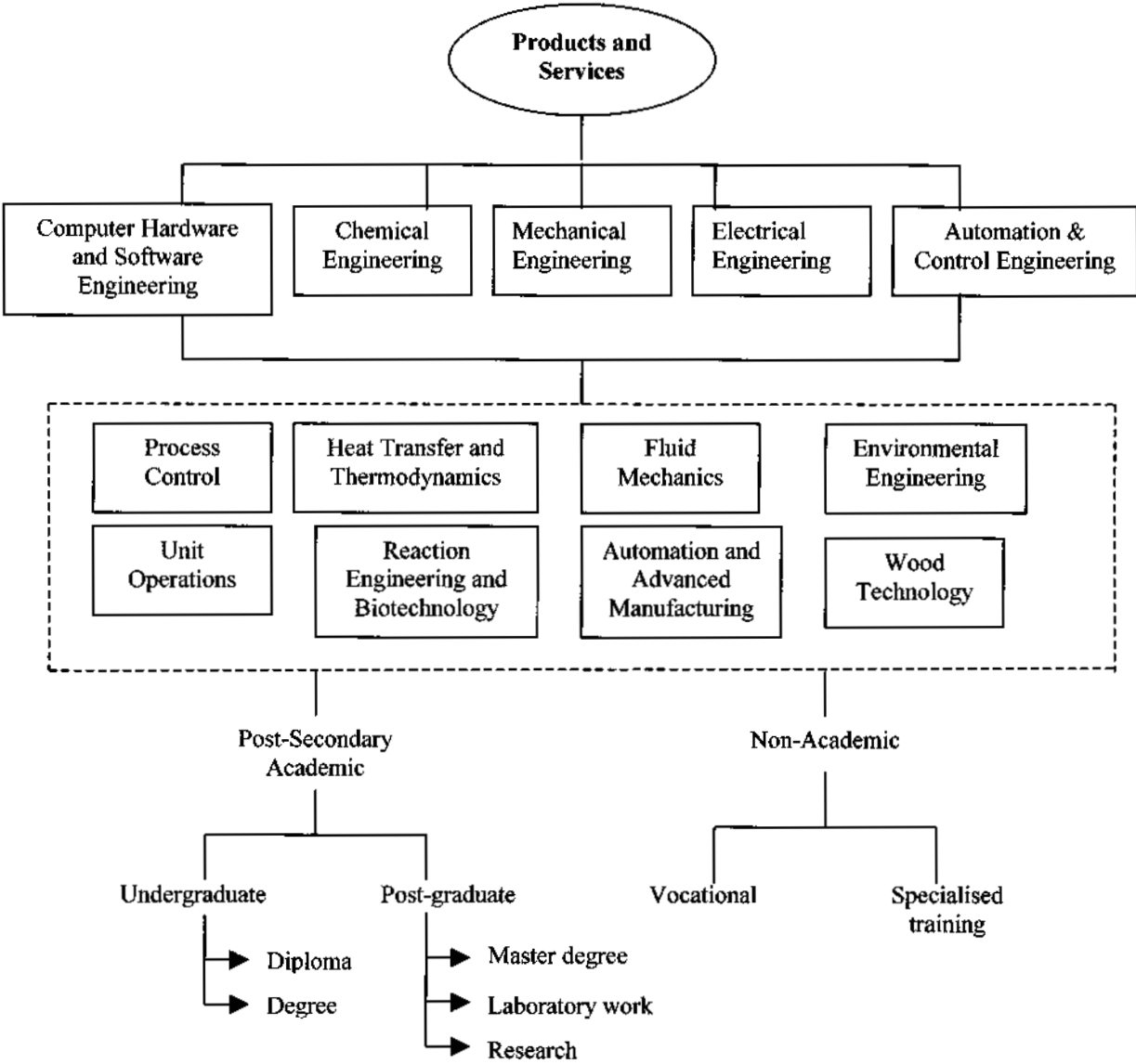
Great importance is placed on service and support. This is easily available to its customers since the equipment is locally manufactured and covered by warranty. Retraining is also provided for new users. Maintenance contract and refurbishment and/or upgrading are also offered.

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5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.6.14 Products and Services

Through the years, SESB has developed over 100 models of equipment for engineering education under the trademark of SOLTEQ. SOLTEQ products are also equipped with a data acquisition system called SOLDAS, which controls and monitors operations on the experiment processes and also used for experimental data analysis. Also complementing the SOLTEQ products is a state of the art training software called SOLCAL. SOLTEQ products and equipment are divided into the following principal categories as further described in Section 5.6.15 in this Prospectus.



5. INFORMATION ON THE SOLUTION GROUP (Cont'd)**5.6.15 Hardware equipment under the trademark of SOLTEQ**

| Category | Description |
|---|---|
| Process Control | : Basic equipment as well as pilot plant units equipped with electronic instrumentations and PCS. Units can be used for the study of industrial instrumentations and process control. |
| Unit Operations (in collaboration with QVF) | : Pilot plant equipment such as distillation columns, extractors, evaporators, absorbers, mixer settlers, etc. Units can be used for the study of mass and heat transfer, and the like. |
| Heat Transfer & Thermodynamic | : Equipment such as heat exchangers, thermal conduction units, refrigeration units, air conditional units, and the like. Units can be used for the study of heat transfer, energy balance, and the like. |
| Fluid Mechanics | : Equipment such as hydraulic/ hydrostatic apparatus, flow and friction apparatus, pump test apparatus, and the like. Units can be used for the study of fluid mechanics. |
| Environmental Engineering | : Equipment such as cyclone, scrubber, spray chamber, bag filter for the study of air pollution control and ion exchange, aeration, corrosion studies for water treatment and control. |
| Reaction Engineering & Biotechnology | : Various types of reactors and fermenters for the study of reactions and biochemical processes. Food engineering processes such as physical refining fractionation, hydrogenation, deodorizer, neutralizer and margarine production. |
| Automation & Advanced Manufacturing | : CIM for advanced manufacturing studies involving CNC machines, robotics, PLC automation, and ASRS conveyor systems. |
| Wood Technology | : Equipment for the treatment of wood products such as kiln drying and impregnation plant. |

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5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

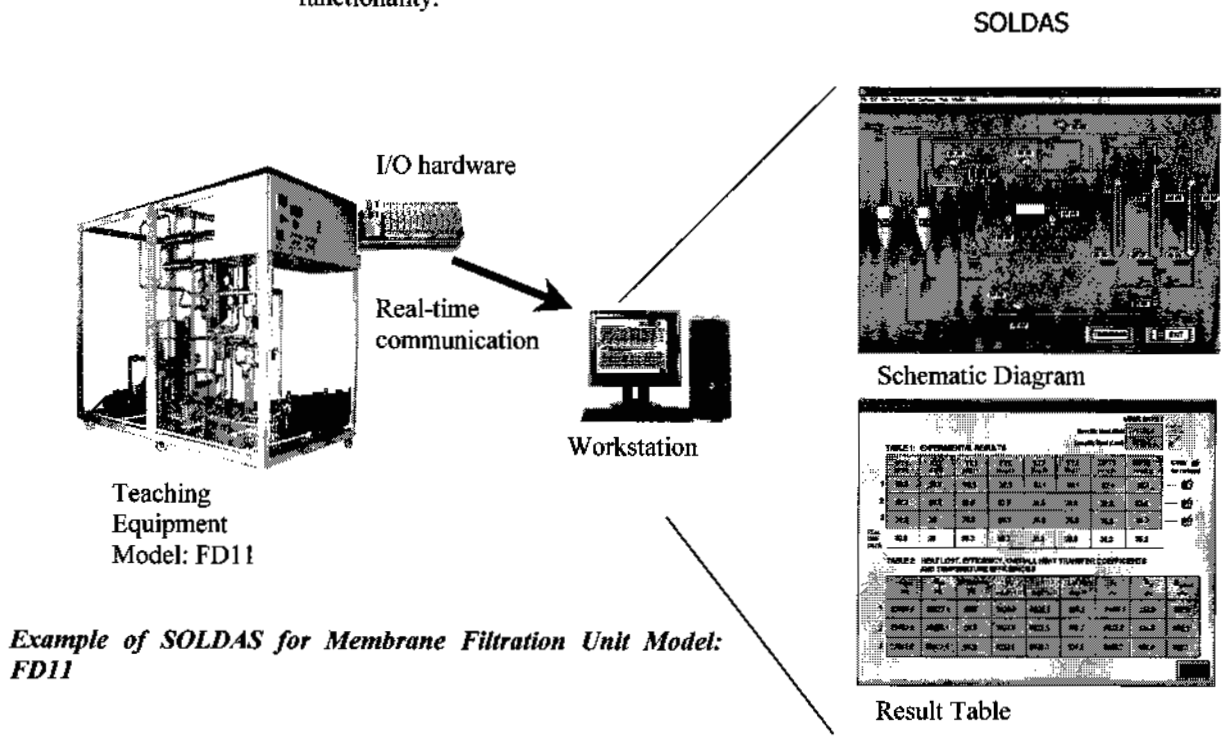
A deep knowledge of engineering principles is required for the engineering equipment produced by SESB. Therefore the process of designing, developing, systems integration, testing and commissioning plus preparation of manuals for the equipment requires a combined effort from many experts, particularly in the following areas:

- Computer hardware and software engineering
- Electrical engineering
- Mechanical engineering
- Chemical engineering and
- Automation and Control engineering

With the increasing ubiquity of computers today, SESB has developed its own product line of computer software that complements its equipment product range. These software packages are used for data acquisition and control (SOLDAS) as well as for computer aided learning (SOLCAL) to improve and enhance the learning process of the students.

5.6.16 Computer Data Acquisition Software under the trademark of SOLDAS

To date, SESB's R&D works carried out on software development to complement its range of engineering teaching equipment has yielded SOLDAS. This software is provided together with SOLTEQ equipment. Since SOLTEQ equipment are equipped with industrial standard electronic instruments and sensors, which enable interfacing to a computer, SOLDAS allows users to perform control and monitoring operations on the experiment processes and also experimental data analysis through its data acquisition functionality.



Example of SOLDAS for Membrane Filtration Unit Model: FD11

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

The diagram shown above gives an example on the architecture of a SOLDAS system for the Membrane Filtration Unit equipment. In this diagram, the equipment is connected to a PC via analogue and digital IO's of AD/DA modules. With SOLDAS, a graphical schematic drawing is provided for monitoring the real-time process value, sample on the flow, pressure and temperature readings for data analysis. A result table is then generated based on the sampled data. All the data will be stored into a spreadsheet file. The system is able to detect abnormal conditions of the equipment and will generate an alarm if the pressure is too high in order to control the flow and temperature.

5.6.17 Computer Aided Learning Software Tools under the trademark of SOLCAL

SOLCAL is essentially a teaching manual in an electronic format. With this tool, lecturers and students can learn about the equipment in an interactive manner. This is not only based on the theoretical part of the course since it also allows the user to see an animated sample experiment process flow. This will facilitate the teaching of the course material and accelerate the users' learning curve. In addition, it will prepare the users for the practical session.

5.7 Principal Markets

SESB markets its range of products and equipment through various channels locally and overseas.

Equipment purchases can be the most significant portion of the customer's long-term assets. Customers who purchase engineering education equipment require: -

- competitive pricing;
- relevant technology employed in the products;
- innovative features e.g. the e-Learning software;
- ease of maintenance;
- reliability; and
- rapid servicing or availability of parts.

Customers are therefore influenced by the reputation and track record of the company they are buying from with respect to fulfilling these criteria.

For the local market, the end users of SESB's products largely consist of public and private universities, university colleges, polytechnics, skilled training centers, advanced technical institutions and colleges. SESB continuously develops new products in consultation with end users.

Products that have undergone the development cycle and are deemed 'off-the-shelf' products are marketed directly by the Group, or in partnership with various parties in the industry.

In addition to direct sales, SESB is currently developing a network of local sales agents, SESB has also intensified their marketing and distribution efforts internationally. The group has appointed agents in South East Asia, particularly Indonesia, Thailand, Vietnam and Singapore, as well as the Middle East. For the FYE 31 December 2004, local sales accounted for 96.1% of total revenue while export sales contributed 3.9%.

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5. INFORMATION ON THE SOLUTION GROUP *(Cont'd)*

5.8 Marketing and distribution

Through the years, the Solution Group has successfully marketed and sold its products and services locally to the providers of engineering education. The Solution Group has established itself as a pioneer in the development and supply of engineering education equipment to the local market, and is now expanding its market overseas. The Solution Group's target market remains focused on the engineering education industry. Through the determination and commitment of its management and employees, the Solution Group enjoys a good reputation in its area of business, mainly achieved through personal sales to its customers.

With the Solution Group's expansion both locally and overseas, the Group's sales and marketing methods will need to change to adapt to its expanding customer base. The Solution Group will expand its current sales and marketing team to cater for this eventuality. A dedicated team handles the local market, and will continue to pursue direct sales as well as supervise sales through appointed agents in each state of the country.

A team will also be set up to follow through international sales. Currently, a Sales and Marketing Consultant follows through international sales. He is responsible for appraising potential agents in these countries and thereafter appointing dynamic agents with extensive knowledge of their markets. The international team will be required to train the agents sufficiently to sell and market the Solution Group's products in these markets.

A product training centre will be established within the new premises by the Solution Group to cater for the training of both agents and end users. This centre will also be an important marketing tool for the Solution Group in introducing end users to its full range of products.

The Solution Group has strived to build a track record with providers of engineering education. Going forward, the marketing strategy of the Group is to leverage on its track record to maintain the Group's leadership position in its areas of strength as well as to expand its product range in other engineering categories. With the introduction of new products, the Solution Group anticipates a larger profit margin. Increased profitability for established products will largely stem from an increase in volume sales. Going forward, revenue is expected to be driven by expansion into foreign markets and continued growth in the local market.

As a result of a government initiative to distribute engineering facilities based on population distribution, engineering education providers are accordingly distributed throughout the states. To effectively market their expanding range of products throughout Malaysia, the Solution Group will be establishing a network of agents throughout the country.

Other methods of marketing include the distribution of promotional CD-ROMs and access to the Solution Group's website. These IT based approaches will be particularly important in penetrating the international market.

5.9 Technologies Used or to be Used

The Group currently utilises IT in its products and services development and to deliver some of its services. Some of the technologies utilised by the Group are as follows.

5.9.1 Programming Languages

- a) Visual Basic;
- b) HTML (Hyper Text Mark Up Language); and
- c) XTML (Extended Text Mark Up Language)

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.9.2 Operating System

- a) Windows based operating system; and
- b) Windows CE.Net & Windows XP Embedded

5.9.3 Telecommunications Protocols and Platforms

- a) Transmission Control Protocol (TCP)/Internet Protocol (IP); and
- b) Ethernet for Local Area Network.

5.9.4 Other Development Tools and Equipment

- a) MacroMedia Studio MX;
- b) InduSoft Web Studio; and
- c) Pro/Engineer.

5.10 Operating Licenses

The Group's business activities do not presently require any industry specific permits or licenses from any authorities.

5.11 Trademarks and Other Intellectual Property Rights

5.11.1 Trademarks

The trademark for SOLTEQ has been registered with SESB as the proprietor for a period of ten (10) years until 29 October 2011 under Class 9, in respect of laboratory and teaching equipment and apparatus for engineering education and research. The table below sets out the remaining trademarks that SESB has applied to register with the Registrar of Trademarks, Intellectual Property Corporation of Malaysia and their status thereon:-

| No. | Trademark | Application Date | Classes Applied for in Malaysia | Status |
|-----|-----------|------------------|---------------------------------|----------------------|
| 1. | SOLDAS | 1 March 2004 | 9 | Pending registration |
| 2. | SOLCAL | 1 March 2004 | 9 | Pending registration |
| 3. | SOLSIM | 1 March 2004 | 9 | Pending registration |

5.11.2 Copyright

Solution owns the copyright on all its self-developed software namely SOLDAS, SOLCAL and SOLSIM.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.12 Research & Development

The Solution Group is actively involved in R&D activities and the subsequent commercialisation of its R&D works in collaboration with local universities. The Company is of the opinion that these activities will contribute to the development of home-grown technologies, with the aim of substituting imports, which will benefit the country in the long term. The Group uses these technologies in the production of its locally-made SOLTEQ engineering teaching equipment, which is of international standard. All equipment that the Group develops under the trademark SOLTEQ is a product of its R&D efforts.

The Group has also successfully developed a CIM system under the Commercialisation of R&D Fund ("CRDF"), obtained through the MTDC. CIM is a system that replicates modern manufacturing operations (which will be of benefit to the Malaysian economy) and will serve as an excellent reference to the Group's expertise in developing related equipment for Advanced Manufacturing. The development of CIM shows that the Solution Group is capable of developing complex and advanced systems locally, and competing with international products. The intellectual property rights to CIM are held wholly by SESB under a Fund Agreement dated 4 January 2000 between SESB and the MTDC.

The CIM system was developed for teaching purposes and is used in polytechnics and universities. The CIM System is a manufacturing model for the unmanned factory of the future. It is used for teaching and training of manufacturing engineering students in areas related to automation, material handling, system integration, CNC machining and robotics. It is the flagship product for SESB's advanced manufacturing product range and was commercialised in 2002.

The Solution Group's customers also provide excellent support for the development of the Solution Group's products, particularly at the conceptualisation stage. This ensures that the product being developed is relevant to the current technology needs of the customer and also meets the stringent requirements of the customer.

The Solution Group's R&D team focuses on the key areas of development identified by the Group. These areas are Mechanical Engineering, Chemical Engineering and Software Engineering and are headed by experienced personnel of the Solution Group.

The R&D team will focus their R&D efforts in 2 areas as follows:

1. Development of new products in existing categories; and
2. Development of e-Learning software

There are three categories of software developed under the trademark of SOLDAS, SOLCAL and SOLSIM. The Solution Group has successfully carried out R&D works on SOLDAS and SOLCAL to date. Based on this, Solution has commercialized SOLDAS and SOLCAL, and is currently bundling it together with the equipment. The Solution Group began R&D works on SOLSIM in January 2005. Solution is currently in the process of developing a prototype of SOLSIM.

For FYE 2002 and FYE 2003, R&D expenditure was not separately categorized based on the accounting treatment of SESB's financial statements. Hence, during this period R&D expenditure cannot be separately quantified.

R&D expenditure was only separately categorized in FYE 2004. As per the audited financial statements of SESB for FYE 2004, R&D expenditure accounted for approximately 0.33% of the revenue for FYE 2004. The management of Solution estimates that had the full amount of R&D expenditure incurred for FYE 2004 been separately categorized, it would account for approximately 1.87% of the revenue for FYE 2004.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.12.1 R&D timeframe for development of software and equipment

| R&D FOR SOFTWARE | | | |
|-----------------------------|---|-------------------------------|------|
| PRODUCT - SOLSIM | | | |
| No. | Development Milestone | Year Milestone to be Achieved | |
| | | 2005 | 2006 |
| 1. | <ul style="list-style-type: none"> • Resource gathering and setup <ul style="list-style-type: none"> - Logistics and office arrangement - Labour allocation (new expert recruitment) - Network and computer set up | X | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis <ul style="list-style-type: none"> - Data gathering - Development tools identification | X | |
| 3. | <ul style="list-style-type: none"> • Design <ul style="list-style-type: none"> - High level design - Low level design - Interface design - Data design | X | X |
| 4. | <ul style="list-style-type: none"> • Implementation <ul style="list-style-type: none"> - Program and procedure writing - Installation | X | X |
| 5. | <ul style="list-style-type: none"> • Testing and debugging <ul style="list-style-type: none"> - Integration testing - Beta testing | X | X |

| R&D FOR EQUIPMENT | | | | |
|--|--|-------------------------------|------|------|
| PRODUCT CATEGORY - HEAT TRANSFER AND THERMODYNAMICS | | | | |
| No. | Development Milestone | Year Milestone to be Achieved | | |
| | | 2005 | 2006 | 2007 |
| 1. | <ul style="list-style-type: none"> • Resource Allocation <ul style="list-style-type: none"> - Labour and tools | X | | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis <ul style="list-style-type: none"> - Data gathering | X | | |
| 3. | <ul style="list-style-type: none"> • Design <ul style="list-style-type: none"> - Conceptual design - Detail design - Process design - Equipment design | X | X | |
| 4. | <ul style="list-style-type: none"> • Implementation <ul style="list-style-type: none"> - Component Sourcing and procurement - Fabrication and Assembly (Outsourced) - Installation - Systems Integration | X | X | X |
| 5. | <ul style="list-style-type: none"> • Documentation <ul style="list-style-type: none"> - User's manual - Instructional manual - Experimental manual - Maintenance manual | X | X | X |
| 6. | <ul style="list-style-type: none"> • e-Learning Module Development <ul style="list-style-type: none"> - SOLCAL - SOLDAS | X | X | X |

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

| R&D FOR EQUIPMENT | | | | |
|--|--|-------------------------------|------|------|
| PRODUCT CATEGORY - HEAT TRANSFER AND THERMODYNAMICS | | | | |
| No. | Development Milestone | Year Milestone to be Achieved | | |
| | | 2005 | 2006 | 2007 |
| 7. | <ul style="list-style-type: none"> • Testing and commissioning - Sample result collection | X | X | X |

| R&D FOR EQUIPMENT | | | | |
|---|---|-------------------------------|------|---|
| PRODUCT CATEGORY - ENVIRONMENTAL ENGINEERING | | | | |
| No. | Development Milestone | Year Milestone to be Achieved | | |
| | | 2005 | 2006 | |
| 1. | <ul style="list-style-type: none"> • Resource Allocation - Labour and tools | X | | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis - Data gathering | X | | |
| 3. | <ul style="list-style-type: none"> • Design - Conceptual design - Detail design - Process design - Equipment design | X | | X |
| 4. | <ul style="list-style-type: none"> • Implementation - Component Sourcing and procurement - Fabrication and Assembly (Outsourced) - Installation - Systems Integration | X | | X |
| 5. | <ul style="list-style-type: none"> • Documentation - User's manual - Instructional manual - Experimental manual - Maintenance manual | X | | X |
| 6. | <ul style="list-style-type: none"> • e-Learning Module Development - SOLCAL - SOLDAS | X | | X |
| 7. | <ul style="list-style-type: none"> • Testing and commissioning - Sample result collection | X | | X |

| R&D FOR EQUIPMENT | | | | |
|---|---|-------------------------------|------|------|
| PRODUCT CATEGORY - UNIT OPERATIONS | | | | |
| No. | Development Milestone | Year Milestone to be Achieved | | |
| | | 2005 | 2006 | 2007 |
| 1. | <ul style="list-style-type: none"> • Resource Allocation - Labour and tools | X | | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis - Data gathering | X | | |
| 3. | <ul style="list-style-type: none"> • Design - Conceptual design - Detail design - Process design - Equipment design | X | X | |

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

| R&D FOR EQUIPMENT | | | | |
|---|---|--------------------------------------|---|---|
| PRODUCT CATEGORY – UNIT OPERATIONS | | | | |
| | | Year Milestone to be Achieved | | |
| | | | | |
| 4. | <ul style="list-style-type: none"> • Implementation - Component Sourcing and procurement - Fabrication and Assembly (Outsourced) - Installation - Systems Integration | X | X | X |
| 5. | <ul style="list-style-type: none"> • Documentation - User's manual - Instructional manual - Experimental manual - Maintenance manual | | X | X |
| 6. | <ul style="list-style-type: none"> • e-Learning Module Development - SOLCAL - SOLDAS | | X | X |
| 7. | <ul style="list-style-type: none"> • Testing and commissioning - Sample result collection | | X | X |

| R&D FOR EQUIPMENT | | | | |
|---|---|--------------------------------------|------|--|
| PRODUCT CATEGORY – FLUID MECHANICS | | | | |
| No. | Development Milestone | Year Milestone to be Achieved | | |
| | | 2006 | 2007 | |
| 1. | <ul style="list-style-type: none"> • Resource Allocation - Labour and tools | X | | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis - Data gathering | X | | |
| 3. | <ul style="list-style-type: none"> • Design - Conceptual design - Detail design - Process design - Equipment design | X | X | |
| 4. | <ul style="list-style-type: none"> • Implementation - Component Sourcing and procurement - Fabrication and Assembly (Outsourced) - Installation - Systems Integration | X | X | |
| 5. | <ul style="list-style-type: none"> • Documentation - User's manual - Instructional manual - Experimental manual - Maintenance manual | X | X | |
| 6. | <ul style="list-style-type: none"> • e-Learning Module Development - SOLCAL - SOLDAS | X | X | |
| 7. | <ul style="list-style-type: none"> • Testing and commissioning - Sample result collection | X | X | |

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

| R&D FOR EQUIPMENT | | | |
|--|---|-------------------------------|------|
| PRODUCT CATEGORY - BIOTECHNOLOGY AND REACTION ENGINEERING | | | |
| No. | Development Milestone | Year Milestone to be Achieved | |
| | | 2005 | 2006 |
| 1. | <ul style="list-style-type: none"> • Resource Allocation - Labour and tools | X | |
| 2. | <ul style="list-style-type: none"> • Requirements Analysis - Data gathering | X | |
| 3. | <ul style="list-style-type: none"> • Design - Conceptual design - Detail design - Process design - Equipment design | X | X |
| 4. | <ul style="list-style-type: none"> • Implementation - Component Sourcing and procurement - Fabrication and Assembly (Outsourced) - Installation - Systems Integration | X | X |
| 5. | <ul style="list-style-type: none"> • Documentation - User's manual - Instructional manual - Experimental manual - Maintenance manual | X | X |
| 6. | <ul style="list-style-type: none"> • e-Learning Module Development - SOLCAL - SOLDAS | X | X |
| 7. | <ul style="list-style-type: none"> • Testing and commissioning - Sample result collection | X | X |

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5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.13 Key Achievements / Milestones

The key milestones of SESB are as follows:-

| Date | Event |
|-----------------|---|
| 6 December 1999 | SESB was granted MSC status. |
| 4 January 2000 | SESB was granted the Commercialisation of R&D Fund. |
| August 2004 | Product Training and Demonstration Centre in Taman Perindustrian Kinrara begins operations. |

5.14 Employees

As at 16 June 2005, the Group has a workforce of 20 employees. Its employees can be generally segregated into the following categories:

| Category | 5 years or less | 6-10 years | > 10 years | Total |
|---|-----------------|------------|------------|-----------|
| 1. Management and Professional | 1 | 1 | 2 | 4 |
| 2. Technical, R&D and other professionals | 6 | - | - | 6 |
| 3. Sales & Marketing | 1 | - | - | 1 |
| 4. Non-technical | 2 | 1 | - | 3 |
| 5. Trainees | 6 | - | - | 6 |
| Total | 16 | 2 | 2 | 20 |

None of the employees of the Solution Group belong to any labour union.

5.15 Location of Principal Assets and Place of Business

The location of principal assets and place of business of the Group are as follows:

| Company | Location of property | Purpose |
|---------|--|--|
| SESB | Lot G-2A, Incubator 3, Technology Park Malaysia | Software Engineering Department Software R&D Department |
| SESB | 3, Jalan TPK 2/4, Taman Perindustrian Kinrara, Puchong, 47100 Selangor | Principal Office Equipment Demonstration and Training Centre, Equipment R&D Department Design & Engineering Department Sales & Marketing Department Finance & Administration Department Customer Support and Services Department |

There have been no interruptions in the business, which may have had significant impact on the operations of the Group during the past twelve (12) months.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.16 Quality Assurance

To ensure that the products supplied by the Group to its customers meets the quality standards expected, the Group conducts design reviews by comparing the design specifications against the end users requirements, verifying the design specifications with the end users project teams. The on-going reviews and checks are achieved through regular in-house meetings amongst the technical team members and meetings with the end-users in relation to their specific requirements.

To ensure the quality of services and products offered, a set of QA activities are carried out at all stages of the production process. The QA activities are summarised below:-

- a) Unit Testing
- b) Functionality Testing
- c) Integration Testing
- d) Performance Testing

In order to meet the set quality standards explained above, the company practices the following methodological operating processes:-

- a) ensuring all the necessary tools and facilities are in place to complete the project successfully;
- b) quality management to ensure that the project will satisfy the end users requirements;
- c) time management to ensure the timely completion of the project;
- d) cost management to ensure that the project is completed within the approved budget; and
- e) procurement management to ensure the requisite materials to complete the project are efficiently acquired.

The Group has identified an appropriate consultant to assist in its application for ISO 9001 certification, and targets to achieve the certification by the end of 2005.

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5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.17 Major Customers

The top ten (10) major customers of the Solution Group for the financial year ended 31 December 2004 are as follows:

| No | Name of Customer | End User | Length of Relationship (Years) | Proportion of total value to total turnover (%) |
|-----|---|---|--------------------------------|---|
| 1. | Kausar Corporation Sdn. Bhd. | Malaysian Institute Of Chemical Engineering Technology (MICET) | 3 | 51.56 |
| 2. | MOE | 1) Politeknik Tanjung Malim, Kulim & Melimau | 11 | 17.15 |
| 3. | Ministry of Human Resources | Institute Latihan Perindustrian, Melaka | 2 | 9.96 |
| 4. | Maritime & Industrial Engineers Sdn. Bhd. | New Sabah Medical Centre | 4 | 4.98 |
| 5. | Winpower Corporation Sdn. Bhd. | 1) Universiti Teknologi Petronas (UTP) 2) Kolej Universiti Teknologi Tun Hussien Onn (KUITTHO) | 2 | 3.66 |
| 6. | Global Plus Solutions Sdn. Bhd. | 1) MICET 2) Kolej Universiti Kejuruteraan & Teknologi Malaysia (KUKTEM) 3) Kolej Universiti Kejuruteraan Utara Malaysia (KUKUM) 4) Universiti Sains Malaysia (USM) | 8 | 3.21 |
| 7. | Universiti Sains Malaysia | Universiti Sains Malaysia | 5 | 1.57 |
| 8. | Kumpulan Saintifik F.E Sdn. Bhd. | MICET | 5 | 1.29 |
| 9. | Burgan Equipment Co. | Qatar University, Qatar | 1 | 1.21 |
| 10. | Plexus (Xiamen) Co. Ltd | Plexus (Xiamen) Co. Ltd | 2 | 1.03 |
| | | | TOTAL | 95.62 |

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

The Group is not dependent on any particular customer as the Group secures its customers on a project to project basis. These projects are secured by way of successful tender, direct award of projects or direct orders from end users. Once a particular project is completed, the customers are not contractually bound to award further projects to the Company in the future. Over the years, the Group has built-up a large clientele base and has minimised the risk of being over-dependent on certain customers. Sales with the top ten (10) customers of the Solution Group amounted to 95.62% of total turnover for FYE 31 December 2004.

5.18 Major Suppliers

The top ten (10) major suppliers of the Solution Group for the financial year ended 31 December 2004 are as follows:

| No | Name of Supplier | Category | Length of Relationship (Years) | Percentage of Cost of Goods Sold (%) |
|-----|---------------------------------------|--------------------------------|--------------------------------|--------------------------------------|
| 1. | QVF Engineering GmbH. | Laboratory glassware | 11 | 51.10 |
| 2. | Soon Foong Engineering | Fabrication works / materials | 6 | 7.80 |
| 3. | Flexible Automation System Sdn. Bhd. | Mitsubishi Robot | 4 | 6.46 |
| 4. | Yokogawa Electric (M) Sdn. Bhd. | Field Instruments | 7 | 4.82 |
| 5. | Kumpulan Saintifik F.E Sdn. Bhd. | Laboratory Apparatus | 7 | 2.85 |
| 6. | Advance Thermal Engineering Sdn. Bhd. | Steam Boiler | 1 | 1.89 |
| 7. | Nematron Europe Ltd | IT & Automation Component | 8 | 1.82 |
| 8. | Hirotec System (M) Sdn. Bhd. | On-line Double Conversion UPS | 1 | 1.28 |
| 9. | Worldwide Exporter Inc. | IT & Automation Component | 8 | 1.27 |
| 10. | Dell Asia Pacific Sdn. | Computer Hardware and Software | 4 | 1.07 |
| | | | TOTAL | 80.36 |

Due to the nature of its business, the suppliers of the Group will vary depending on the type of project secured. In any one particular year, the Group may seem to rely on any one particular supplier as a result of the size and the requirements of the project secured. The Group is not dependent on any one particular supplier as it has a panel of regular suppliers, due to their good pre and post sales service and competitive pricing. There is a limited risk of monopolization as the Solution Group is able to source from a wide range of alternate suppliers. The Group enjoys steady and long-term relationships with a number of suppliers, both local and overseas, and does not depend solely on one supplier for its raw material supplies.

5. INFORMATION ON THE SOLUTION GROUP (*Cont'd*)

5.19 Prospects, Strategies and Future Plans

The Solution Group is primarily involved in the Malaysian education sector. Although the Group has initiated plans to expand internationally, the local Malaysian market remains the Group's primary market in the medium term.

Education remains the priority of the Malaysian Government. Investment in the education sector is important as it contributes to improving the quality of Malaysia's human resources. Within the education sector, the Government has placed emphasis on the engineering education sub-sector. The Government is committed to keep abreast of the technological changes in basic engineering education as well as new developments in engineering education by introducing courses in Advanced Manufacturing, Industrial Automation and Robotics.

In line with this commitment, the Government has continuously allocated substantial financial resources to the education sector and implemented various policies so that sufficient manpower is trained in these new technologies. This proactive move will address the manpower requirements of the country in the near future. The Group is of the opinion that this proactive stance taken by the Government will benefit the country in the long term, as more people will be equipped with the necessary skills to propel the country towards developed status.

More private universities and colleges are offering engineering courses that are increasingly specialised and the Group forecasts that there will be a higher demand for the establishment of these specialised engineering laboratories in these private universities and colleges.

The Solution Group has the capabilities built over thirteen (13) years of operations to further consolidate its position in the industry and to develop the necessary engineering equipment, which will be required by the education sector. With this in mind, the Solution Group has formulated the following vision, mission and objectives.

Vision

The Solution Group's vision is to become the local and international leader in providing teaching equipment and e-Learning software tools for engineering education.

Mission

To become a leader both locally and internationally as set out in the Company's Vision Statement, the Solution Group intends to continue to set high goals and standards. The Solution Group is committed to continuously break new ground in developing teaching equipment and e-Learning software tools for engineering education that uses cutting-edge technologies.

Objectives

To achieve this vision and mission, the Solution Group is determined to meet the following objectives:

- Sales growth of an average of 20% every year,
- Establish a network of local agents,
- Target at least 24 international agents by the year 2008,
- Obtain ISO 9001 quality certification by the end of 2005,
- Conduct R&D to continuously refine existing products and develop new products, and
- Prompt delivery of products and services, and effective and affordable after-sales-services.

5. INFORMATION ON THE SOLUTION GROUP *(Cont'd)*

5.19.1 Business Activities Development Plan

The Solution Group will continue to focus on its key business activities. Effort will be concentrated on developing and marketing SOLTEQ products together with value added e-Learning software features. The Group is currently in the planning stage in the development of new simulation software under the trademark of SOLSIM. These products are where the strength of the Solution Group lies and where the Solution Group plans to build upon.

International sales and marketing will become increasingly important in the years to come and will be another business activity that will be developed accordingly in order to meet the Solution Group's sales growth objectives.

5.19.2 Products and Services Development Plan

Being a pioneer in the development of equipment for engineering education, the Group has identified the following core areas:-

- (i) expansion of existing products and services through enhancing the current range of the Solution Group's products and services; and
- (ii) development of new products through the following methods: -
 - a. New models in existing categories especially in thermodynamics, environmental engineering, unit operations and biotechnology; and
 - b. e-Learning software – Multimedia interactive and simulation teaching tools for engineering education

5.19.3 Expansion of Existing Products and Services

The Solution Group has put continuous effort in enhancing its existing range of products in order to keep in line with changes in curriculum, as well as changes in the technology employed. As mentioned earlier, the Solution Group has more than 100 different types of products in its range. In order to be the preferred supplier for this product range, the Solution Group has to continuously advance the innovative features and quality of its products.

The current trend in teaching today emphasises the use of computers for purposes other than the physical experimentation work using engineering equipment. The Solution Group has made efforts to stay current with such trends, and strives to improve its existing products with e-Learning software.

5.19.4 New Products

- (a) **New models in current categories especially in thermodynamics, environmental engineering, unit operations and biotechnology**

The Solution Group will continue to develop new products in current categories especially in thermodynamics, environmental engineering and unit operations in an effort to provide a more complete range of products in these categories.

The Solution Group is exploring product development in Biotechnology. This is in line with the Government's emphasis in this area with the setting up of various facilities e.g. the Bio-Valley.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

Examples of new models that are planned for development are as follows:-

(i) Heat Transfer and Thermodynamics

1. 4 Stroke Engine Test Bed
2. Steam Plant
3. Steam to Water heat transfer
4. Laminar/Viscous Heat Transfer
5. Film & Dropwise Condensation Unit
6. Mechanical Heat Pump
7. Waste Water Turbulent Flow Heat Exchanger
8. Boiler Simulator
9. Flow Boiling Heat Transfer

(ii) Environmental Engineering

1. Aerobic Digester
2. Anaerobic Digester
3. Flocculation Unit
4. Permeability/Fluidisation Studies Unit
5. Deep Bed Filter
6. Model Sedimentation Tank

(iii) Unit Operations

1. Multicolumn Gas Absorber
2. Heat Exchanger Unit
3. Climbing and Natural Film Evaporator
4. Gas Scrubber
5. Double Effect Evaporator

(iv) Fluid Mechanics

1. Pipe Network Apparatus
2. Bench top Series/Parallel Pump
3. Free and Forced Vertex

(v) Biotechnology and Reaction Engineering

1. Fermenters and Bioreactors
2. Clean Water System
3. Cross Flow System
4. Chromatography

b) e-Learning Software

The Group is planning to introduce computer-based training using simulation (SOLSIM), for which the Solution Group is currently in the process of applying to MDC for a grant to develop SOLSIM. MSC status companies are eligible to apply for grants under the Multimedia Super Corridor Research and Development Grant Scheme ("MGS"). In addition, part of the proceeds from the Listing would be directed towards R&D, including the development of SOLSIM.

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

In approving grants to MSC status companies, the MDC may impose certain terms and conditions that may include the sharing of the intellectual property rights with MDC. In accepting the grant from the MDC, the Solution Group shall consider the merits and detriments of the terms and conditions imposed by MDC (including the sharing of the intellectual property rights) before accepting the grant.

These simulation tools will shorten the learning curve of the student and offer them a better choice of understanding information and knowledge delivered to them. This is an on-going project and the Solution Group plans to eventually have a copy of SOLDAS, SOLCAL and SOLSIM integrated into each of our existing and new engineering equipment.

It is the Solution Group's belief that technology improvements in education will continue to make headway and will benefit the education system in many ways. One major improvement will be the increasing use of computer and IT in teaching.

The Solution Group intends to take engineering education to the next level by developing innovative products and services in this growing area to meet the increasing specialised needs of the engineering education market. Thus, the development of SOLSIM is viewed as an excellent potential to fulfill the education market needs for alternative teaching methods.

SOLSIM is used for equipment simulation and modeling. It needs extensive engineering and programming capabilities to develop. With this tool, lecturers and students can learn about engineering principles and also be able to conduct experiments by just using the computer. Without hardware, the cost of delivering the engineering knowledge is significantly reduced, and with Web-based capabilities, it will allow the user to study engineering and conduct experiments from anywhere and at any time. These activities are not restricted by the resources and time available in a laboratory setting. In addition, it will allow the users to experiment with the equipment using different parameter settings and control parameters in a computer.

5.19.5 Key Milestones for the Next Three Years

| No. | Milestone | Year Milestone to be Achieved | | |
|-----|--|-------------------------------|------|------|
| | | 2005 | 2006 | 2007 |
| 1. | Listing of Solution | X | | |
| 2. | Achieve international quality certification (ISO 9001) | X | | |
| 3. | Appoint agents to export to key countries in South East Asia (particularly Indonesia, Thailand, Vietnam and Singapore) and the Middle East | X | X | X |
| 4. | Undertake R&D to develop new products in existing categories | X | X | X |
| 5. | Commercialisation of SOLSIM | | | X |

5. INFORMATION ON THE SOLUTION GROUP (Cont'd)

5.19.6 Key Success Factors

Going forward, the key success factors for the Solution Group are as follows:

1. Significant investments in research and development and engineering with the aim to focus on developing new products and services.
2. Increasing its knowledge base through strategic partnerships with the providers of engineering education.
3. Continuous development and enhancement of competitively priced quality products with increasing value-added features.
4. Maintaining and growing the Solution Group's referral networks to generate new and repeat sales.
5. Penetrating into foreign markets and establishing a good track record in these markets.
6. Improving efficiencies of operations.

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