

**2. INFORMATION SUMMARY**

**THE FOLLOWING PROSPECTUS SUMMARY IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT THE KZEN GROUP AND THE PUBLIC ISSUE. INVESTORS SHOULD READ AND UNDERSTAND THE ENTIRE PROSPECTUS PRIOR TO DECIDING WHETHER TO INVEST IN THE PUBLIC ISSUE SHARES. THE FOLLOWING INFORMATION IS DERIVED FROM, AND SHOULD BE READ IN CONJUNCTION WITH THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS.**

**2.1 History and Business**

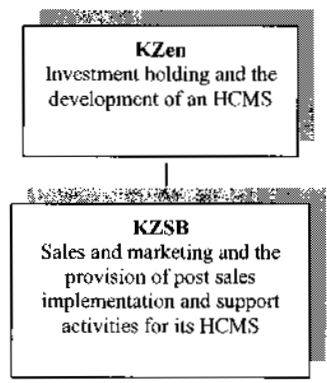
KZen was incorporated as a private limited company in Malaysia under the Act on 15 March 2004. The Company was converted to a public company on 1 June 2004, for the purpose of the Listing Exercise on the MESDAQ Market.

KZen's principal activities are investment holding and the development of an Enterprise Human Capital Management System under the KaiZenHR brandname ("HCMS Software"). The principal activities of the Group are the development, sales and marketing and the provision of post sales implementation and support activities for its Enterprise Human Capital Management System. The principal activities of its subsidiary are as follows:

<b>Subsidiary of</b>	<b>Country of Incorporation</b>	<b>Principal activities</b>
<b>KZen</b>		
<b>KZSB</b>	Malaysia	Sales and marketing and the provision of post sales implementation and support activities for its Enterprise Human Capital Management System.

KZSB was incorporated on 4 December 1997 as a private limited company under the Act. KZSB is the appointed master distributor for the HCMS Software. Its role includes sales and marketing and the provision of post sales implementation and support activities.

The KZen Group structure can be depicted as follows: -



Further information on the above companies is disclosed in Section 6 of this Prospectus.

## 2. INFORMATION SUMMARY (Cont'd)

### 2.2 Ownership and Management

Based on the Register of Members of KZen as at 14 October 2005, being the latest practical date prior to the printing of this Prospectus, the direct and indirect interest of the Directors, key management, substantial shareholders and Promoters in the issued and paid-up share capital of the Company before and after the Public Issue are as follows:-

Name	Nationality	<-----Before Public Issue----->				<-----After Public Issue----->			
		Direct		Indirect		Direct		Indirect	
		No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
<b>Substantial Shareholders and Promoters:</b>									
Ng Boon Sing *1,2	Malaysian	11,169,000	24.82	-	-	11,169,000	17.18	-	-
Chow Wei Hoon *2	Malaysian	10,840,500	24.09	-	-	10,840,500	16.68	-	-
Chan Seong Sun *2	Malaysian	10,840,500	24.09	-	-	10,840,500	16.68	-	-
Ng Siok Meng	Malaysian	11,250,000	25.00	-	-	11,250,000	17.31	-	-
<b>Independent Non-Executive Directors:</b>									
Ho Chee Siong	Malaysian	-	-	-	-	100,000	0.15	-	-
Abdul Hafidz bin Win	Malaysian	-	-	-	-	100,000	0.15	-	-
<b>Key Management:</b>									
Ang Kian Seang	Malaysian	-	-	-	-	112,700	0.17	-	-
Brian Ho Wen Loong	Malaysian	-	-	-	-	48,300	0.07	-	-
Pang Kong Chek	Malaysian	-	-	-	-	65,600	0.10	-	-

**Notes:**

\*1 Chief Executive Officer of KZen

\*2 Executive Director of KZen

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**2. INFORMATION SUMMARY (Cont'd)**

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The information of the Directors, key management, substantial shareholders and Promoters of KZen is further disclosed under Section 9 of this Prospectus.

**2.3 Product and Services****2.3.1 Product developed and/ or marketed by the Group**

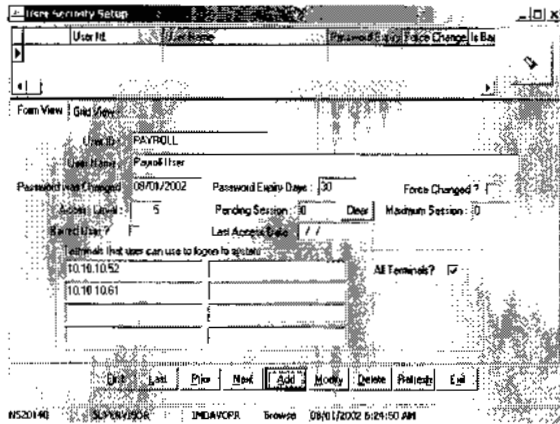
The Group's HCMS Software provides an Enterprise-wide Human Capital Management System application to streamline, deploy, and align the workforce for greater performance and subsequently achieve business goals and objectives. It provides a comprehensive suite of modules which includes the following:-

- (i) KaiZenHR System Admin and Security Management
- (ii) KaiZenHR Payroll Management System
- (iii) KaiZenHR Personnel Management System
- (iv) KaiZenHR Leave Management System
- (v) KaiZenHR Claim Management System
- (vi) KaiZenHR Loan Management System
- (vii) KaiZenHR Recruitment Management System
- (viii) KaiZenHR Training Management System
- (ix) KaiZenHR Performance Management System
- (x) KaiZenHR Time & Attendance Management System
- (xi) KaiZenHR Backpay Arrears Management System
- (xii) KaiZenHR Employee Share Option Scheme ("ESOS")
- (xiii) KaiZenHR Bus Route Management System
- (xiv) KaiZenHR Fringe Benefit Withholding System
- (xv) KaiZenHR Employee Share Purchase Plan ("ESPP")
- (xvi) KaiZenHR Leave Passage Management System
- (xvii) KaiZenHR Loan Interest Subsidy System
- (xviii) KaiZenHR Personalization Object Module
- (xix) KaiZenHR Group Medical Benefit System
- (xx) KaiZenHR Group Insurance Benefit System
- (xxi) KaiZenHR Training Need Analysis System
- (xxii) KaiZenHR Manpower Budgeting System
- (xxiii) KaiZenHR Job Competency Management System
- (xxiv) KaiZenHR Industrial Relations Management System
- (xxv) KaiZenHR Dynamic Scripting Engine
- (xxvi) KaiZenHR Employee and Manager Self Service
- (xxvii) KaiZenHR Workflow Engine
- (xxviii) KaiZenHR Dynamic Web Menu Configuration
- (xxix) KaiZenHR Dynamic MS-EXCEL PIVOT Interface

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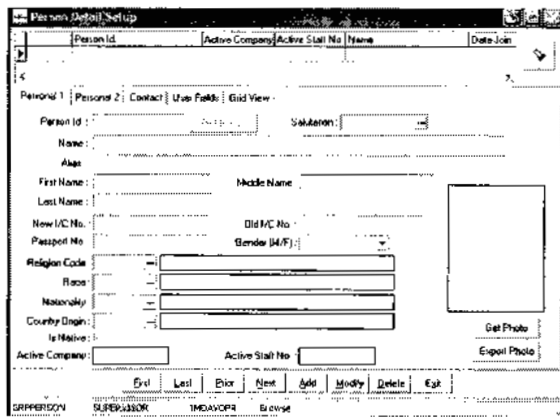
2. INFORMATION SUMMARY (Cont'd)

Sample Screen Shots



**Function : User Security Setup Screen**

This function allows the System Administrator to define and setup who are the Authorised Users of KaiZenHR and which are the Modules and Functions that they can have access to. The setup also allows you to configure Password Expiry Period and logon via specific defined terminals.



**Function : Employee Master Setup**

The Employee Master Record is the Central core of information to the entire HR System. From a single point entry, this information is made available to all other KaiZenHR modules. Besides maintaining the Employee's Personal information, you can also have the option of attaching the Employee's Photo.

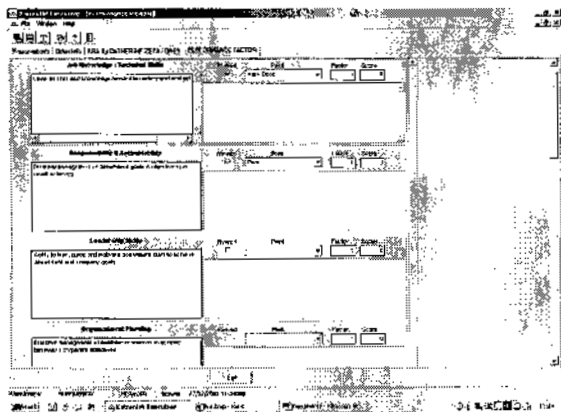


**Function : Training Management & Training Need Analysis**

This function provides the avenue to perform staff Competency Based Training Need Analysis to be captured and act as the basis of input for the Training Development Implementation Plan for the year. Training Event Administration can also be done via the system in accordance to the plan.

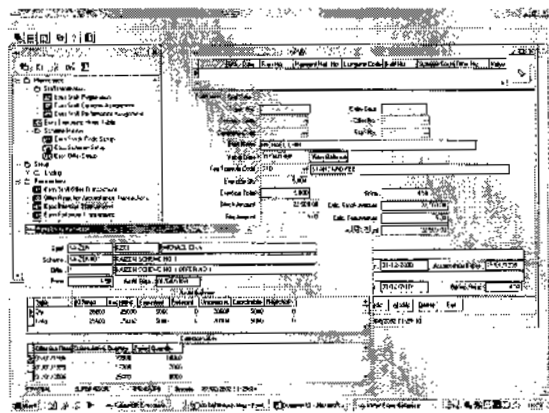
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## 2. INFORMATION SUMMARY (Cont'd)



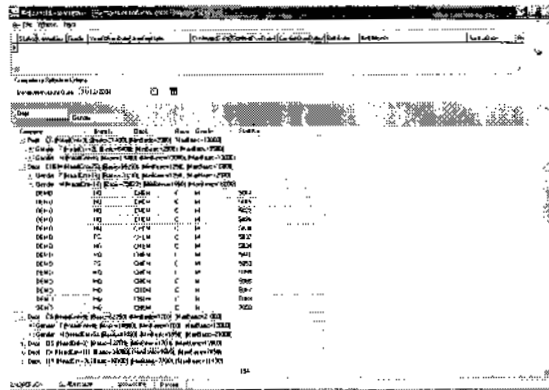
**Function : Performance Management**

This function allows the input of employee data capturing of performance appraisal exercise results, and tabulates the scores automatically as per the weightage setup by the user for the specific form being used. Forms can be designed to include Key Result Area ("KRA") and/or Job Behaviour type of appraisal input.



**Function : ESOS Exercising & Offer Setup**

This function allows the setup and maintenance of ESOS offer made to staff for each offer of the ESOS. Upon staff acceptance, exercising transaction can also be captured and ESOS balance is updated automatically. Besides that, screen for Offer Rejection & Forfeiture is also available within the system.



**Function : Personnel Enquiry Screen**

This screen allows powerful end user queries of staff personal details online. Information can be date effective, and provides drag-n-drop methods for grouping & sorting. Besides that, summation and arranging of information to be presented is as easy as click and drag. Query can be exported to EXCEL & HTML formats.

The Group's HCMS Software is a proven Enterprise Human Capital Management System that has been successfully implemented and used by many medium to large organisations and multinationals having hundreds to thousands of employees. Some of these companies include Berjaya Group, Gamuda Berhad, Commerce Assurance Berhad (formerly known as AMI Insurans Berhad), MCIS ZURICH Insurance Berhad, American International Assurance Company, Limited ("AIA") and Kumpulan Perubatan (Johor) Sdn Bhd.

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**2. INFORMATION SUMMARY (Cont'd)**


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*Technology – Development and Deployment*

KZen Group uses and supports the best of breed technology as indicated below:

*Development Platform*

Client Server	:	Object Oriented Delphi Programming
Web Modules	:	Microsoft ASP.Net
Workflow Engine	:	Microsoft C# on .Net framework
API	:	Microsoft COM Services

*Deployment Platform*

Client Server	:	Thin Client on CITRIX
Web Modules	:	Microsoft IIS, Microsoft COM Services, Microsoft MSMQ, .Net Framework, IE
Database Support	:	Oracle 7.x and above MS-SQL 7.x and above
PC Client Support	:	Windows 98, 2000, XP

Object Oriented Methodology was used throughout the R&D cycle. It provides a solid architecture and framework for the application. The methodology and technology employed offer high performance, scalability, enhanced reliability, usability and flexibility. Using Object Oriented Methodology also shortens the development timeline substantially.

The Group's HCMS Software was designed as an integrated system at both functional and data levels. Employee data is maintained in a central repository of common information; thus, improving efficiency and preventing duplication. The system is able to interface to systems from external parties such as financial systems, timekeeping, statutory bodies, legacy and in-house applications like ORACLE, JD Edwards, SAP, BaaN, IFS and CODA.

Although the modules are integrated, they are also modular in that each module is independent and can be sold separately. This allows the customers to pick and choose the modules that are important to them or phase their implementation approach as per their requirements.

The HCMS Software was designed with the user in mind. It is extremely user-friendly with standard features such as "Pull-down-Menus", "Pop-up Windows", "On-line Help File", "Hot-key" or "Short-cut Keys" and also incorporates a Pivot Table which allows managers to dynamically analyse the data in a multi-dimensional view. All these user interfaces can be customised to suit the needs of individuals or groups of users.

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## 2. INFORMATION SUMMARY (Cont'd)

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### *Implementation and Support Services*

The KZen Group provides its clients value-added implementation and support services in relation to the following:

- Project Management
- Implementation which consists of business process review, software installation and application setup
- Data Migration
- Customisation
- Training
- Maintenance and support
- Complementary services like hardware and software procurement

The Group believes in providing quality professional services in order to distinguish itself from the competitors in the market place. Through the provision of value-added services, the Group is confident that it is able to strengthen its client relationships.

#### **2.3.2 Intellectual Property**

KZSB had on 18 June 2001, registered the trade mark "KAIZENHR" in Class 16 (office requisites, printed matter, instructional and teaching material) and Class 42 (design and development of computer hardware and software) (collectively, "Trade Marks"). The Trade Marks are valid for a period of ten (10) years from 18 June 2001 to 18 June 2011 and were assigned to KZen by way of an assignment agreement.

#### **2.3.3 Key Achievements/Awards**

The Group has attained numerous achievements and recognition for its product and services. Details of the achievements are disclosed in Section 6.12 of this Prospectus.

#### **2.3.4 Research and Development**

As at 14 October 2005, the Group employed 21 staff dedicated to the development and support of its HCMS. The Company plans to increase this to 45 workers, thereby increasing by approximately 2 times to ensure that the Company maintains its competitive advantage in the long term.

During the last three (3) financial years ended 31 December 2004 and financial period ended 31 May 2005, the Group has invested approximately RM843,572 into research and technological innovation of its HCMS and expects to invest approximately RM6.54 million over the next 5 years to keep the Company at the forefront of HR solutions.

Please refer to Section 6.11 of this Prospectus for more details.

## 2. INFORMATION SUMMARY (Cont'd)

### 2.4 Financial Highlights

The following is a summary of the proforma of the KZen Group's financial performance for the five (5) financial years ended 31 December 2000 to 2004 and financial period ended 31 May 2005 prepared based on the assumption that the current structure of the KZen Group has been in existence throughout the periods under review.

	Financial year ended 31 December					5 months ended 31 May
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	2005 RM
Revenue	490,760	493,952	913,945	1,837,883	3,615,727	1,174,138
Other operating income	-	-	-	-	7,007	2,500
Operating expenses	(504,085)	(451,978)	(644,180)	(945,756)	(1,441,149)	(686,827)
(Loss)/ earnings before amortisation, depreciation and taxation	(13,325)	41,974	269,765	892,127	2,181,585	489,811
Depreciation and amortisation	(43,732)	(47,325)	(68,990)	(117,571)	(195,918)	(91,734)
(Loss)/ profit before taxation	(57,057)	(5,351)	200,775	774,556	1,985,667	398,077
Taxation	-	-	(74,000)	(215,119)	(542,023)	(88,351)
(Loss)/ profit after taxation	(57,057)	(5,351)	126,775	559,437	1,443,644	309,726
Enlarged share capital of KZen						
- After Acquisition and Share Split before Rights Issue	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000
- After Acquisition, Share Split and Rights Issue before Public Issue	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
- After Acquisition, Share Split, Rights Issue and Public Issue	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000	65,000,000
Gross (loss)/ earnings per share (sen)						
- After Acquisition and Share Split before Rights Issue	(0.16)	(0.02)	0.57	2.21	5.67	1.14
- After Acquisition, Share Split and Rights Issue before Public Issue	(0.13)	(0.01)	0.45	1.72	4.41	0.88
- After Acquisition, Share Split, Rights Issue and Public Issue	(0.09)	(0.01)	0.31	1.19	3.05	0.61
Net (loss)/ earnings per share (sen)						
- After Acquisition and Share Split before Rights Issue	(0.16)	(0.02)	0.36	1.60	4.12	0.88
- After Acquisition, Share Split and Rights Issue before Public Issue	(0.13)	(0.01)	0.28	1.24	3.21	0.69
- After Acquisition, Share Split, Rights Issue and Public Issue	(0.09)	(0.01)	0.20	0.86	2.22	0.48

There were no extraordinary and exceptional items for the financial years/ period under review. The audited accounts of KZen and KZSB were not qualified in their respective financial years/ period under review.

Please refer to Section 7 of this Prospectus for more details.



## 2. INFORMATION SUMMARY (Cont'd)

### 2.5 Proforma Consolidated Balance Sheets as at 31 May 2005

The Proforma Consolidated Balance Sheets as set out below are extracted from the Proforma Consolidated Balance Sheets as at 31 May 2005, as disclosed in Section 14. The Proforma Consolidated Balance Sheets are provided for illustrative purposes only to show the effects on the consolidated balance sheets of KZen as at 31 May 2005 after taking into account the Acquisition, Rights Issue, Share Split, Public Issue and the estimated listing expenses.

	As at 31 May 2005 RM	Proforma I RM	Proforma II RM	Proforma III RM	Proforma IV RM
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	-	151,000	151,000	151,000	151,000
Development cost	-	555,942	555,942	555,942	555,942
	-	706,942	706,942	706,942	706,942
<b>CURRENT ASSETS</b>					
Trade receivables	-	1,958,307	1,958,307	1,958,307	1,958,307
Other receivables, deposits and prepayment	-	394,003	394,003	394,003	86,203
Cash and bank balances	2	652,065	1,652,065	1,652,065	7,059,865
	2	3,004,375	4,004,375	4,004,375	9,104,375
<b>CURRENT LIABILITIES</b>					
Other payables	6,750	134,804	134,804	134,804	134,804
Due to directors	-	426,046	426,046	426,046	426,046
Provision for taxation	-	517,859	517,859	517,859	517,859
	6,750	1,078,709	1,078,709	1,078,709	1,078,709
<b>NET CURRENT ASSETS</b>					
	(6,748)	1,925,666	2,925,666	2,925,666	8,025,666
	(6,748)	2,632,608	3,632,608	3,632,608	8,732,608
Financed by:					
<b>SHARE CAPITAL AND RESERVE</b>					
Share capital	2	3,500,000	4,500,000	4,500,000	6,500,000
Share premium	-	-	-	-	3,100,000
Merger deficit	-	(1,037,766)	(1,037,766)	(1,037,766)	(1,037,766)
Accumulated losses	(6,750)	(6,750)	(6,750)	(6,750)	(6,750)
	(6,748)	2,455,484	3,455,484	3,455,484	8,555,484
<b>NON-CURRENT LIABILITY</b>					
Deferred taxation	-	177,124	177,124	177,124	177,124
	(6,748)	2,632,608	3,632,608	3,632,608	8,732,608
Number of shares in issue	2	3,500,000	4,500,000	45,000,000	65,000,000
NTA per ordinary share of RM 0.10 each (sen)	(337,400)	54.27	64.43	6.44	12.31

**Notes:**

- (i) Proforma I : After Acquisition
- (ii) Proforma II : After Proforma I and Rights Issue
- (iii) Proforma III : After Proforma II and Share Split
- (iv) Proforma IV : After Proforma III and Public Issue, net of listing expenses

Further details on the Proforma Consolidated Balance Sheets of KZen as at 31 May 2005 are set out in Section 14 of this Prospectus.

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## 2. INFORMATION SUMMARY (Cont'd)

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### 2.6 Risk Factors

An investment in the shares listed/ to be listed on the MESDAQ Market involves a number of risks, some of which, including market, industry, liquidity, credit, operational, legal and regulatory risks could be substantial and are inherent in the business of the KZen Group.

The following is a summary of the risk factors (which may not be exhaustive), which applicants for the Public Issue should carefully consider in addition to other information contained elsewhere in this Prospectus before applying for the Public Issue. The investment considerations that should be considered include, but are not limited to the following:

#### General Risks

- (i) No Prior Market for KZen Shares;
- (ii) Delay in or Abortion of the Listing;
- (iii) Control by Substantial Shareholders;
- (iv) Dependence on Key Personnel;
- (v) Operational Risks;
- (vi) Competition;
- (vii) Future Growth;
- (viii) Rapid Technological Changes/ Product Change;
- (ix) Continuing Demand for the Group's Product and Services;
- (x) Political, Economic and Regulatory Considerations;
- (xi) Acquisitions and Joint Ventures;
- (xii) Conditions of the MSC Status;
- (xiii) Forward Looking Statements;

#### Specific Risks

- (xiv) Protection of Group and Third Party Proprietary Technology/ Intellectual Property Rights ("IP");
- (xv) Project Risks; and
- (xvi) Security and System Disruption.

Please refer to Section 4 "Risk Factors", of this Prospectus for further information concerning the abovementioned risk factors.

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**2. INFORMATION SUMMARY (Cont'd)**


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**2.7 Principal Statistics Relating to the Public Issue**

	<b>RM</b>
<i>Authorised</i>	
250,000,000 ordinary shares of RM0.10 each	<u>25,000,000</u>
<i>Issued and fully paid-up as at the date of this Prospectus</i>	
45,000,000 ordinary shares of RM0.10 each	4,500,000
<i>To be issued pursuant to the Public Issue</i>	
20,000,000 ordinary shares of RM0.10 each	2,000,000
<i>Enlarged share capital upon listing</i>	
65,000,000 ordinary shares of RM0.10 each	<u>6,500,000</u>
<b>Public Issue price per KZen Share</b>	<b>0.33</b>

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

	<b>RM</b>
<b>Proforma Consolidated NTA as at 31 May 2005</b>	
Proforma NTA of the KZen Group (after deducting estimated listing expenses of RM1,500,000)	7,999,542
Proforma NTA per share of the KZen Group (sen) (based on the share capital of 65,000,000 KZen Shares)	12.31

Detailed calculations of the proforma consolidated NTA are set out in the Proforma Consolidated Balance Sheets of KZen in Section 14 of this Prospectus.

**2.8 Proposed Utilisation of Proceeds Raised from the Rights Issue and Public Issue**

The total gross proceeds of approximately RM7,600,000 to be raised from the Rights Issue and Public Issue will accrue to KZen and shall be utilised as follows: -

	<b>RM'000</b>	<b>Expected timeframe for utilisation</b>
Research and development	3,500	24 months
Business development and expansion	1,500	24 months
Working capital	1,100	12 months
Listing expenses	1,500	6 months
	<u>7,600</u>	

Details of the utilisation of proceeds of the Public Issue are set out in Section 3.8 of this Prospectus.

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**2. INFORMATION SUMMARY (Cont'd)**

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**2.9 Working Capital, Borrowings, Material Litigation, Capital Commitments and Contingent Liabilities**

As at 14 October 2005, being the latest practicable date prior to the printing of this Prospectus: -

**(i) Working Capital**

The Directors of KZen are of the opinion that, after taking into consideration the cashflow forecast, the banking facilities available and the net proceeds from the Public Issue, the Group will have adequate working capital for its present foreseeable requirements.

**(ii) Borrowings**

As at 14 October 2005, being the latest practicable date at which such amounts could be calculated prior to the printing of this Prospectus, the Group does not have any interest bearing borrowings.

**(iii) Material Litigation**

The KZen Group is not engaged in any litigation or arbitration, either as plaintiff or defendant which has a material effect on the financial position of the Group and the Board of Directors have no knowledge of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of the Group.

**(iv) Material Capital Commitments**

There are no material commitments for capital expenditure incurred or known to be incurred by the KZen Group, which may have material impact on the financial position of the Group.

**(v) Contingent Liabilities**

There are no material contingent liabilities incurred by the KZen Group, which may have material impact on the financial position of the Group.

Further information on the working capital, borrowings, material litigation, material capital commitments and contingent liabilities are is out in Section 7.3 of this Prospectus.

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### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE

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This prospectus is dated 7 November 2005.

**A copy of this Prospectus has been registered with the SC. A copy of this prospectus, together with the Application Forms, has also been lodged with the Registrar of Companies, who takes no responsibility for its contents.**

Approval has been obtained from the SC on 26 May 2005 for the Public Issue. Approval-in-principal has also been obtained from Bursa Securities on 7 September 2005 for the admission to the Official List of the MESDAQ Market and for permission to deal in and the listing and quotation of the entire enlarged issued and paid-up ordinary shares of KZen including the Public Issue, which are the subject of this Prospectus. These ordinary shares will be admitted to the Official List of the MESDAQ Market and official quotation will commence upon receipt of confirmation from Bursa Depository that all the CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all the successful applicants.

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

Under the MESDAQ's trading rules, effective from the date of listing, trading in all MESDAQ listed securities can only be executed through an ADA who is also a Bursa Securities member.

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

All applicants must have a CDS Account and an applicant should state his CDS Account number in the space provided in the Application Form.

The SC and Bursa Securities assume no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus. Listing of KZen Shares and admission to the MESDAQ Market is not to be taken as an indication of the merits of the Company and its subsidiary company or its Shares.

Pursuant to the MMLR, the Company needs to have at least 25% but not more than 49% of the enlarged issued and paid-up share capital in the hands of public shareholders and a minimum number of 200 public shareholders at the point of admission to the MESDAQ Market. The Company is expected to achieve this at the point of admission to the MESDAQ Market. However, in the event that the above requirement is not met pursuant to this Public Issue, the Company may not be allowed to proceed with its listing plan. In the event thereof, monies paid in respect of all applications will be returned in full without interest if the said permission is not granted.

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

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**3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**


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

Acceptance of applications will be conditional upon permission being granted to deal in, and quotation for all the Public Issue Shares. Monies paid in respect of any application accepted will be returned if the said permission is not granted.

The written consents of the Adviser, Sponsor, Placement Agent, Underwriter, Solicitors, Principal Banker, Issuing House, Share Registrar and Company Secretary to the inclusion in this Prospectus of their names in the form and context in which their names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn.

The written consent of the Auditors and Reporting Accountants to the inclusion in this Prospectus of its name, Accountants' Report and letter relating to the Proforma Consolidated Balance Sheets in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of the Expert to the inclusion in this Prospectus of its name and letter in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of IDC to the inclusion in this Prospectus of its name, extraction of information from its report and its report in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

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

**3.1 Opening and Closing of Application**

The Application will open at 10.00 a.m. on 7 November 2005 and will remain open until 5.00 p.m. on 14 November 2005 or for such further period or periods as the Directors of KZen and the Underwriter in their absolute discretion may mutually decide.

**3.2 Dates of Special Events**

<b>Event</b>	<b>Date</b>
Opening of the application for the Public Issue Shares	7 November 2005
Closing of the application for the Public Issue Shares	14 November 2005
Tentative balloting	16 November 2005
Tentative despatch of notices of allotment to successful applicants	24 November 2005
Tentative listing	25 November 2005

These dates are tentative and are subject to changes which may be necessary to facilitate the implementation procedures. Application for the Public Issue Shares will be accepted from 10.00 am on 7 November 2005 to 5.00 pm on 14 November 2005 or for such other period or periods as the Directors of KZen together with the Underwriter in their absolute discretion may mutually decide.

### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

In the event of any changes to the closing date of the application, such date would be published in a widely circulated daily English and Bahasa Malaysia newspapers within Malaysia. Should the closing date of the application be extended, the dates for the allotment and listing of KZen's entire issued and paid-up share capital on the MESDAQ Market would be extended accordingly.

#### 3.3 Number and Class of Securities to be Issued

	RM
<i>Authorised</i>	
250,000,000 ordinary shares of RM0.10 each	<u>25,000,000</u>
<i>Issued and fully paid-up as at the date of this Prospectus</i>	
45,000,000 ordinary shares of RM0.10 each	4,500,000
<i>To be issued pursuant to the Public Issue</i>	
20,000,000 ordinary shares of RM0.10 each	2,000,000
<i>Enlarged share capital upon listing</i>	
65,000,000 ordinary shares of RM0.10 each	<u>6,500,000</u>

The Public Issue price of RM0.33 per ordinary share is payable in full on application.

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

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

At every general meeting of KZen, each shareholder shall be entitled to be present and vote in person or by proxy and on a show of hands, every person present who is a shareholder or proxy (A shareholder is entitled to appoint more than two (2) proxies to attend the same meeting. If two (2) or more proxies are appointed, the shareholder shall specify the proportion of the shareholder's shareholdings to be represented by each proxy.) or duly authorised representative of a shareholder shall have one vote and on a poll, every shareholder present in person or by proxy or other duly authorised representative shall have one vote for each ordinary share held. A proxy may but need not be a member of the Company. If the proxy is not a member, he need not be an advocate, an approved company auditor or a person approved by the Registrar of Companies.

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### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

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#### 3.4 Purposes of the Public Issue

The purposes of the Public Issue are as follows: -

- (i) To raise funds for the Group's continued operations and expansion, details of which are elaborated in Section 3.8 below;
- (ii) To obtain listing of and quotation for the entire issued and paid-up share capital of KZen on the MESDAQ Market, which is expected to enhance the business profile and future prospects of the Group;
- (iii) To provide the Group with access to the capital markets to raise funds for future expansion and growth; and
- (iv) To provide an opportunity for Malaysian investors and institutions, business associates, eligible employees and directors and the public to participate in the continuing growth of the KZen Group.

#### 3.5 Details of the Public Issue

The Public Issue of 20,000,000 KZen Shares at an issue price of RM0.33 per KZen Share is payable in full on application subject to the terms and conditions of this Prospectus.

Upon acceptance, the Public Issue Shares will be allocated in the following manner:

- (i) **Malaysian Public**  
2,000,000 of the Public Issue Shares will be made available for application by the public.
- (ii) **Eligible Directors, employees and business associates of the KZen Group**  
2,000,000 of the Public Issue Shares have been reserved for eligible Directors, employees and business associates of the KZen Group and other persons who have contributed to the success of the KZen Group.
- (iii) **Private Placement**  
16,000,000 of the Public Issue Shares will be made available for placement to selected investors.

The Public Issue Shares under paragraphs (i) and (ii) above have been fully underwritten by the Underwriter. Details on the brokerage and underwriting commission relating to the Public Issue are set out in Section 3.10 of this Prospectus.

If there are any undersubscription in respect of paragraph (i) above, the undersubscribed Public Issue Shares will be made available for subscription by the Placees referred to in paragraph (iii) above. If there are any undersubscription in respect of paragraph (ii), the undersubscribed Public Issue Shares shall first be made available for subscription by the Malaysian Public referred to in paragraph (i) and then to the Placees referred to in paragraph (iii) above. Thereafter, any Public Issue Shares not subscribed for as set out in (i) and (ii) above, will be made available for subscription by the Underwriter as specified in the Underwriting Agreement dated 22 August 2005.

The Public Issue Shares under paragraph (iii) are not required to be underwritten as irrevocable undertakings have been obtained from all selected investors to subscribe for the Public Issue Shares.



### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

The basis of allocation to be determined shall take into account the desirability of distributing the Public Issue to a reasonable number of applicants with a view of broadening the shareholding base of the Company to meet the public spread requirements and to establish a liquid and an adequate market in the shares. To ensure compliance with the MMLR, the final allocation to any single applicant shall not breach 5% or more of the enlarged share capital of the Company upon listing, regardless of the amount of Shares applied for. Applicants will be selected in a manner to be determined by the Directors of KZen.

#### 3.6 Allocation of Public Issue Shares to eligible Directors, employees and business associates of the KZen Group

The total number of persons eligible for the pink forms allocation is 21, of which 2,000,000 Public Issue Shares, representing 3.08% of the enlarged issued and paid up share capital of KZen, have been reserved for the eligible Directors, employees and business associates of the Group and other persons who have contributed to the success of the Group.

The Public Issue Shares reserved for its eligible Directors, employees and business associates, are based on their respective positions, length of service and number of years of relationship with the Company as at the cut-off date of 31 October 2005.

The number of Public Issue Shares that have been allocated to the Directors of KZen Group are as follows

Name of Directors	Number of Shares allocated
Ho Chee Siong	100,000
Abdul Hafidz bin Win	100,000
<b>Total</b>	<b>200,000</b>

#### 3.7 Pricing of the Public Issue Shares

Prior to the offering, there has been no public market for the shares of KZen. The issue price of RM0.33 per Public Issue Share was determined and agreed upon by the Company and the Underwriter. Among the factors considered in determining the issue price of the Public Issue Shares, in addition to prevailing market conditions, were the KZen Group's estimates of business growth potential and revenue prospects, an assessment of the Group's management, investment made and the consideration of the above factors in relation to market valuation of companies in similar businesses.

However, investors should also note that the market price of KZen Shares upon listing on the MESDAQ Market, are subject to the vagaries of market forces and other uncertainties, which may affect the price of KZen Shares when they are traded.

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### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

#### 3.8 Proposed Utilisation of Proceeds

The Company expects the gross proceeds of the Rights Issue and the Public Issue will amount to approximately RM7.6 million. The proceeds shall accrue to the Company and the Company shall bear all expenses relating to the listing of and quotation for the entire issued and paid-up share capital of KZen on the MESDAQ Market.

	Note	RM'000	Expected timeframe for utilisation
Research and development	(i)	3,500	24 months
Business development and expansion	(ii)	1,500	24 months
Working capital	(iii)	1,100	12 months
Listing expenses	(iv)	1,500	6 months
		<u>7,600</u>	

*Notes:*

Details on the proposed utilisation of the proceeds are set out below:-

(i) **Research and Development (R&D)**

The utilisation of proceeds is expected to be over a 24-month period from the date of listing, which includes hiring of up to 23 full-time R&D staff, staff allowances and other operating expenses, purchases of hardware and software licenses. A breakdown of expenditure is as follows:-

**Total Staff Costs**

Category of staff	No. of staff	Staff Cost for 1 year (RM)	Total Staff Cost for 2 years (RM)
<b>Staff Cost</b>			
R&D Director	1	144,000	316,000
Senior Programmer	3	155,000	370,000
Programmer	8	234,000	577,000
Chief Designer	1	96,000	210,000
Web Designer/Engineer	5	134,000	341,000
Language Translator	2	42,000	128,000
Network Engineer	1	36,000	79,000
Others	2	74,000	163,000
EPF, SOCSO and Bonus		228,000	406,000
Allowances/Mileage		56,000	77,000
Sub total	23	1,199,000	2,667,000

Other Operating Expenses	For 1 year (RM)	Total for 2 years (RM)
Other Operating Expenses*	229,000	502,000

\* Includes rental payable, broadband cost, telephone and utility charges.

### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

#### Purchases of Hardware

Quantity	Hardware	Cost (RM)
1	Database Server	15,000
1	Web/Email Server	15,000
1	Version Repository Server	10,000
4	Notebooks	20,000
12	Personal Computers	30,000
Sub total		<u>90,000</u>

#### Purchases of Software Licenses

Software Licenses	Cost (RM)
Windows Server 2003	15,000
Windows XP Professional	14,000
Microsoft Office	42,000
Microsoft Projects	4,000
Development Tools	55,000
Adobe Publisher & Illustrator	4,000
Version Control Client	3,000
Virus Control	4,000
Annual MSDN Subscription	8,000
Crystal Report Designer	30,000
Modelling Tool	20,000
Sub total	<u>199,000</u>
<b>TOTAL</b>	<u><u>3,458,000</u></u>

R&D activities will focus on development of KZen's next generation HCMS Software (project codename: DAEDALUS) based on the latest Rich Internet Application (RIA) technology framework. This version will include capabilities and features in supporting global operations.

#### (ii) Business Development and Expansion

In order to remain competitive, the Group recognises the need to globalise and to expand its operations. The Group strategises to do so as follows:

- Intensify its own marketing efforts to increase its clientele which comprises large corporations and multinationals and to tap into the SMB market. The Group's major customers are listed in Section 6.6 of this Prospectus.
- Expansion into global markets and increasing its local market share via its business partners/ resellers. The Group's business partners are system integrators with regional offices in the ASEAN region and thus, this allows the Group to venture into the overseas markets without having to incur substantial cost in undertaking overseas expansion.
- Project DAEDALUS is expected to contribute to the Group's business revenue from 2006 onwards, both in strengthening its existing market and capitalising on new global market opportunities, including the provision of the HCMS Software on ASP (Application Service Provider) model. This will open up a new market segment (both in Malaysia and internationally) as well as an avenue to target the SMBs.

### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

Thus in order to cater for the above, the breakdown of the utilisation of proceeds for business development and expansion over a 24-month period is as follows:

Category of staff	No. of staff	Staff Cost for 1 year (RM)	Total Staff Cost for 2 years (RM)
<b>Staff Cost</b>			
Project Manager	1	60,000	132,000
Consultant	4	96,000	210,000
Account Manager	2	48,000	105,000
EPF, SOCSO		25,000	54,000
Other Staff Cost		20,000	45,000
Sub total	7	249,000	546,000
		<b>Cost for 1 year (RM)</b>	<b>Cost for 2 years (RM)</b>
<b>Fixed Assets</b>			
Renovation		100,000	100,000
Computers		15,000	15,000
Sub total		115,000	115,000
<b>Operating Expenses</b>			
Advertising & Promotion		120,000	380,000
Printing (brochure and CD)		30,000	55,000
Rental		100,000	210,000
Utilities		10,000	21,000
Staff Training		36,000	76,000
Sub total		296,000	742,000
<b>TOTAL</b>		<b>660,000</b>	<b>1,403,000</b>

(iii) **Working capital**

The allocation of RM1.1 million as additional working capital for the Group is necessary to allow the Group to secure new contracts, including utilising the capital for project financing purposes. The Group also intends to intensify its marketing efforts by directing part of the working capital for the purpose of employing additional sales and marketing staff.

(iv) **Estimated listing expenses**

Expenses incidental to the listing of the Company is estimated at RM1.5 million which includes professional fees, underwriting commission, brokerage fees, authorities' fees and other costs associated with the IPO.

Any difference arising from the proposed utilisation as set out above will be adjusted accordingly in the other working capital requirements which include general operational expenses.

### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

#### 3.9 Listing Expenses

Details of the estimated listing expenses are as set out as follows:

Items	RM'000
Professional fees	600
Underwriting and placement commissions and brokerage fees	132
Issuing House	60
MESDAQ's fees (i.e. perusal fee, initial listing fee and annual listing)	30
Sponsor fees	50
Advertisement and printing of Prospectus	150
Contingencies	478
Total	<u>1,500</u>

#### 3.10 Brokerage, Underwriting Commission and Placement

##### (a) Brokerage Fee

Brokerage relating to the Public Issue Shares will be borne by the Company at the rate of 1% of the issue price of RM0.33 per Share in respect of successful applications bearing the stamp of either PMBB, member companies of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS. No brokerage is payable on the 16,000,000 Public Issue Shares to be placed out to selected investors.

##### (b) Underwriting commission

A conditional Underwriting Agreement was entered into between the Company and PMBB on 22 August 2005 to underwrite 4,000,000 Public Issue Shares which are available for application by the eligible Directors, employees, and business associates of the KZen Group and the Malaysian Public.

The underwriting commission is payable by the Company at the rate of 2% of the issue price of RM0.33 for each of the Public Issue Share underwritten.

##### (c) Placement fees

PMBB will arrange for the placement of up to 16,000,000 Public Issue Shares at a rate of 2% of the issue price of RM0.33 per Share, payable by the Company to PMBB.

In the event the places are identified and secured by the Company, the placement fees payable by the Company to PMBB shall be at a rate of 0.25% of the issue price of RM0.33 per Share.

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### 3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

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#### 3.11 Salient Terms of the Underwriting Agreement

The following are extracts of some of the salient terms contained in the conditional Underwriting Agreement dated 22 August 2005 including clauses which may allow the Underwriter to withdraw from obligations under the agreement after the opening of the offer:

(Note: Unless otherwise stated, all definitions should bear the same meanings as prescribed in the Underwriting Agreement dated 22 August 2005)

#### 3. *Conditions Precedent*

3.1 The parties herein agree that this Agreement is conditional upon:

- (a) the Prospectus having been registered with the SC and lodged with the CCM;
- (b) there not having been, on or prior to the Closing Date, any material adverse change in the condition (financial or otherwise) of the Group from that set forth in the Prospectus which is material in the context of the Public Issue, nor the occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representations or warranties contained herein as though they had been given or made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Clause 4;
- (c) the approvals and consents obtained in relation to the Public Issue as at the date of this Agreement not being withdrawn, revoked, suspended or terminated on or prior to the Closing Date;
- (d) as at the Closing Date, the Underwriter being reasonably satisfied that the Company can meet the public shareholding spread requirements under the Listing Requirements of Bursa Securities;
- (e) the Closing Date being not more than Ninety (90) days from the date of this Agreement, or any extended date(s) as may be agreed to by the Underwriter;
- (f) the delivery to the Underwriter prior to the date of the registration of the Prospectus with the SC of:
  - (i) a copy, certified as a true copy by an authorised officer of the Company, of all the resolutions of the Directors of the Company approving this Agreement, the Prospectus, and authorising the execution of this Agreement, and the issuance of the Prospectus; and
  - (ii) a copy, certified as a true copy by an authorised officers of the Company, of the resolution of the shareholders of the Company approving the Public Issue Shares;

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**3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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(g) Bursa Securities and the SC (as the case may be) having approved and have not withdrawn the Prospectus and agreed-in-principle, on or prior to the Closing Date, to the listing of and quotation of the issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Securities and if such approval shall be conditional, all conditions thereto being in terms acceptable to the Underwriter and the Underwriter being reasonably satisfied that such approval shall not be withdrawn and the listing and quotation will take place after the Public Issue Shares have been issued and despatched to entitled holders.

3.2 If any of the conditions set forth in Clause 3.1 are not satisfied, any party to this Agreement shall, subject as mentioned below, be entitled to terminate this Agreement by giving notice to the other party not later than the Closing Date and in that event (except for the liability of the Company for the payment of the expenses as provided in Clause 7 and any rights and liabilities of the Company and/or the Underwriter under Clauses 4 or 5) the parties hereto shall be released and discharged from their respective obligations hereunder provided that any party in whose favour or benefit such condition or provision of this Clause 3 is given or granted may at its discretion waive compliance with such condition or provision of this Clause 3 and any condition or provision so waived shall be deemed to have been satisfied in relation to it.

**4. *Representations, Warranties and Undertakings of the Company***

4.3 The commitment of the Underwriter to subscribe for the Underwritten Shares are made on the basis of the representations, warranties and undertakings of the Company in this Clause 4 with the intention that such representations and warranties shall remain true and accurate in all material respects on each day up to and including the Closing Date. The Company undertakes with the Underwriter that it will:

(a) hold the Underwriter fully and effectively indemnified against any losses, liabilities, costs (including legal costs on a solicitor and client basis), claims, charges, prosecutions, expenses, actions or demands which the Underwriter may incur or which may be made, claimed or instituted against the Underwriter as a result of or in relation to any material misrepresentation by the Company or any material breach on the Company's part of such representations and warranties or any material failure by the Company to perform the Company's obligations under this Agreement; and

(b) at any time forthwith notify the Underwriter of any facts, information, situation or circumstances which may materially adversely affect the success of the Public Issue and, without prejudice to the generality of the foregoing, of any misrepresentation or of anything which has or may have rendered or will or may render untrue or incorrect in any material respect any of its warranties or agreements and take such steps as may be reasonably requested by the Underwriter to remedy and/or publicise the same.

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**3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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- 4.4 Upon any material misrepresentation or material breach of such representations and warranties contained in this Clause 4 or failure to perform the said undertakings in any material respects contained in this Clause 4 coming to the notice of the Underwriter, the Underwriter shall be entitled, without prejudice to any other right or remedy which it may have (including under this Clause 4.4), by notice to the Company following prior consultation with the Company elect to treat such material misrepresentation or material breach or material failure as releasing and discharging the Underwriter from its obligations hereunder PROVIDED THAT (1) the exercise of the aforesaid rights pursuant to this Clause 4.4, upon or following the occurrence of any such breach shall not prejudice or nullify any right or claims for damages (including the right to payment of the expenses referred to in Clause 7) or any other remedy which the Underwriter may have against the Company for or arising from any such breach; and (2) the non-exercise thereof before the final allotment of the Public Issue Shares shall not prejudice or nullify that Underwriter's rights to rescind this Agreement upon or following the occurrence of any further or other breach thereof.

**8. *Consequences of the Non-Listing of the Shares on Bursa Securities***

- 8.1 The Underwriter shall have the right to terminate this Agreement by notice in writing served on the Company in the event that the Shares in the Company are not listed on the MESDAQ Market of Bursa Securities for any reason whatsoever (which is not due to the default of the Underwriter) within a period of One (1) month from the Closing Date, and upon such termination the liabilities hereto of the Company and the Underwriter shall become null and void and either party shall not have a claim against the other except for the following:
- (a) the Company shall be liable to pay the Underwriter the Underwriting Commission that is payable pursuant to Clause 6;
  - (b) the Company shall be liable to pay the costs and expenses referred to in Clause 7; and
  - (c) the Company shall return the payment made on the Underwritten Shares by the Underwriter within Five (5) Market Days from the date of the notice served by the Underwriter on the Company.

**9. *Force Majeure***

- 9.1 Notwithstanding anything herein contained, upon the occurrence of the following events:
- (a) there shall have been a change in law, regulation, directive, policy or ruling in Malaysia as would in the reasonable opinion of the Underwriter prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares;



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**3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)**

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- (b) there shall have been any event or series of events beyond the reasonable control of the Underwriter (including, without limitation, acts of terrorism, acts of God, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents), as would in its reasonable opinion prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares;
- (c) there shall have been a change in national monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion of the Underwriter prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares;
- (d) the Composite Index having fallen below 600 points or otherwise as would in the reasonable opinion of the Underwriter prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares; or
- (e) there shall have been a national disorder or declaration of a state of national emergency as would in the reasonable opinion of the Underwriter prejudice materially the issue and offering of the Underwritten Shares and the distribution or sale of the Underwritten Shares,

the Underwriter may terminate this Agreement by giving written notice to the Company before the Closing Date and thereupon the parties hereto shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 7 hereof incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder without prejudice to their rights under this Agreement.

**10. Termination**

- 10.1 Notwithstanding anything herein contained, if in the reasonable opinion of the Underwriter:
- (a) the Company has breached any of its material representations, warranties, undertakings or obligations under this Agreement which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated in the notice given to the Company; or
  - (b) the Company has withheld information of a material nature which would have or reasonably be expected to have a material adverse effect on the business or operations of the Company, KZSB or the success of the Public Issue, which if capable of remedy, is not remedied within such number of days as stipulated in the notice given to the Company,

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**3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)***

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then, the Underwriter may terminate this Agreement by giving written notice to the Company before the Closing Date and thereupon the parties hereto shall (except for the liability of the Company in the payment of costs and expenses referred to in Clause 7 hereof incurred prior to or in connection with such termination) be released and discharged from their respective obligations hereunder without prejudice to their rights under this Agreement.

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#### 4. RISK FACTORS

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Notwithstanding the prospects of the Group as outlined in this Prospectus, applicants for the Public Issue Shares should carefully consider the following factors (which may not be exhaustive) that may have a significant impact on the future performance of the Group in addition to other information contained elsewhere herein, before applying for the Public Issue Shares:

##### General Risks

#### 4.1 No Prior Market for KZen Shares

Prior to the Public Issue, there has been no public market for shares in KZen. There can be no assurance that an active market for shares in KZen will develop upon its listing on the MESDAQ Market or, if developed, that such market will be sustained. There can also be no assurance that the issue price will correspond to the price at which the shares in KZen will be traded on the MESDAQ Market upon or subsequent to its listing or that an active market for shares in KZen will develop and continue upon or subsequent to its listing.

The issue price of RM0.33 per Public Issue Share was determined and agreed upon by the Company and the Underwriter. Among the factors considered in determining the issue price of the KZen Shares, in addition to prevailing market conditions, were the KZen Group's estimates of business growth potential and revenue prospects, an assessment of the Group's management, investment made and the consideration of the above factors in relation to market valuation of companies in similar businesses.

#### 4.2 Delay in or Abortion of the Listing Exercise

The occurrence of any one or more of the following events (which may not be exhaustive) may cause a delay in or abortion of the Listing Exercise:

- (a) the Underwriter fails to honour its obligations under the Underwriting Agreement; or
- (b) the Company is unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 200 public shareholders at the point of its admission to the MESDAQ Market.

Although the Directors of KZen will endeavour to ensure compliance by KZen of the various listing requirements, including, inter-alia, the public spread requirement imposed by the SC and Bursa Securities, for the successful Listing Exercise, no assurance can be given that the abovementioned factors will not cause a delay in or abortion of the Listing Exercise.

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**4. RISK FACTORS (Cont'd)**

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**4.3 Control by Substantial Shareholders**

Following the Public Issue, the Company will be controlled by four (4) substantial shareholders, namely Ng Boon Sing, Chow Wei Hoon, Chan Seong Sun and Ng Siok Meng, who will collectively control 67.85% of the enlarged issued and paid-up share capital of KZen. As a result, the said shareholders will be able to effectively control the outcome of certain matters requiring the vote of KZen shareholders including the constitution of the Board of Directors of KZen and thus, the direction and future operations of the Group, decisions regarding acquisitions and other business opportunities, the declaration of dividends and the issuance of additional shares and other securities, unless they are required to abstain from voting by law and/ or the relevant authorities.

**4.4 Dependence on Key Personnel**

The Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Executive Directors and senior management personnel. The loss of any of the Group's Directors or key members of the Group's senior management could adversely affect the Group's continued ability to compete. Furthermore, the Group's planned expansion could place a significant strain on the Company's key personnel, the services and support operations, the sales and administrative personnel and other resources. Every effort is made by the Group to groom younger members of the management team to take over from the senior management to ensure a smooth transition. They will be provided with the necessary experience and exposure in the management team should changes occur in order to maintain the Group's continued ability to compete.

It is the Group's practice to retain the services of these Directors and senior management whenever possible and to also attract and retain experienced personnel by providing a conducive working environment with emphasis on safety, health and positive working cultures.

**4.5 Operational Risks**

There is no assurance that the Company will be profitable in the future, or that it will achieve increasing or consistent levels of profitability. The Group's revenue and operating results are difficult to forecast and could be adversely affected by many factors. These include, amongst others, changes in Group's operating expenses, the ability of the Group to develop and market new products and services to control costs, market acceptance of the new products and services and other business risks common to the Company's going concern.

The Directors of KZen believe that the Group should be able to maintain its profitability record. While substantial management and financial resources have been devoted to launch its product and grow its operations in the new market, the Group cannot be assured that the new ventures will be successful and able to generate significant revenue. The Group adopts a prudent cash flow management which includes, inter-alia, regular monitoring of debtors position, sustaining long term relationships with its customers and business partners and careful consideration of any proposed capital expenditure or borrowings which would affect the Group.

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**4. RISK FACTORS (Cont'd)**

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**4.6 Competition**

The market for HR software and services in which the Group operates is competitive. The Group expects to face more intense competition from existing competitors and new entrants into the market in the future. The principal elements of competition include technical competence, delivery cycle, pricing, quality, scalability, conformity with industry standards, reliability, brand name and customer service.

The Group competes with a variety of firms, some which may have longer operating histories, larger clientele, better products, larger teams of professional staff and greater financial, technical, marketing and other resources. The Group's competitors may be able to devote more resources to the development, promotion and sale of their products and services. In the event that the Group is unable to compete effectively, revenues and profits will be adversely affected.

The Group's continued success depends on its ability to compete effectively with its existing and future competitors and to adapt rapidly to changing market conditions and trends by providing HR software and services that meet the needs and requirements of its clients.

In view of the competition, the Group intends to sharpen its competitive edge by continually looking into and monitoring closely factors such as pricing, quality, distribution, branding and customer satisfaction.

**4.7 Future Growth**

The Group's potential expansion may significantly strain the Group's management, financial, customer support, operational and other resources. In order to achieve the Group's growth mission targets as set out in the Five-Year Business Development Plan in Section 8 of this Prospectus, management would need to adopt an aggressive sales and business development plan. However, there can be no assurance that management would be successful in implementing the plan or that the plan would not give rise to other problems.

The Group's proposed future plan will be dependent upon, among other things, the Group's ability to enter into strategic marketing or other arrangements on a timely basis and on favourable terms, hire and retain skilled management, financial, technical and marketing personnel, successfully manage growth which includes monitoring of operations and controlling of costs and obtaining adequate financing when needed. There can, however, be no assurance that the Group will be able to successfully implement its business plan or that unanticipated expenses, problems or technical difficulties will not occur which would result in material delays in the implementation of or deviation from the original plans.

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**4. RISK FACTORS (Cont'd)**

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**4.8 Rapid Technological Changes/ Product Change**

The Group's ability to keep pace with rapid technological changes will affect its revenues and profits. As the Group's business is in information technology, its business may be affected by rapid technological changes due to changing market trends, evolving industry standards, new technologies and emerging competition. Future success will be dependent upon the Group's ability to enhance existing software products and services and introduce new products and services to respond to the constant changing technological environment. There is no assurance that the Group will be able to successfully identify, develop or where applicable, obtain the licence for the technology that is necessary to be integrated into the Group's products and services in order to remain current and competitive.

As with other technology-related companies, the Group is continuously engaged in R&D activities to keep up with technological trends. However, there is no assurance that such activities will result in the Group developing commercially viable products and services by itself or jointly with other parties that will keep pace with the technological demands of the market place.

**4.9 Continuing Demand for the Group's Product and Services**

The Group's future results will substantially depend on market acceptance of the HCMS Software products it develops. A reduction in demand or an increase in competition in the market for these products, or the Group's other existing or future products, will have a material adverse effect on the Group's business, results and financial condition. There is also no assurance that the Group will be able to develop and introduce new products and services or enhancements in a timely manner in response to changing market conditions or client requirements or that process will not encounter unforeseen problems.

The Group expects that the provision of quality professional services such as project management, implementation, data migration and training to clients, along with enhancements and improvements of features, should ensure continuous acceptance and development of the Group's HCMS Software.

**4.10 Political, Economic and Regulatory Considerations**

Like all other business entities, adverse developments in political, economic and regulatory conditions in Malaysia and other countries in which the Group has direct business links could materially and adversely affect the financial and business prospects of the Group. Other political uncertainties that could unfavourably affect the Group include changes in political leadership, expropriation, nationalisation, re-negotiation or nullification of existing sales orders and contracts, changes in interest rates and methods of taxation and currency exchange rules.

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

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**4. RISK FACTORS (Cont'd)**

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**4.11 Acquisitions and Joint Ventures**

If appropriate opportunities present themselves, the Group intends to acquire businesses, products or technologies or enter into synergistic joint ventures that the Group believes will be in the interest of its shareholders. There can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions and joint ventures, or to integrate such acquisitions and joint ventures with its current business, or to benefit from such acquisitions and joint ventures. The acquisitions and joint ventures may cause the Group to seek additional capital which may or may not be available on satisfactory terms.

**4.12 Conditions of the MSC Status**

KZen was granted MSC status on 21 April 2004 by Multimedia Development Corporation Sdn Bhd ("MDC"). Presently, all MSC status companies are granted financial and non-financial incentives. The MDC is the body responsible for monitoring all MSC designated companies. There can be no assurance that the Group will continue to retain its MSC status or that the Group will continue to enjoy or not experience delays in enjoying the MSC incentives granted to all MSC status companies, all of which could affect the Group's business, operating results and financial condition.

**4.13 Forward Looking Statements**

Certain statements in this Prospectus are based on historical data which may not be reflective of future results and other statements which are forward looking in nature, and are subject to uncertainties, contingencies and other exogenic factors. All forward statements are based on estimates and assumptions made by the Group and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. Such factors include, inter-alia, general economic and business conditions, competition, the impact of new laws and regulations affecting the Group and industry, changes in interest rates and changes in foreign exchange rates.

Any differences in the expectations of the Group from its actual performance may result in the Group's financial and business performance and plans to be materially different from those anticipated.

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#### 4. RISK FACTORS (Cont'd)

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##### Specific Risks

#### 4.14 Protection of Group and Third Party Proprietary Technology/ Intellectual Property Rights ("IP")

At present, the Group has intellectual property rights over its software, in which protection is accorded by copyright law and at common law, including the Copyright Act, 1987.

The Group's success is dependent upon its ability to protect its proprietary technology. However, there can be no assurance that the Group will be able to protect its proprietary rights against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on the Group's business, operating results and financial condition. There is a risk that other parties may attempt to copy the Group's software and service information, which the Group considers as information proprietary to the Company.

However, the risk of intellectual property infringement is substantially reduced in view that the Group's software is internally developed and is sold as ready made packages tailored to the specific needs of the Group's customers. In this regard, the Group's technical expertise in training, implementation and consulting services which are specific to the customers' industry needs becomes the critical success factor in guaranteeing the protection of its intellectual property rights. Furthermore, there are stringent controls and security measures over its programs, source codes, project documentation and other IP rights and only the authorised personnel have access to such information.

The source codes, both retrieval and repository, are managed by a configuration management applications. The source codes can be divided into two (2) groups:

- a. business application
- b. software library

The software library consists of frameworks and foundation components that form the crucial part of the entire product. It is also the basis on which the business application executes. While the source code for business application is made available to the Developers in order for them to support customer requirements, the source code for software library is only accessible to the Chief Technology Officer and Senior Programmer.

The source codes are located in the server and backup is done weekly onto a compact disk and kept offsite in a bank safe deposit box.

The project consultants will maintain the project documentation in their laptops while the server will act as backup should there be hard disk failure.

In order to mitigate the risk of infringement of the Group's intellectual property, KZSB had on 18 June 2001, registered the trade mark "KAIZENHR" in Class 16 (office requisites, printed matter, instructional and teaching material) and Class 42 (design and development of computer hardware and software) (collectively, "Trade Marks"). The Trade Marks are valid for a period of ten (10) years from 18 June 2001 to 18 June 2011 and were assigned to KZen by way of an assignment agreement.



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

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In addition, the Group's employees have also undertaken and agreed in their respective letters of employment that they shall not during the course of their employment:

- (i) divulge (whether directly or indirectly) to any party any confidential information of the Group; and
- (ii) appropriate or duplicate any confidential information (whether partly or wholly) in any media by any means.

Upon resignation, the Group's employees are also required to sign exit clearance letters whereby they are required to return all forms of intellectual property to the Group.

##### 4.15 Project Risks

The Group's contracts with clients are generally entered into on a project basis. Due to the complexity of the projects that the Group undertakes, the projects are subjected to the following risk factors:-

- (a) Most of the Group's services are based on fixed price contracts of which the price is determined at bid time, based on estimates. The Group may underestimate project costs in tendering or bidding for a project. In such events, the Group may incur cost overruns which will reduce profits or incur losses;
- (b) Clients may delay or cancel their projects due to changes in requirements and system specifications. Delays may arise from incomplete specifications or unanticipated difficulties in developing the solutions. Project delays will affect profit margins as time spent negotiating and resolving issues will delay the recognition of revenues. Additional costs may also be incurred as a result of these delays. Further, any changes in the clients' management may also cause cancellation of awarded projects;
- (c) Failure to implement projects that fully satisfy the requirements and expectations of the clients may lead to claims being made against the Group, adversely affecting the profitability of the Group. This usually arises from technology deficiencies, staff turnover, human errors, misinterpretation of information and failure to adhere to specifications and procedures. However, the risk of potential claims made by its customers may be limited to a percentage of the amount of the contract value; and
- (d) A key component of the Group's strategy is to rapidly develop an overseas markets for its HCMS Software. However, the Group is dependent on the acceptance of its solutions in these new markets and its ability to assess project risks for the new markets. Any failure to accurately assess these risks will have an adverse impact on operating results of the Company.

To mitigate the above risks, the Group will conduct studies on the complexity and the specification of each project in order to ensure smooth implementation and minimise cost overrun.

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**4. RISK FACTORS (Cont'd)**

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**4.16 Security and System Disruption**

The Group is operating in a high technology environment where its operations are susceptible to various security risks in the form of computer viruses, industrial espionage, hacking and fraud. The Group, in response to this threat, has set up firewalls and taken all other necessary steps to minimise the risk of any potential security breaches. In addition, the Group's valuable data is back-up on a regular basis on data tapes and stored physically on another premise. As a result, there has not been any stoppage or instances of attacks or damage to the Group's system or data. However, there can be no assurance that in the future, there will not be any security breaches that may materially affect the operations and hence performance of the Group.

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## 5. INDUSTRY OVERVIEW

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### 5.1 Overview of the World Economy

The world economy is expected to expand at a moderate pace in 2005 in the midst of sharply higher oil prices as well as tighter monetary policy in the US. While the pace of global will be somewhat lower, it will nonetheless, continue to remain strong with further expansion in economic activities.

World economic growth, which had recorded a thirty-year high of 5.1% in 2004, is estimated to moderate to 4.3% in 2005. Global growth continues to be led by China and the US, with growth rates of 9% and 3.5%, respectively. Most countries in emerging Asia are expected to post satisfactory growth rates, albeit below 2004 levels. The recovery in Japan is envisaged to continue to be sustained, underpinned by rising corporate investment and private consumption as well as a rebound in exports. Performance in the euro area is anticipated to improve, although differing widely across the region, as the weak euro boosts export competitiveness.

The economies of the ASEAN 5 remain strong in 2005, although at lower rates of GDP growth, mainly driven by sustained exports and domestic demand. Generally, monetary and fiscal policies remain accommodative and investor sentiment strengthened in most economies in the region. Intra-regional trade is also expected to continue expanding at a brisk pace given the still robust growth in China and India, and underpinned by government's efforts to further enhance competitiveness and regional integration.

*(Source: Economic Report 2005/2006)*

### 5.2 Overview of the Malaysian Economy

Economic fundamentals have further strengthened while domestic demand continued to be resilient amidst firm consumer spending as well as continued uptrend in private investment activities. These factors, coupled with pro-active measures by the Government to promote economic activities provided the enabling environment for the Malaysian economy to expand favourably, albeit at a lower rate of 4.9% in the first half of 2005, compared with the 8.1% during the same period in 2004. Despite sharp increases in oil prices, the Malaysian economy is expected to register 5.1% growth in the second half of the year, with growth for the year averaging 5%. This projection is premised on a growth of 4.8% in the Leading Index for January - June 2005 which indicates continued expansion in the second half of 2005. Growth is expected to be broad based with major sectors recording positive growth, backed by recovery in global electronics demand. The continued build-up in international reserves arising from larger current account surplus and inflows of foreign capital has also strengthened domestic macroeconomic fundamentals.

The Malaysian economy is expected to maintain its growth momentum in 2006 in line with sustained private sector activities, favourable external environment and Government's continued efforts to further diversify the economy through new sources of growth. Growth is expected to be broad-based with expansion in all sectors, driven by private investment spending and strong activities in the services sector. Accordingly, real GDP growth is forecast to expand by 5.5% in 2006 and per capita income envisaged to rise further by 7.1% to RM18,895 (2005: 6.8%, RM17,741). In terms of purchasing power parity, per capita income will increase by 6.9% to USD11,030 (2005: 7.2%, USD10,323).

*(Source: Economic Report 2005/2006)*

## 5. INDUSTRY OVERVIEW (Cont'd)

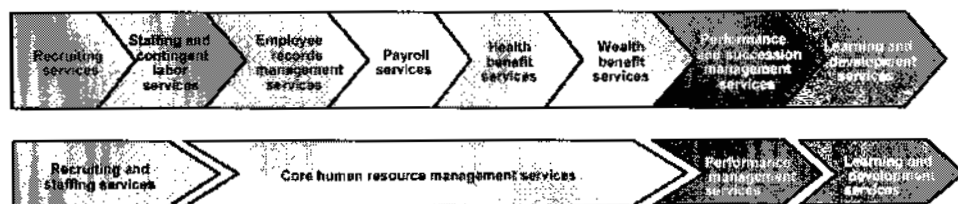
### 5.3 Introduction to the HR Software Market

The marketplace can be divided according to services focus on specific processes within the HR function. This HR value chain (see Figure 1) includes:

- **Recruiting and staffing services.** These include executive and middle management search services, permanent hiring services, temporary and contingent staffing services, recruiting job boards, end-to-end recruiting service providers, testing and selection services, salary benchmarking services, background check services, and outplacement services.
- **Core HR management services.** These include services in the administration of payroll and payroll tax, health and welfare benefits administration, pension and retirement benefits administration, employee and manager self-service delivery, employee communications design and administration, and services related to supporting the employee portal.
- **Performance management services.** These include services in employee competency testing and assessment, employee satisfaction surveys, performance reviews and appraisals, variable compensation design, tracking and administration, career planning and employee mobility, and leadership and succession planning.
- **Learning and development services.** These include the services that provide the learning content itself, the provisioning and support of the information technology infrastructure necessary to deliver and manage that content, and the professional services required to develop, deploy, manage, execute, and support a learning solution.

**FIGURE 1**

Major Elements Within the HR Value Chain



Source: IDC, 2005

IDC understands KaiZenHR software products are positioned at the "Core human resource management services" part of the value chain.

(Source: *Extracted from "Malaysian HR Market Overview" for Submission to the Securities Commission in Conjunction with KZen Solutions Berhad's Initial Public Offering (IPO) on Bursa Securities" prepared by IDC for Q1 2005. This report is included in Section 18 of this Prospectus*)

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## 5. INDUSTRY OVERVIEW (Cont'd)

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### 5.4 Overview of the HCMS Industry in Malaysia

The HCMS Industry can basically be categorised into three (3) tiers, namely Tiers 1, 2 and 3. The categorisation is dependent on the size and structure of the organisations in the marketplace in order to cater for their needs.

Tier 1 comprises mainly foreign based HR solutions that are part of an Enterprise Resource Planning ("ERP") system. Tier 2 solutions are mainly local based Enterprise HR solutions that are modular in design and provide capabilities and comprehensiveness equivalent to foreign based HR systems. Tier 3 solutions are basic solutions that operate on personal computers or on a network generally targeting small companies.

Similar to a Financial System, HR solutions address a horizontal market across industries, including:

- Banking
- Insurance
- Financial Markets
- Discrete Manufacturing
- Process Manufacturing
- Retail and Wholesale
- Telecommunication & Media
- Government
- Education
- Utilities
- Transportation
- Healthcare
- Services
- Other Verticals

The HR software industry is competitive as there are many players in the market, both foreign and local. However, most of the HR solution providers are competing at different tiers. Competition exists not only in terms of the capabilities of the HR solution but also in the costing of the product and value-add services provided such as implementation and support. Thus, HR solution providers would need to continuously innovate in order to enhance their products and to ensure continuous demand.

### 5.5 Malaysian HR Market Overview

Packaged software is programs or codesets of any type commercially available through sale, lease, rental, or as a service. Packaged software revenue typically includes fees for initial and continued right-to-use packaged software licenses. These fees may include, as part of the license contract, access to product support and/or other services that are inseparable from the right-to-use license fee structure, or this support may be priced separately. Upgrades may be included in the continuing right of use or may be priced separately. All of the above are counted by IDC as packaged software revenue.

Packaged software revenue *excludes* service revenue derived from training, consulting, and system integration that is separate (or unbundled) from the right-to-use license but does include the implicit value of software included in a service that offers software functionality by a different pricing scheme.

## 5. INDUSTRY OVERVIEW (Cont'd)

(Source: Extracted from "Malaysian HR Market Overview" for Submission to the Securities Commission in Conjunction with KZen Solutions Berhad's Initial Public Offering (IPO) on Bursa Securities" prepared by IDC for Q1 2005. This report is included in Section 18 of this Prospectus)

The market shares of the major players in HCMS Market in Malaysia are as follows:

### Malaysia Human Capital Management Market by Vendors, 2003 and 2004 (US\$M)

Vendor	2003	Market Share (%)	2004	Market Share (%)
SAP <sup>1</sup>	1.77	31.2%	1.99	32.5%
SMRHRT <sup>2</sup>	0.27	4.8%	0.82	13.4%
PeopleSoft <sup>3</sup>	0.62	10.9%	0.62	10.1%
KaiZenHR <sup>4</sup>	0.30	5.3%	0.53	8.6%
OriSoft <sup>5</sup>	0.22	3.9%	0.23	3.8%
MRCB <sup>6</sup>	0.13	2.3%	0.08	1.3%
Others <sup>7</sup>	2.38	41.9%	1.86	30.3%
Total	5.68	100.0%	6.13	100.0%

Note:

- Revenue Figures in the table are rounded up to 2 Decimal Points
- Market Share Percentage Figures in the table are rounded up to 1 Decimal Point

1. SAP - Revenues are obtained from IDC's discussions with the local vendor office and internal IDC associates in Asia Pacific in Q3 2003 (for period Jan-June 2003), Q1 2004 (for the period of July-Dec 2003), Q3 2004 (for the period of Jan-June 2004), Q1 2005 (for the period of July-Dec 2004). These revenues are according to IDC's classifications and are IDC estimates (they are crossed checked with the vendors' quarterly earning reports on the US stock exchange for regional and worldwide consolidation).
2. SMRHRT - Revenues verified with the management of SMRHRT in September 2004 for the period of 2003 and once again in October 2005 for the period of 2004. These revenues are extracted from the audited accounts of SMRHRT.
3. PeopleSoft - Revenues are obtained from IDC's discussions with the local vendor office and internal IDC associates in Asia Pacific in Q3 2003 (for period Jan-June 2003), Q1 2004 (for the period of July-Dec 2003), Q3 2004 (for the period of Jan-June 2004), Q1 2005 (for the period of July-Dec 2004). These revenues are according to IDC's classifications and are IDC estimates (they are crossed checked with the vendors' quarterly earning reports on the US stock exchange for regional and worldwide consolidation).
4. KaiZenHR - Revenues verified with the management of KaiZenHR in April 2005 for the period of 2003 and 2004. These revenues are extracted from the audited accounts of KaiZenHR.
5. OriSoft - Revenues are extracted from annual report and/or quarterly earnings announcements on a half-yearly basis for the period of 2003 and 2004.
6. MRCB - Latest 2H2004 revenues are obtained with guidance from management of MRCB in Q1 2005 and extracted from the company's annual reports and/or quarterly earnings announcements. Revenues are also collected from the annual reports and/or quarterly earnings announcements on a half yearly basis for the period of 2003 and 2004.
7. Others - Revenues are IDC estimates on a half-yearly basis for the period of 2003 and 2004.

Source: IDC, October 2005 version 3.1

## 5. INDUSTRY OVERVIEW (Cont'd)

### ***Position of SMRHRT***

SMRHRT has created a niche product (Workforce Performance Management) for a market that is at the very beginning of its life cycle. This niche market is more concerned with the productivity and competency of the employee and the effect on the company's bottom line, rather than HR operation matters such as payroll and time keeping. SMRHRT solely plays in the Workforce Performance Management market.

### ***Position of KaiZenHR***

On the other hand, KaiZenHR offers a single platform to address the computerization needs on integrating staff planning, recruiting, evaluation, onboarding, and measurement processes, differentiating itself from niche HR application provider. Its target markets span across all verticals and hold tight integration towards the integration on payroll functionality.

*(Source: Extracted from "Malaysian HR Market Overview" for Submission to the Securities Commission in Conjunction with KZen Solutions Berhad's Initial Public Offering (IPO) on Bursa Securities" prepared by IDC for Q1 2005. This report is included in Section 18 of this Prospectus)*

The market shares of HCMS across various industries in Malaysia are as follows:

**Malaysia Human Capital Management Market by Vertical, 2003 and 2004 (US\$M)**

<b>Vertical</b>	<b>2003</b>	<b>Market Share (%)</b>	<b>2004</b>	<b>Market Share (%)</b>
Discrete Manufacturing	1.20	21.2%	1.71	27.9%
Process Manufacturing	0.64	11.3%	1.00	16.3%
Government	0.98	17.3%	0.90	14.7%
Telecommunications	0.48	8.5%	0.47	7.7%
Utilities	0.42	7.3%	0.46	7.4%
Banking	0.51	9.0%	0.42	6.8%
Financial Markets	0.16	2.8%	0.18	2.9%
Services	0.23	4.0%	0.17	2.8%
Resource Industries	0.18	3.2%	0.16	2.7%
Wholesale	0.21	3.6%	0.13	2.2%
Retail	0.23	4.1%	0.13	2.1%
Construction	0.07	1.1%	0.12	2.0%
Insurance	0.13	2.2%	0.12	2.0%
Transportation	0.19	3.4%	0.10	1.6%
Media	0.01	0.2%	0.01	0.2%
Others	0.04	0.7%	0.04	0.7%
<b>Total</b>	<b>5.68</b>	<b>100.0%</b>	<b>6.13</b>	<b>100.0%</b>

Note:

- Revenue Figures in the table are rounded up to 2 Decimal Points

- Market Share Percentage Figures in the table are rounded up to 1 Decimal Point

Source: IDC, Q1 2005, version 1

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**5. INDUSTRY OVERVIEW (Cont'd)**

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The Human Resource Management package software market in Malaysia is worth USD6.13m in 2004, and the Payroll package software market in Malaysia is worth USD6.21m in 2004. The Human Resource Management package software market is expected to grow at a CAGR of 5.4% between 2004 to 2009 to reach USD7.99m by 2009, and the Payroll package software market is expected to grow at a CAGR of 5.6% between 2004 to 2009 to reach USD8.15m in 2009.

*(Source: Extracted from "Malaysian HR Market Overview" for Submission to the Securities Commission in Conjunction with KZen Solutions Berhad's Initial Public Offering (IPO) on Bursa Securities" prepared by IDC for Q1 2005. This report is included in Section 18 of this Prospectus)*

**5.6 Market Accelerators and Inhibitors in Malaysia**

In Malaysia, the growth of HRM and Payroll applications are affected by the following market accelerators and inhibitors:

***Market Accelerators***

- Growing interest in HR measurement and scorecarding. Functional areas are expected to be run as a business. This is easier for some functions such as finance and operations, which have systems and measures in place and are thought of as strategic within an organization. Yet, while finance is the strategic complement to accounting and marketing is the strategic complement to sales, HR straddles both strategic and administrative responsibilities. As outsourcing takes over more transactional and administrative processes, HR is struggling to define and evolve into a new and strategic entity. One avenue being explored is the area of HR measurement and scorecarding. This deals with the aligning of HR activities with business goals and the application of the rigors of financial measurement and management to individual and organizational performance.
- The availability of vertical solutions with industry-best practices will promote the adoption of these solutions by industries. Most major vendors are enhancing their core applications with various industry-best practices such as those in the utilities, pharmaceutical, automotive, healthcare, and public sectors. Hence, enterprises will now have tangible justifications for ROI for industry-tailored applications.
- Offering off-the-shelf software and quick-implementation solutions such as those of SAP (All-in-One), Oracle (E-business Suite Special Edition) and PeopleSoft Inc. (Accelerated Solution), have drawn interest from SMEs to adopt these technologies. No-frill functionalities are also packaged to fit SME requirements.
- Automation gains competitiveness. Organizations now see business process automation or investing on back-office enterprise applications as a way to gain competitive edge or reduce costs in their respective industries. For example, accounting software packages allow organizations to create timely financial information thus lessening intensive manual work.



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## 5. INDUSTRY OVERVIEW (Cont'd)

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### *Market Inhibitors*

- Consolidation in the industry, especially in the telecommunications and banking sectors will restrict opportunities in the market and lead to more intense competition due to reduced market size. Nonetheless, IDC is of the opinion that the services and manufacturing industries will still present opportunities for HR application suppliers because many companies in these industries are late technology adopters.
- Although improving, SMEs' knowledge and implementation of HR applications are still nascent. Opportunities are abundant in this market category but will require time and effort to nurture the urgency of software that will essentially benefit companies.
- Outsourcing. HR Outsourcing is an area of opportunity for software vendors as well as HR services practitioners. In this case, it is classified as a market inhibitor for packaged software as it defers upfront payment for software licenses in exchange for a service contract. HR outsourcing, in particular HR BPO (Business Process Outsourcing), continues to become more established as a strategic option for organizations in optimizing HR processes, gaining access to newer technologies, streamlining vendors to HR, and delivering greater measurement and reporting capabilities.

Further key observations in the market are:

- Since 2001, the SME sector became the most hotly contested segment of the Malaysia enterprise applications software market. IDC research shows that almost all enterprise applications software vendors are targeting customers in this segment. Success in the SME sector was dependent on the following key factors: functionality of product, price of the product, reputation of the vendor within the SME sector and specific vertical market, and speed of implementation.
- The Malaysia enterprise applications software market is maturing and customer acquisition is becoming more difficult. Vendors are advised to focus on meeting the needs of their customers. The latter want evidence on how IT affects the bottom line and so vendors must be able to demonstrate the value and use of the solutions that they deliver in order to retain their customers. Finally, it is essential that vendors do not take customers and contracts for granted.
- Innovativeness and competitiveness in pricing by software vendors will continue and develop further, as the reality of total cost of ownership (TCO) and ROI becomes more apparent and important when enterprise applications are implemented to run businesses. For example, customers could tie their payments to their own business measurements such as the amount of savings and productivity improvements that can be achieved through implementing software applications.

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**5. INDUSTRY OVERVIEW (Cont'd)**


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- Vendors are targeting quick wins or smaller projects to make up for volume or meet their targets. Application providers repackaged their offerings with attractive pricing and flexible functionalities specifically for SMEs. SMEs now have the option to deploy comprehensive enterprise applications with full functionalities at affordable rates. In addition to this, IDC observed that there is currently more staggered implementation by business processes specific to vertical applications due to two key reasons — either the customer already has a legacy system and is just integrating newer applications or implementing applications according to how strong a differentiating factor they could be to the business.
- The Government has enacted the The Pembangunan Sumber Manusia Berhad Act, 2001 to ensure the competency of the Malaysian workforce. Employers are required to contribute 1% of the payroll to the Human Resource Development Fund which will in turn reimburse approved training to the tune of 100% particularly when it is deemed important for the Malaysian economy. Similarly countries such as Singapore and the United Kingdom have the 'Skills Development Fund' and the 'Investors in people' respectively. Please see <http://www.iipuk.co.uk/IIP/Internet/default.htm> and <http://www.sdf.gov.sg/>.

The HR market has attracted many IT companies to develop HRMS solutions. As at end of 2004, IDC has counted at least 17 other companies in the MSC who profess to have a HRMS solution. Many of these vendors concentrate on payroll and time and attendance systems. Some of the local competition are:

- Alphamatic Systems Sdn Bhd
- MRCB Multimedia Consortium Sdn Bhd
- Orisoft Technology Berhad
- Visual Flex Solutions Sdn Bhd
- Click2HR.com (KPMG Technology Sdn Bhd)
- I-Power Technologies Sdn Bhd
- Aerosoft IT Sdn Bhd

Global competitors include:

- SAP
- AUTOMATIC DATA PROCESSING
- KRONOS
- ORACLE
- SAGE GROUP/BEST SOFTWARE

*(Source: Extracted from "Malaysian HR Market Overview" for Submission to the Securities Commission in Conjunction with KZen Solutions Berhad's Initial Public Offering (IPO) on Bursa Securities" prepared by IDC for Q1 2005. This report is included in Section 18 of this Prospectus)*

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**5. INDUSTRY OVERVIEW (Cont'd)**


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**5.7 Prospects, 2001 – 2005**

Malaysia is well placed to benefit from the new wave of growth based on the ICT revolution. The relatively developed infrastructure and the conducive environment put in place during the Seventh Plan period for the development of ICT, particularly within the MSC, have formed the foundation for Malaysia to leverage on the growth opportunities provided by the ICT. During the Eighth Plan period, focus will be given towards further strengthening the human resource capabilities, hard and soft infrastructure as well as the building of a critical mass of SMEs and internet users to enable Malaysia to move rapidly towards becoming a developed nation with a knowledge based society. Towards this end, the strategic thrusts for the development of ICT will include:

- ✓ *Positioning Malaysia as a major global ICT and multimedia hub;*
- ✓ *Upgrading and expanding the communication infrastructure to increase accessibility throughout the country as a means of bridging the digital divide;*
- ✓ *Enhancing the human resource development in ICT to increase the supply of high skilled and knowledge manpower;*
- ✓ *Promoting e-commerce and enhancing its use to enable Malaysia to compete more effectively in the global market;*
- ✓ *Fostering local capabilities in creative content development;*
- ✓ *Rolling out the MSC flagship applications to further provide the momentum for the development of the MSC;*
- ✓ *Nurturing a critical mass of ICT-based SMEs and*
- ✓ *Promoting R&D activities on soft factors of ICT and Information Age developments that affect individuals, organisations and societies.*

During the Eighth Plan period, a total of RM5.2 billion will be allocated for ICT related programmes and projects. Of this amount, RM1.8 billion will be for the first wave flagship applications roll-out while RM1.6 billion will be for the computerisation of several ministries and agencies to further enhance the delivery of services to the public.

Malaysia has made significant strides in increasing the information and knowledge content in all economic activities. In developing further the knowledge based economy, Malaysia will leverage on the knowledge accumulated from the implementation of the MSC Status since 1996.

*(Source : The Eighth Malaysia Plan 2001 – 2005)*

In ICT, the Government continues leverage on leading-edge technologies. The Government continues to develop the Multimedia Super Corridor (“MSC”) with the roll-out to cybercities of Bayan Lepas, Pulau Pinang and the Kulim High Technology Park in Kedah. In addition, Government’s efforts to promote shared services and outsourcing services in the country have enabled Malaysia to be ranked as the third best location in the world.

*(Source : Economic Report 2005/2006)*

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**5. INDUSTRY OVERVIEW (Cont'd)**

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**5.8 MSC - Bill of Guarantees**

- (a) Provide a world-class physical and information infrastructure;
- (b) Allow unrestricted employment of local and foreign knowledge workers;
- (c) Ensure freedom of ownership by exempting companies with MSC status from local ownership requirements;
- (d) Give the freedom to source capital globally for MSC infrastructure and the right to borrow funds globally;
- (e) Provide competitive financial incentives including no income tax for up to 10 years or an investment tax allowance and no duties on the import of multimedia equipment;
- (f) Become a regional leader in intellectual property protection and cyberlaws;
- (g) Ensure no Internet censorship;
- (h) Provide globally competitive telecommunications tariffs;
- (i) Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub; and
- (j) Provide an effective one-stop agency – Multimedia Development Corporation.

*(Source: MSC website, "www.msc.com.my", extracted on 12 October 2005. This Report was not prepared for inclusion in this Prospectus)*

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