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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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We seek to make available E-Services to a wide audience of Malaysian users with the following strategies:

- Multiple delivery channels – Internet, interactive TV, telephony and kiosks;
- One stop delivery point – all services may be accessed through all different channels;
- Multilingual capabilities – services can be delivered in Bahasa Malaysia and English; and
- Equal access – services will be offered regardless of age, economic situation, physical location or IT experience through a fully integrated network of service outlets and input devices.

Additional marketing resources will be deployed to build brand awareness and customer loyalty. We plan to secure more industry customers in our marketing efforts to accelerate the process of brand building and market expansion. Our marketing efforts shall cover sales calls as well as organising road shows and seminars to present product briefings to prospects in addition to establishing potential collaboration with appropriate technology partners.

##### 4.4.12 R&D

We are committed to continuously carrying out R&D efforts by keeping abreast with market developments and trends. As at the LPD, there are 7 qualified technical personnel involved in R&D which includes programmers and system analysts who have various experience in software engineering and development. Our core competency in software and middleware development is highlighted as follows:

- Experienced in integration with systems typically found in Government systems;
- Ability to connect legacy systems to new E-Services based on open standard approach, i.e. web services;
- Experienced in building highly available E-Services (extensive use of redundant servers, data replication, clustering architecture);
- Experienced in building highly responsive platform (minimal time taken by the system during a transaction, continuous improvement in the response time of the platform, code review to ensure that there is no unnecessary coding);
- Follow established design patterns and enterprise design patterns (i.e. J2EE Blueprint) thus ensuring scalability of the software; and
- Key emphasis on proper unit, system, and user acceptance testing. Testing is conducted early in the development process. This has resulted in obtaining reliable codes.

Software development process will be conducted using the building blocks and development modules within the framework of MESP. This will ensure knowledge is retained effectively within our Group.

We believe that continuous R&D is crucial to compete effectively. Hence, we place great emphasis on the development of software solutions, which are able to meet the rapid technological advances and changing needs of end-users. In addition, we intend to employ additional R&D staff to enhance our software development and shorten the development cycle and implementation period.

Product enhancement requirements are constantly gathered from end-users by our product development team. These efforts are focused on improving the efficiency and capabilities of our existing products and services, in addition to developing new proprietary systems.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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Our product conceptualisation model takes into account the following points:

- Studying trends in technological development in developed countries;
- Studying the needs of customers;
- Fresh ideas generated through internal brainstorming sessions with industry professionals; and
- Natural extensions to solutions previously developed by us.

Being in the software development field, we are operating in an ever-changing technology industry. We ride on the existing platform of our products and develop products that have solid conceptual and architectural foundation to support any future development requirements. Our core R&D objectives are:

- To study the cost-saving measures and to improve the value of our solutions;
- To reduce software and application development lead time by upgrading and revising technology processes; and
- To explore all the technical aspects of processes which may include modification to source programs as part of its technology enhancement strategy.

**(i) R&D Policy**

**(a) Management Policy**

Our R&D team shall report to the management on all current and future R&D activities.

**(b) Intellectual Property Rights Policy**

Our staffs are required to sign a non-disclosure agreement which prohibits them, during or after their appointment with us, from disclosing any trade secrets or information of a confidential nature relating to our Group, our businesses or our obligations to maintain confidentiality of any third parties' information.

**(c) Product Development Policy**

The main areas of our product development policy are:

- Continuous product innovation, idea generation, prototyping and development;
- Investment in technology infrastructure to provide reliability of service; and
- Focus on Internet-based global distribution solutions to lower distribution costs.

**(ii) R&D Strategies**

**(a) Increase R&D Manpower**

Our R&D activities are carried out by an R&D team selected from the management team. Wong Thean Soon, the Managing Director of our Group, leads the R&D Department. A team of senior software engineers assist him in R&D, product testing and design activities. Besides that, Jason Chan Ling Khee, our Technical Advisor, also supports our R&D team. Our R&D team is mainly involved in new product developments, whereby a substantial amount of pre-launch testing (beta testing) is normally conducted before a new product is officially marketed.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

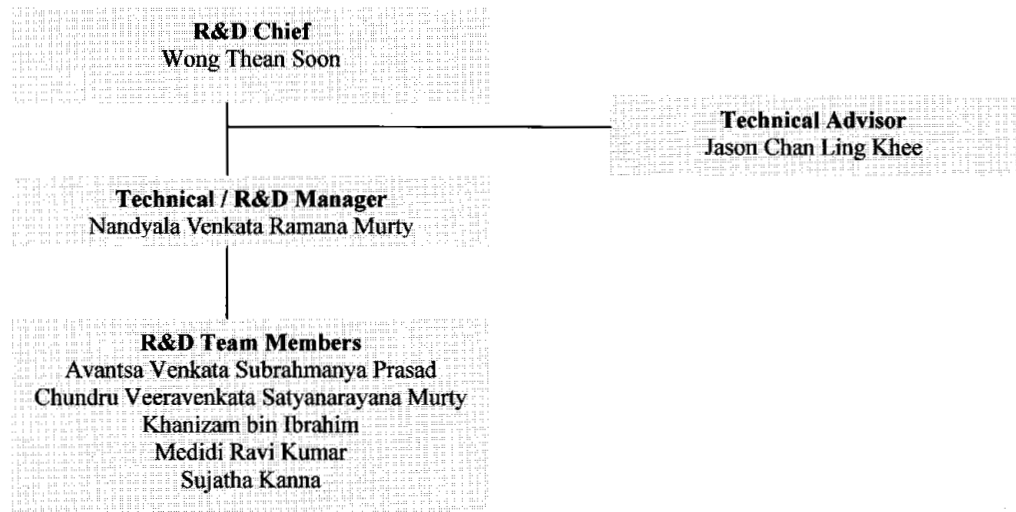
Our management plans to expand staff strength of our R&D team from the existing 7 personnel to 10 members by FYE 2007. Total R&D staff strength is expected to increase to 16 personnel by FYE 2010. This would enable us to continually meet the unique needs of our customers and improve the technological aspect of our products and services.

**(b) Keep Abreast with New Technologies**

We believe that we have to continuously enhance and upgrade our technology proficiency by incorporating new technologies into our development process to meet customers' specifications. We expect to invest in new hardware, software and equipment to ensure our products stay competitive. Besides that, we plan to upgrade the platform of our software by leveraging on our current solutions' core system in order to develop more products and services.

**(iii) R&D Facilities and Technical Personnel**

The key members of our R&D team are highlighted in the organisation chart below:



As an MSC status company, we have an R&D office located at Technology Park Malaysia, which is a MSC-designated cybercity. It houses 7 employees who are responsible for the development of our E-Insurance and other insurance-related projects. Our main servers are located at Technology Park Malaysia. Our R&D team members have vast experience in the software development industry and are fully developing our resources to handle new product development and troubleshooting (de-bugging) activities. Besides internal discussions, our R&D staff participates in various websites and online forums containing vast knowledge-base to seek the information they require. Our employees participate in Internet discussions with other engineers or programmers from our R&D team to enhance their understanding in various programming issues and solutions.

Our management plans to expand the R&D team in the next few years and is expected to have 10 members in the R&D team by FYE 2007. Total R&D staff strength is expected to increase to 16 personnel by FYE 2010.

FYE 30 June	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total R&D staff	1	3	4	5	7	10	12	14	16

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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(iv) **Present Status of R&D**

We have recently completed the R&D for the electronic application of motor vehicle registration numbers and motor vehicle registration (Phase 1 & 2), and issuance of probationary driving licence. Currently, we are awaiting approval from JPJ for the commercial launch of these services, which is expected to take place in FYE 2007.

(v) **Achievements in R&D**

Our R&D achievements over the years are as follows:

Service	Development Date	Commercialisation Date
<b>G2C</b>		
Test Booking	March 2000	November 2001
LDL	March 2000	February 2003
Licensing	March 2000	February 2003
E-Insolvency	May 2005	September 2005
<b>GES</b>		
Test Taking	March 2000	November 2001
Security Digital Imaging	March 2000	February 2003
E-Fulfilment	May 2005	September 2005

(vi) **Future R&D Milestones**

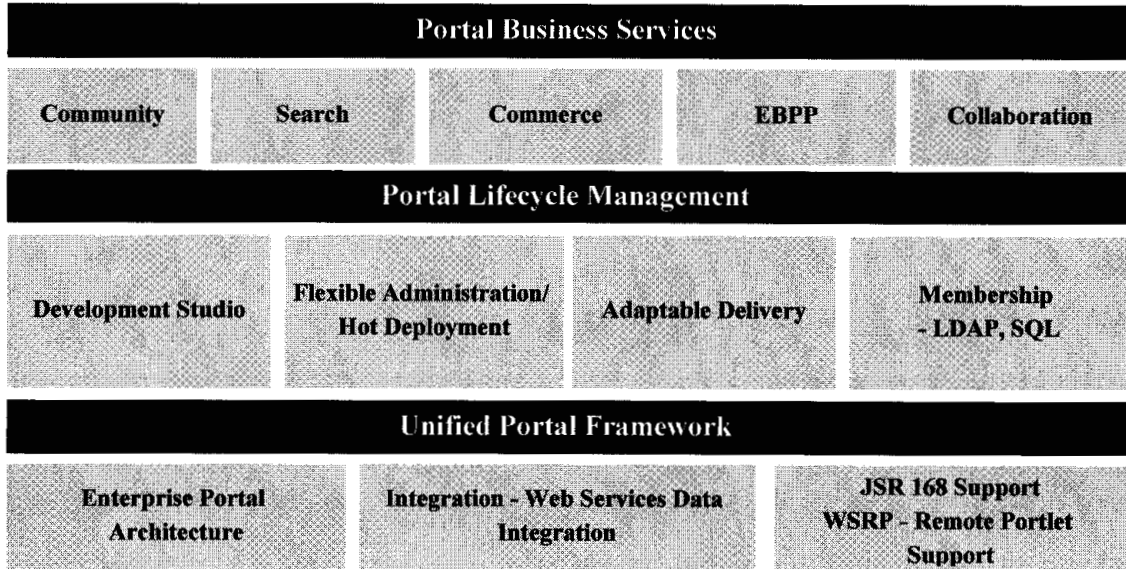
(a) ***Development of the Portal Framework***

Our experience in developing and maintaining EBPP-enabled websites such as our Group's website has led to a proliferation of E-Services catered to the citizens. Rather than building a succession of websites, a portal framework allows the service administrator to share and re-use various components between websites and save on development time.

We plan to develop a portal module which will allow the flexibility of replicating new portal sites for customers, employees, suppliers and partners with further service offerings. The portal module will offer support for the industry-standard portlet programming interface, and will help us in expanding our markets overseas. Built-in application portlets for groupware, content contribution, application integration and EBPP applications will quickly increase citizen productivity and collaboration, while a shared portal component repository maximises replication between successive portal initiatives.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

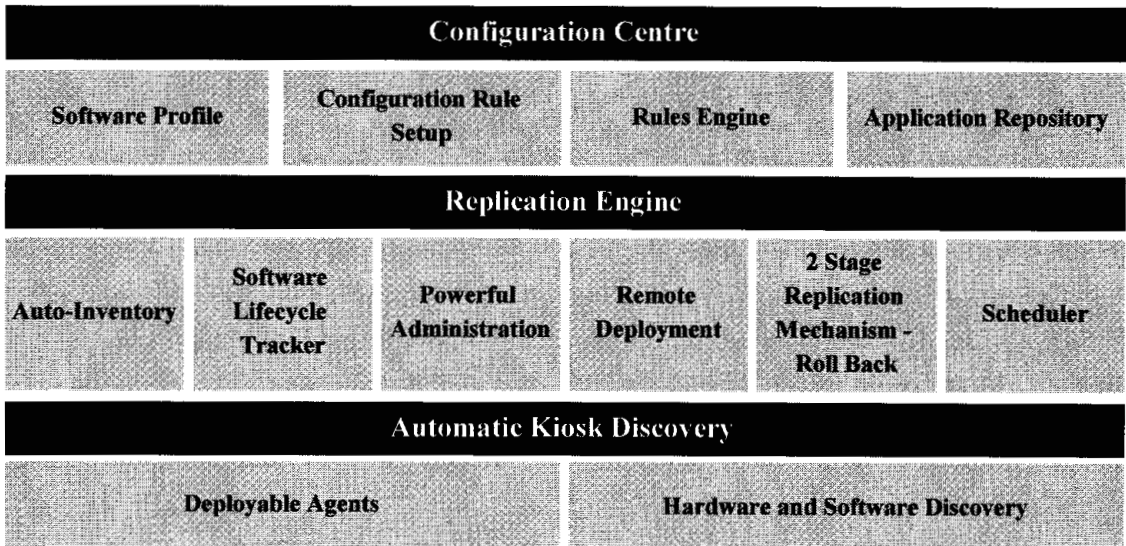
Our portal framework is as illustrated below:



*(b) Development of the Kiosk Management System*

A kiosk management system will be developed to support the management and deployment of its kiosk network module. This will allow a secure, cost effective management of our resources.

Our kiosk framework is as illustrated below:



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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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- ***Configuration Centre***

Allows modelling of software profiles, user-defined software configurations and specify the order in which software is to be distributed and installed. The administrator can also specify configuration parameters for systems, software, data or users. The Kiosk Management System determines all the actions necessary to give systems the target status modelled in the profile and to configure them appropriately.

- ***Replication Engine***

Covers the entire software lifecycle which connects compatible software to the correct system at a desired time. It will install, configure, activate, deactivate and delete the software automatically. The site administrator, thus, can specify how the systems are to be used from a remote location.

After an identity check, the replication engine integrates new destination systems in the kiosk network automatically. It also automatically removes the kiosk network old destination systems and systems that are no longer used. It also facilitates replication of applications and data, as well as additional information on installation or configuration, in the form of software packages, attributes and parameters.

- ***Automatic Kiosk Discovery***

Automatic kiosk discovery uses configurable agents for software discovery. On the basis of specified rules or information from resources or other files, the agents detect the software on clients' systems.

For hardware discovery, the automatic kiosk discovery uses configurable agents for hardware discovery. The agents detect the details of our clients' system hardware which is built on DMI interfaces that run on Windows operating systems.

- ***Dispute Resolution Module***

An effective dispute resolution process is crucial to gain the confidence of the citizens using Government E-Services. Even though businesses and organisations have been facilitating electronic services, the accompanying customer support (i.e. feedback forms, emails) has often been lacking and the citizens may have a perception of unresponsiveness in regards to their feedbacks.

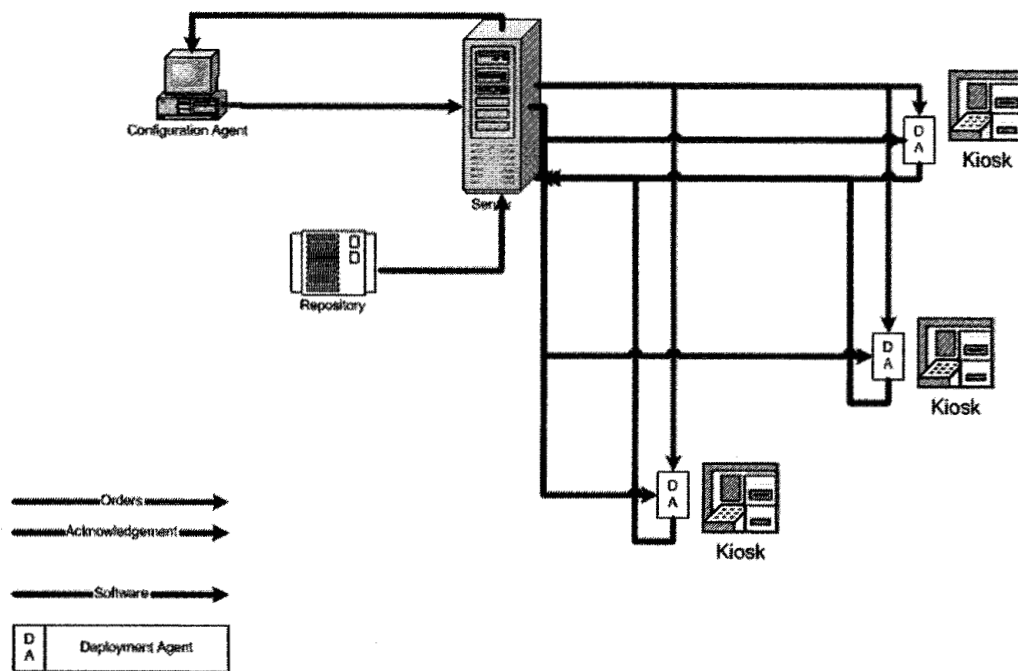
With this module, the user can ensure that disputes (relating to bill payment or JPJ vehicle number tendering, for instance) are dealt with effectively and rapidly. In addition, this module enables the interaction center agents to handle all types of finance-related inquiries with citizens by providing access to finance-related data e.g. in bill payment. The interaction center agent also can access the transaction history balance and display additional information as well as a list of documents/document items grouped by several grouping criteria. This easy-to-use finance-related module functions as a call centre agent and allows amongst other things, the creation of a bank statement or the creation of a credit memo.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

- Advance Search Module**

Integrated search and taxonomy management deliver relevant and secured search results that organise and categorise information from across the E-Services portal. Advanced search interface allows portal users to easily search on defined or customised meta-data associated with content. It will be essential as more E-Services are bundled within the E-Services portal. Typically citizens would use the search to find the functions and content that they would like to see.

Our kiosk infrastructure is as follows:



**(vii) Investment in R&D**

Our total investments in R&D for the last three (3) financial years was approximately RM0.8 million which represented approximately 1.9% of our total turnover for the same period. We have budgeted an annual R&D expenditure of approximately 2.0% - 6.0% of our annual consolidated revenue up to FYE 2010, to finance our R&D activities as set out in Section 4.4.12 (vi) of this Prospectus. The breakdown of our investment in R&D for the past three (3) financial years is as illustrated below:

FYE 30 June	2004 RM'000	2005 RM'000	2006 RM'000
R&D staff remuneration	134	186	244
Other expenses	49	33	26
<b>Total R&amp;D expenditure</b>	<b>183</b>	<b>219</b>	<b>270</b>
Total R&D capital expenditure	34	69	28
<b>Total R&amp;D investment</b>	<b>217</b>	<b>288</b>	<b>298</b>
% of the total R&D expenditure over total revenue	2.2	2.4	1.5

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.4.13 Interruptions in Operations

We did not experience any disruption in business which has a significant effect on our operations for the twelve (12)-month period prior to the date of this Prospectus.

##### 4.4.14 Information on Employees

As at the LPD, we have 7 Directors (out of which 2 are Independent Non-Executive Directors) and 72 employees, of which 4 are foreign employees under contractual employment. The tenure of the employment contracts for our foreign employees is for a period of 2 years. Our Board has confirmed that all of our foreign workers hold valid working permits and are not in breach of any immigration laws in Malaysia. None of our employees belong to any union and they enjoy a good relationship with our management. There has not been any industrial dispute in the past between our employees and management. The total number of Directors and employees with the breakdown into categories and length of service as at the LPD are as follows:

Categories of staff	-----Length of service-----		Total
	1 to 5 years	Less than 1 year	
Executive Directors	3	2	5
Non-Executive Directors	1	1	2
Management and professionals	3	-	3
Technical and supervisory	34	12	46
Clerical and related operations	15	8	23
<b>Total</b>	<b>56</b>	<b>23</b>	<b>79</b>

We provide a series of continuous training and development programmes for our employees, which include in-house workshops to update all employees on the new developments in our Group. Our employees receive technical and operational training from our Group's senior personnel. The main objective of our training and development programme is to keep our staff informed about recent developments in technology and hence, further encourage overall productivity and efficiency.

We believe strongly in staff and human resource development programmes, as the growth of our Group is partially dependent on the growth of our employees' knowledge and capabilities. As such, we provide continuous staff training and development programmes to keep abreast with the latest progress in R&D, system implementation and customer support. Our planned training and development programmes in the future are as illustrated below:

##### Training Programmes

Increase Efficiency through Data Warehousing  
 Network Security Technology  
 Dealing with Difficult Customers  
 Improving On the Job Training

##### Consultant

Open Source Systems Sdn Bhd  
 Training.org.my  
 Proven Training Solutions  
 Pembangunan Sumber Manusia Berhad



#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.4.15 Key Achievements or Milestones

Summarised below are our key achievements/milestones since 2000:

Year	Milestones
March 2000	Commenced development of software applications for the electronic delivery of driver and vehicle registration, licensing and summons services, utility bill payments and Ministry of Health online information system – Phase 1
May 2000	Signed agreement with the Government for the electronic delivery of driver and vehicle registration, licensing and summon services and utility bill payments Signed service level agreement with PDX.com Sdn Bhd, the Gateway Provider for the electronic delivery of driver and vehicle registration, licensing and summons services, utility bill payments and Ministry of Health online information system Signed acquiring bank agreement with RHB Bank Bhd as the acquiring bank for the electronic delivery of driver and vehicle registration, licensing and summons services, utility bill payments and Ministry of Health online information system
August 2000	Granted MSC Status by MDEC
July 2001	Commencement of tax free period for 5-year period from 18 July 2001 onwards
November 2001	Our online driving theory test was launched
April 2002	Commenced development of software application for the electronic delivery of PDRM summons and information services
May 2002	Commenced development of software application for the electronic delivery of DBKL compound, licensing, assessment and information services
January 2003	Signed agreement with the Government for the electronic delivery of PDRM summons and information services
February 2003	Issuance of Learner's Driving Licence (LDL) was launched
April 2003	Online payment of PDRM summons launched
January 2005	Sponsors for the Islam Hadhari portal which was launched by the Prime Minister of Malaysia
March 2005	Commercialisation of renewal of trader's licence, permits and assessment services for DBKL
May 2005	Commenced development of software application for JIM's online transactional services
September 2005	Commercialisation of online transactional services for JIM

In an effort to contribute to the nation's social responsibility, we have also done our part by contributing to the Islam Hadhari portal project which is an effort to bring the Ummah back to basics as prescribed in the Qur'an and the Hadith that form the foundation of Islamic civilisation. The objectives of Islam Hadhari are to achieve the following ten principles:

- Faith and piety in Allah
- A just and trustworthy Government
- Free and independent people
- Mastery of knowledge

#### 4. INFORMATION ON OUR GROUP (Cont'd)

- Balanced and comprehensive economic development
- A good quality of life
- Protection of the rights of minority groups and women
- Cultural and moral integrity
- Safeguarding the environment
- Strong defences

In addition, we have also contributed to the relief aid disaster fund organised by non-governmental organisations for tsunami victims, namely "Project Kasih". Project Kasih was a blog (web journal) that was inspired by the market driven business model used by Pierre Omidyar, the founder of eBay. Social and aid workers were able to share what they were doing, and what kind of problems the victims were facing following the tsunami catastrophe in December 2004 through this channel. Project Kasih was an avenue for donations and for the citizens to be posted on how the tsunami survivors were coping, as well as to provide moral support to the social workers.

#### 4.4.16 Location of Operations and Capacity of E-Service Centres

We are currently operating from Unit 606, Block G, Phileo Damansara 1, No. 9 Jalan 16/11, 46350 Petaling Jaya, Selangor Darul Ehsan. This rented premise occupies a built-up area of 5,057 square feet. It houses our sales and administrative office.

As an MSC status company, we have an R&D office located at Technology Park Malaysia, which is a MSC-designated cybercity. Our R&D office is located at Lot L1-I-1, Enterprise 4, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur with a built-up area of 600 square feet. It houses 7 employees who are responsible for the development of our E-Insurance and other insurance-related projects. Our main servers are located at Technology Park Malaysia.

In addition, as at the LPD, we have twenty-nine (29) E-Service Centres, approved by JPI, located nationwide within Peninsular and East Malaysia, of which twenty-seven (27) E-Service Centres are operating from rented premises. Our remaining two (2) E-Service Centres namely, the Kuala Kubu Bharu and Tapah branches, are located within the premise of driving institutes, and have been allowed to operate rent-free by the respective driving institutes. Presently, we operate an average of 982 tests per day, representing 48% of our test taking capacity.

Below is a list of our E-Service Centres and their respective local council licences as at the LPD:

No.	Branches	Address	Local council licence number	Operational date
1.	Jalan Ipoh	No. 6-1, Jalan 4/18A Taman Mastiara, Batu 5½, Jalan Ipoh 51200 Kuala Lumpur Wilayah Persekutuan	DBKL/JPL/1/4237/10/0 1-SK	1 November 2001
2.	Bangi	Lot 907G, Tingkat Bawah Kompleks Diamond Bangi Business Park, Jalan Medan Bangi Off Persiaran Bandar 43650 Bandar Baru Bangi Selangor Darul Ehsan	MPKJ/CL/10/42/2005	1 January 2002
3.	Cheras	No. 28, Jalan Emas 5, Taman Emas, 43200 Cheras Kuala Lumpur Wilayah Persekutuan	MPKJ/CL/6/323/2004	28 January 2002

#### 4. INFORMATION ON OUR GROUP (Cont'd)

No.	Branches	Address	Local council licence number	Operational date
4.	Ulu Bernam	No. 3, Jalan Samundra 1 Taman Samudra 35900 Ulu Bernam Selangor Darul Ehsan	090100000500092	29 January 2002
5.	Klang	No. 204, Lorong Sentosa 45 Off Jalan Batu Belah 41050 Klang Selangor Darul Ehsan	01-20-01-3936-2005-3	1 April 2002
6.	Ipoh	No. 176 (Bawah) Jalan Sultan Azlan Shah Utara Taman Anda, 31400 Ipoh Perak Darul Ridzuan	MBI.GI/B/3/537/02	20 January 2003
7.	Setiawan	No. 47, Lorong SS2/2 Taman Sentosa 2 32000 Setiawan Perak Darul Ridzuan	MPM.4498/98/3	15 February 2003
8.	Teluk Intan	No. 25, Tingkat 1 Lorong Merbuk 4, Taman Merbuk Jalan Sultan Abdullah 36000 Teluk Intan Perak Darul Ridzuan	L0006753-1	1 April 2003
9.	Taiping	Lot 3263, Jalan Mata Kuching Kampung Jambu 34000 Taiping Perak Darul Ridzuan	M.P.TPG.D 7/18-2003	1 April 2003
10.	Butterworth	No. 8, Tingkat Kerjasama 4 Taman Kerjasama 14000 Bukit Mertajam Butterworth, Pulau Pinang	35/220110/6446	31 May 2003
11.	Pulau Pinang	61B-1-06, University Heights Jalan Sungai Dua 11700 Pulau Pinang	2006002042	9 June 2003
12.	Seremban <sup>1</sup>	S-15, Jalan Dato Siamang Gagap, Seremban Centre Point 70100 Seremban Negeri Sembilan	MPS(UP)500/5961	27 June 2003
13.	Melaka	No. 412, Jalan Permai Utama Taman Permai 78000 Rembia Alor Gajah, Melaka	MDAG390/2002	17 July 2003
14.	Johor Bharu	No. 27, Ground Floor Jalan Anggerik 2/7 Taman Anggerik 81300 Johor Bharu Johor Darul Takzim	MPJB(L)/NO/51/3/2853	1 August 2003
15.	Kuantan	No. 19, Stadium Darul Makmur, 25200 Kuantan Pahang Darul Makmur	L5041900932003	9 November 2003
16.	Kota Bharu	Lot 3066, S/44, PT 915 Taman Murni, Mukim Panchor Pengkalan Chepa 16100 Kota Bharu, Kelantan	MPKB/L/0406050818	11 November 2003

#### 4. INFORMATION ON OUR GROUP (Cont'd)

No.	Branches	Address	Local council licence number	Operational date
17.	Temerloh	No. 30, Jalan Industri Taman Perindustrian Temerloh 26400 Mentakab Pahang Darul Makmur	04-0000009255	17 February 2004
18.	Kuala Kubu Bharu	PT887, Ampang Pechah 48000 Kuala Kubu Bharu Selangor Darul Ehsan	Not required <sup>2</sup>	11 May 2004
19.	Grik	Lot 247, Tingkat Dua Jalan Takong Datuk 33300 Grik Perak Darul Ridzuan	L0000847-0/67/1/2004	24 June 2004
20.	Raub	No. 35, 1 <sup>st</sup> Floor, Jalan Tan Tiong 27600 Raub Pahang Darul Makmur	a) 0000044225 (for signboard) b) 0000046711 (for business premise)	17 July 2004
21.	Pasir Gudang	No. 46, Jalan Siakap 10 Taman Pasir Putih Pasir Gudang 87100 Johor Darul Takzim	9887/2006 a) 08107 (for signboard) b) 06040 (for business premise)	23 November 2004
22.	Danau Kota	No. 5, Jalan 10/23E Tingkat Bawah, Taman Danau Kota 53300 Setapak Kuala Lumpur Wilayah Persekutuan	DBKL/JPL/2138/06/2004	26 November 2004
23.	Lawas	Lot 319, Jalan Trusan 98857 Lawas Sarawak	822253	26 November 2004
24.	Miri	Lot 602, Jalan Permaisuri 98000 Miri Sarawak	870275	29 November 2004
25.	Kuching	Lot 372, Tingkat 2 Jalan Kulas 93400 Kuching Sarawak	364362	3 December 2004
26.	Tapah	Batu 1½, Jalan Bidor Lama 35000 Tapah Perak Darul Ridzuan	Not required <sup>2</sup>	9 June 2005
27.	Simpang Ampat	No. 14, Jalan Bukit Tambun Taman Kasawari 14100 Simpang Ampat Pulau Pinang	04/06/08307	4 July 2005
28.	Bintulu	No. 42, 1 <sup>st</sup> Floor Medan Jaya Commercial Centre Jalan Tun Hussein Onn 97000 Bintulu Sarawak	818251	1 August 2006
29.	Kota Samarahan	Sublot No. 62, 1 <sup>st</sup> Floor Desa Ilmu, Kota Samarahan 93400 Kuching Sarawak	839448	29 July 2006

**Notes:**

1. In the midst of writing in to inform the council on the change in address.
2. The E-Service Centre is located within the premise of a driving institute.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.4.17 Competitive Advantages

**(i) Proven Track Record**

Having successfully implemented the first phase of the E-Services project, we have proven to the parties involved and the general public, of our ability and expertise in fulfilling all the terms and conditions listed in the Government concession. It will be a strong reference point in the future when we wish to tender for projects of a similar capacity. Furthermore, we have gone through the learning curve, and with a well established organisation structure and facilities, we will be able to enjoy cost advantage in tendering for future projects.

**(ii) Geographical Network Expansion**

We are targeting to operate 34 E-Service Centres by FYE 2007 compared to the existing 29 E-Service Centres in operation as at the LPD. With more E-Service Centres, economies of scale may be accomplished, thus, reducing the cost of conducting each driving theory test. We will also be able to provide wider geographical coverage to the driving institutes/schools and their students which in turn will reduce their time and travelling costs to complete the driving theory test.

These E-Service Centres will also form the physical distribution infrastructure that our Group uses as a leverage to quickly roll out other Government E-Services which require physical interaction. As a result, we expect these E-Service Centres to eventually conduct a wide range of Government as well as relevant commercial services. This aspect shall increase the viability of these E-Service Centres, which will in turn, spur the opening of more E-Service Centres. The compounded effect of more E-Service Centres and a wider range of services offered are expected to contribute positively to our financial performance.

**(iii) No Royalty or Licence Payment**

We believe that MESP is a highly competitive product, technically and economically. This enables us to offer competitive prices with advanced technical features to secure future contracts. This is possible as we do not need to pay any royalty or licensing fees to third parties since we are offering the services off our own proprietary platform.

**(iv) Ability to Rapidly Expand the Range of E-Services**

We have the competitive advantage to constantly upgrade and add new services to our platform to achieve our aim to be a one-stop portal for E-Government services. At the same time, we also seek to expand our Government regulated commercial services, particularly in the motor vehicle sector due to the inherent bundling and cross marketing with our existing E-Government services. Our unique selling point in this area is that we are able to offer both commercial and privatised Government services, and these services are required by everyone who has a drivers' licence and/or owns a motor vehicle.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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##### 4.4.18 Barriers to Entry

In the E-Government and E-Services industries, the barriers to entry are as follow:

**(i) Government Concession for E-Services Project**

One of the main barriers to entry for the E-Services project is the concession agreement signed between the consortia member companies and the Government. Potential entrants will not be able to get involved in the E-Government Initiative without such an agreement. In 2000, the Government had decided to appoint three Service Providers for the E-Services project. The agreement gives the Service Providers the rights to incorporate services (current or future) under the E-Services project.

Our Group's proven track record in implementing the E-Services project has also indicated to the Government and the general public, of our ability and expertise to fulfil all the terms and conditions in the concession agreement. This would strengthen our position in securing the extension of the contract when the concession expires. Our track record will also be a strong reference point in the future when we wish to tender for future projects in a similar capacity.

**(ii) Proprietary Knowledge and Physical Infrastructure**

We commenced operations in 2000 with the development of software application for the electronic delivery of driver and vehicle registration, licensing and summons services, utility bill payments and other online information system. Over the years, we have garnered ideas, knowledge in operational know-how, control system and operation system, and improved on technology that provide competitive advantages compared to potential new entrants. Potential new entrants may be discouraged by the time-consuming development of relevant and appropriate proprietary software to operate in the E-Services industry.

In addition, our possession of physical infrastructure such as the E-Service Centres also indicates to the Government and the general public, our ability and expertise to fulfil the requirement of providing facilities for the E-Services project such as the electronic theory test taking. As such, the establishment of physical infrastructure such as E-Service Centres will deter most potential new entrants as such physical infrastructure takes time and is relatively high in cost to set up.

**(iii) Technology Know-how**

Our Group possesses technology know-how, namely, programming languages such as C, C++, JAVA Script, D languages, which are used to support the different types of software development and system architectures.

Issues taken into consideration when developing a software programme are:

- The solutions are easily adaptable into all the industry standard computer hardware
- The feasibility to have any amendment, changes, plug in of other value added applications, upgrading into different types of application servers and capacity

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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- User friendly and easy to customise into customer requirements

The possession of the technology know-how also indicates our flexibility and adaptability to rapid technology changes, which are necessary for our Group to expand our range of services under the E-Services project.

Potential new entrants will need to possess the technology know-how to develop, support, and operate the relevant software applications to penetrate the E-Services industry.

(iv) **MSC Status**

While MSC status is not a pre-requisite to participate in the E-Services project, MSC status companies are more inclined to be successful in tenders for Government projects. The potential new entrants without MSC status may not be able to compete with other MSC status companies, given the stringent qualifying criterias required to gain MSC status.

Qualifying criterias to be a MSC status company:

- Be a provider or heavy user of multimedia products and services
- Employ a substantial number of knowledge workers
- Provide technology transfer and/or contribute towards the development of the MSC or support Malaysia's K-based economy initiatives
- Establish a separate legal entity for the MSC qualifying multimedia business and activities
- Located in a MSC designated cybercity
- Comply with environmental guidelines

(v) **High Start-up Cost**

In order to commence the development of the software used in the E-Services project, we have invested heavily on software development work, computers and servers, notwithstanding the high operational fixed costs such as rental, salary, electricity, Internet charges, telephone charges and training provided to our employees in our head office and all of our 29 E-Service Centres. Generally, the high start-up cost is attributable to the losses during the initial start-up period; especially when the business volume in the initial stage is relatively low.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.5 Subsidiaries

##### 4.5.1 Information on GVSB

###### (i) History and Business

GVSB was incorporated as a private limited company in Malaysia under the Act on 28 October 2002. It commenced business on 1 January 2004. It is principally involved in the provision of software solutions and maintenance services.

We acquired GVSB in June 2004 for a purchase consideration of RM2.6 million, representing a PE Multiple of approximately 6.0 times based on GVSB's annualised net PBT for the financial period ended 30 June 2004. As defined in the acquisition agreement, the net PBT shall exclude the allocation of expenses by MYEG which reflects the usage of shared facilities and resources with GVSB.

To the best of our Directors' knowledge, the purchase consideration of GVSB is reasonable when compared to the consideration paid for a similar acquisition undertaken and completed on 9 July 2004, of which one of the subsidiaries of the acquiree company also operates within the E-Services industry. For illustrative purposes, based on the circular to shareholders of Paxelent Corporation Berhad dated 16 April 2004, 67.53% equity interest in Mass Media Interactive Sdn Bhd ("MMI"), which has two (2) other subsidiaries and a 60% interest in KOMMS, was acquired for RM41,426,000. The purchase consideration of RM41,426,000 implied a double digit PE Multiple based on the unaudited consolidated PAT and MI of MMI for the FYE 31 December 2003 of RM2,000,000.

We acquired GVSB primarily because of its technology and domain knowledge, which has contributed to the ongoing development of the MESP. The synergies imparted by GVSB's development/technical team have strengthened our Group's core technical expertise in addition to the revenue and profit contribution by GVSB. GVSB has been profitable based on its audited financial statements for the eight (8) months financial period ended 30 June 2004 and the past two (2) FYEs 30 June 2005 and 30 June 2006. Detailed information on the historical financial performance of GVSB is set out in Section 11 of this Prospectus. Our Directors are satisfied that operations and financial performance of GVSB have met their expectations and they believe that the intrinsic value of GVSB is reflective of the consideration paid by MYEG for the said acquisition.

###### (ii) Share Capital

As at the LPD, the authorised and issued and paid-up share capital of GVSB are as follows:

	RM
<b>Authorised</b>	
Ordinary shares of RM1.00 each	<u>100,000</u>
<b>Issued and paid-up</b>	
Ordinary shares of RM1.00 each	<u>2</u>



#### 4. INFORMATION ON OUR GROUP (Cont'd)

**(iii) Changes in Share Capital**

There are no changes in the issued and paid-up share capital of GVSBS since its incorporation up to the LPD.

**(iv) Substantial Shareholder**

As at the LPD, GVSBS is a wholly-owned subsidiary of MYEG.

**(v) Subsidiary and Associated Company**

As at the LPD, GVSBS does not have any subsidiary or associated company.

#### 4.5.2 Information on PNSB

**(i) History and Business**

PNSB was incorporated as a private limited company in Malaysia under the Act on 3 January 2000 as Optimum Merit Sdn Bhd. It changed to its present name on 26 March 2005. PNSB was dormant since its incorporation until 1 January 2005 when it commenced operations.

PNSB is principally involved in the provision of E-Insurance solutions and other insurance-related services. PNSB has been appointed by PDX.com Sdn Bhd to provide electronic computer linkages, through its software applications and Internet technologies, between insurance companies and JPJ on the issuance of E-Cover Notes.

**(ii) Share Capital**

As at the LPD, the authorised and issued and paid-up share capital of PNSB are as follows:

	RM
<b>Authorised</b>	
Ordinary shares of RM1.00 each	<u>100,000</u>
<b>Issued and paid-up</b>	
Ordinary shares of RM1.00 each	<u>99</u>

**(iii) Changes in Share Capital**

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

Date of allotment	No. of ordinary shares of RM1.00 each	Consideration	Cumulative issued & paid-up capital RM
03.01.2000	2	Subscribers' shares – cash	2
17.08.2004	97	Cash	99

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**4. INFORMATION ON OUR GROUP (Cont'd)**


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**(iv) Substantial Shareholders**

As at the LPD, the substantial shareholders of PNSB are as follows:

	<-----Direct----->		<-----Indirect----->		Place of incorporation/ Nationality
	No. of shares	%	No. of shares	%	
MYEG*	54	54.5	-	-	Malaysia
Global Billion Sdn Bhd	40	40.5	-	-	Malaysia
Lee Peng Seng	5	5.0	-	-	Malaysian
Yong Sin Fong	-	-	40	40.5 <sup>1</sup>	Malaysian
Tan Seow Kean	-	-	40	40.5 <sup>1</sup>	Malaysian

*Notes:*

\* Information on the substantial shareholders of MYEG is set out in Section 5.2 of this Prospectus.

1. Deemed interest by virtue of their substantial shareholdings in Global Billion Sdn Bhd.

**(v) Subsidiary and Associated Company**

As at the LPD, PNSB does not have any subsidiary or associated company.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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##### 4.6 Industry Overview

##### 4.6.1 E-Government in Malaysia

Malaysia's E-Government Initiative was launched in 1997 with the objective to reinvent itself and lead the country into the information age, in which computers are used by knowledge workers, whose work focuses on the use and management of digital data. E-Government is expected to play an essential role in catalysing the development of the MSC, which was established for the purpose of moving Malaysia towards a fully developed nation with a knowledge-rich society by 2020.

The pilot application of the E-Government Project, which includes the electronic delivery of driver and vehicle registration, licensing and summons services and utility bill payments as outlined in the Concept Request for Proposal paper ('CRFP No. MAMPU/EG/1/97'), was made publicly available by the Government on 26 July 1997.

The E-Government Initiative improves both how the Government operates internally as well as how it delivers services to the people. It seeks to improve the convenience, accessibility and quality of interactions among Government, citizens and businesses. It will facilitate information flow and processes within the public sector to improve the speed and quality of policy development, coordination and enforcement.

The vision of E-Government is of the Government, businesses and citizens collaborating for the benefit of the country. The vision focuses on effectively and efficiently delivering services to enable the Government to become more responsive to the needs of its citizens. In taking a citizen-centric approach, E-Government builds bridges between agencies in the same tier of Government and the different tiers of Government to ensure that the services are seamless to the user. The integration policies from different agencies involved in the specific service will be packaged around the citizen's needs and not on the agency's functions.

The seven (7) pilot projects of the E-Government Flagship Application are as follows:

- (i) E-Services
- (ii) PMS - Project Monitoring System
- (iii) HRMIS - Human Resource Management Information System
- (iv) GOE - Generic Office Environment
- (v) EP - Electronic Procurement
- (vi) ELX - Electronic Labour Exchange
- (vii) E-Syariah

*(Source: Independent Market Research Report)*

##### 4.6.2 E-Services in Malaysia

The E-Services project, otherwise known as "the electronic delivery of driver and vehicle registration, licensing and summons services, and utility payments" project is one of the G2C applications. The rationale for developing the E-Services project is based on the belief that all Malaysian citizens shall use at least one of the services identified under E-Services on a monthly or annually basis. In 2001, there were more than 16 million transactions pertaining to driver licensing, vehicle registration and road transport summonses; over 4 million households pay electricity and telephone bills every month, totalling over 80 million transactions annually. Although the latest statistics are not available, the number of transactions is believed to have increased considering the followings:

- Increase in the number of vehicles registered with JPJ (CAGR of 7.7% from 1993 to 2005);

#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

- Increase in the number of drivers (CAGR of 12.5% from 1997 to 2004); and
- Increase in the number of household (CAGR of 3.3% from 1997 to 2004).

The E-Services project enables the public to transact more easily with Government agencies and utility companies via multiple delivery channels such as kiosks, integrated voice response system through telephone, Internet services through PCs and web television. Users are able to schedule driving tests, renew their respective driving licence and pay utility bills in one simple session. Through the convenient, fast and easy mode of payment, it is believed that E-Services project is able to aid collections such as police summons, traffic fines and utilities payments. In addition, it will also seek to improve information flow and processes within the Government to enhance the efficiency and quality of policy development, coordination and enforcement.

The E-Services project adopted the business model of Build-Operate-Own whereby the Service Providers will fund the requirements of the project privately and become the operator and owner of the E-Services project. This business model is designed to minimise the investment of public funds by the Government and to promote private participation and sponsorship of the infrastructure. The project adopts the Open Market Business model that allows the free market to drive improvements in service delivery to the public. The model will operate with three distinct roles for service delivery, namely Service Supplier, Service Provider and Gateway Provider.

The Service Provider will provide multiple electronic channels to enable the public to transact with the Government. The Gateway Provider will in turn transmit the data and information required from the Service Provider to the Service Supplier and vice-versa. The users, including non-savvy PC users, can enjoy the flexibility of online services from a variety of platforms such as PC, kiosks, IVR and SMS, 24 hours a day, seven days a week. The data and information required for the services come from the Service Supplier, which to-date comprises the following Government agencies:

Agencies	Type of Services
DBKL	<ul style="list-style-type: none"> <li>• Compound, licensing and assessment payments and online information services</li> </ul>
JIM	<ul style="list-style-type: none"> <li>• Bankruptcy or company liquidation status searches, including issuance of certified original copy of such status searches</li> </ul>
JPJ	<ul style="list-style-type: none"> <li>• Electronic driver licensing i.e. test booking, scheduling &amp; electronic test taking (theory test), issuance and renewal of driving licence</li> <li>• Vehicle registration and licensing services</li> <li>• Summons payment and online information services</li> </ul>
PDRM	<ul style="list-style-type: none"> <li>• Summons payment and online information services</li> </ul>
TNB	<ul style="list-style-type: none"> <li>• Bill payment and online information services</li> </ul>
TELEKOM	<ul style="list-style-type: none"> <li>• Bill payment and online information services</li> </ul>

The Government has appointed 3 consortiums as Service Providers. These Service Providers act as the interface between the public and the Gateway Provider. They are MYEG, SPEEDS and KOMMS. The sole Gateway Provider for this project is PDX.com Sdn Bhd.

*(Source: Independent Market Research Report)*

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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##### 4.6.3 Industry Trends

Governments across the world have created websites aimed at facilitating business investment, handling citizen complaints and tourism. Tourists for instance, can book hotels through the government websites of many Caribbean and Pacific Island countries. In Australia, citizens can register government complaints through agency websites. Nations such as Bulgaria, the Netherlands and the Czech Republic are attracting overseas investors through their websites. E-Government has also spread across to developing countries such as Malaysia, with the launch of its E-Government Initiative in 1997.

From the supply side, the pace of the governments adopting E-Government approach is progressing. In 2005, analysis on 1,797 government websites in 198 different nations indicated steady progress on several dimensions. Among the significant findings are as follows:

- 19% of Government websites offer services that are fully executable;
- 89% of Government websites provide access to publications and 53% have links to databases;
- 18% (up from 14% in 2004) show privacy policies, while 10% have security policies (up from 8% in 2004);
- 19% of Government websites have some form of disability access, meaning access for persons with disabilities (up from 18% in 2004);
- Countries vary enormously in their overall E-Government performance. The most highly ranked nations include Taiwan, Singapore, United States, Hong Kong, China, Canada, Germany, Australia and Ireland; and
- There are major differences in E-Government performance based on regions of the world. In general, countries in North America score the highest, followed by Asia, Western Europe, Pacific Ocean Islands, Middle East, Eastern Europe, Russia and Central Asia, South America, Central America and Africa.

The E-Government rating index from 2001 to 2004 indicated that the Governments are showing steady progress on several important dimensions. However, movement forward has not been more extensive in some areas because budget, bureaucratic, and institutional forces have limited the extent to which governments have incorporated technology adoption into their mission.

*(Source: Independent Market Research Report)*

##### 4.6.4 Key Demand Drivers

###### (i) Computers and Internet Penetrations

The total PC estimation in Malaysia increased from 1,360,000 in 1998 to 4,200,000 in 2003, an increase of over 200% over the stipulated period. PC penetration (PC per 100 inhabitants/persons) has also increased from merely 6.1% in 1998 to 16.6% in 2003. In terms of the Internet subscription, the estimated number of Internet users has increased from 1,215,000 in 1998 to 11,016,000 in 2005, an impressive increase of more than 800% over the stipulated period.

Total Internet subscriptions (both dial-up and broadband) in Malaysia experienced at least double digit growth annually since 1999. With the penetration rate of 13.9% and 1.9% of dial-up and broadband respectively in 2005, the overall Internet penetration in this country is still relatively low.

With PC penetration considered low and with the advent of higher speed Internet, it is expected that the Government will encourage more take up of Internet services and more market differentiation aspects of such services including the supply of PCs to cater to different user categories.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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In terms of Malaysia's position amongst other countries, Malaysia's PC penetration rate was far below those of the developed and newly industrialised countries. However, the low PC penetration rate is somehow compensated by the significant increase in Internet access, an important means of assessing the services provided through the E-Services project. The significant increase in Internet access suggests demand potential for the E-Services project.

**(ii) Demographic Trend**

The services offered under E-Government and E-Services are targeted at citizens, therefore the determinant for the increasing demand of the industry is the population growth rate. Malaysia's population has experienced a CAGR of 2.5% from 20.7 million in 1995 to 25.9 million in 2004.

The key demand for the JPJ theory test services comes from the main addressable population between 15 and 24 years old (18.7% of the total population). The inclination to Internet usage has always been strongly correlated with age (i.e. the younger you are the more likely you are to use the Internet). Usage of E-Government services tends to peak among those aged under 25 years and remains strong among the 25 - 34 years old before declining as the age increases.

The household segment is also the main demand driver for the usage on TNB and TELEKOM payment transactions. As the society evolves and economy expands, the number of household increases and becomes more affluent. Based on the housing census conducted in 2000, there are a total of 4.9 million households in Malaysia. Total households have been growing at a CAGR of 3.3% (1970-2004). Such growth coupled with the increased in household members under 25 years (who are more incline to using the Internet) and the trend of increasing Internet usage will contribute favourably in driving the demand for E-Services.

**(iii) Increased in the Total Number of Motor Vehicles**

The E-Services are centred on the electronic delivery of driver and motor vehicle registration, licensing and summons services. The performance of the automotive industry and total number of motor vehicles registered with JPJ are key demand drivers for the future of E-Services project. The total number of motor vehicles registered has increased from 5.7 million in 1993 to 14.8 million in 2005 (CAGR of 7.7% over the stipulated period). However, within the first half of 2006, there has been a series of events that besides dampening consumer sentiments has led to uncertainties in the automotive industry. Some of these events include rising interest rates, more stringent approvals on hire purchase loans, rising oil prices and also weak market for used cars. Nevertheless, the prevailing decline in motor vehicle registration in the first half of 2006 can be viewed as temporary in nature and the growth trend is expected to continue in the long term.

At the moment, the services provided by the E-Services projects are mainly catered for Malaysian drivers. The total number of drivers has increased since 1997, from approximately 6.8 million to 15.4 million in 2004 with a CAGR of 12.5% between 1997 and 2004. In 2005, the total number of drivers is estimated to be 17.3 million.

The increase in the number of cars and number of drivers coupled with the increase in the main addressable population age groups (15 – 24 age group) is expected to drive the demand for services offered under the E-Services project.

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

##### (iv) **Development Allocation for ICT-Related Programme and Projects**

The 9MP, which was unveiled on 31 March 2006, is expected to be a radical departure from the previous eight plans as different approaches are required to meet the new challenges of globalisation, growing competition and rapid technological advances.

During the 9MP, the various computerization programmes will be driven by the relevant ministries and agencies, such as Ministry of Energy, Water and Communications, Malaysian Administrative Modernisation and Management Planning Unit, Ministry of Education, Ministry of Health, Ministry of Home Affairs, Ministry of Science, Technology and Innovation and Multimedia Development Corporation.

A total of RM12.9 billion will be allocated for ICT-related programmes and projects under the 9MP as compared to RM7.9 billion under the 8MP. A major portion of this allocation will be used for computerisation of Government agencies as well as bridging the digital divide initiatives, largely for the supply and maintenance of computers and Internet access. In addition, specific funding will be made available to promote ICT content and entrepreneurship development.

*(Source: Independent Market Research Report)*

##### 4.6.5 **Industry Players and Competition**

The following is the entire participant list for the E-Government Initiative in Malaysia. The E-Government contract assigned to the participants is exclusive and non-transferable. In addition, a participant such as MYEG, which has been assigned to the E-Services project, will not be able to undertake a project under other categories within the E-Government.

<b>Name</b>	<b>Project involved</b>
<b>MYEG</b>	<b>E-Services</b>
<b>SPEEDS</b>	<b>E-Services</b>
<b>KOMMS</b>	<b>E-Services</b>
Commerce Dot Com Sdn Bhd	E-procurement
NTT Data Corporation	E-procurement
Puncak Semangat Sdn Bhd	E-procurement
Electronic Data System IT Services Sdn Bhd	GOE
Hewlett-Packard Sales (M) Sdn Bhd	GOE
Microsoft Knowledge Capital Centre Sdn Bhd	GOE
Sapura Advanced System Sdn Bhd	GOE
Malaysian Resources Corp Bhd	HRMIS
Accurate Networks & Systems Integration Sdn Bhd	HRMIS
Berita Information System Sdn Bhd	HRMIS
BSN Information Technology & Services Sdn Bhd	HRMIS
CS Technologies Sdn Bhd	HRMIS
DigiEra Sdn Bhd	HRMIS
Edaran Komputer Sdn Bhd	HRMIS
Irshad Consulting Sdn Bhd	HRMIS
Leapfrog Technologies Sdn Bhd	HRMIS
Orienasli Holdings Sdn Bhd	HRMIS
Origin Technology Sdn Bhd	HRMIS
Quantum Paralleh Sdn Bhd	HRMIS
Sepakat Computer Consultant Sdn Bhd	HRMIS

#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

<b>Name</b>	<b>Project involved</b>
Sistem Televisyen Malaysia Berhad	HRMIS
FSBM CTech Sdn Bhd	PMS
Fujitsu Malaysia Sdn Bhd	PMS
AIT Workgroup Technology Sdn Bhd	PMS
DapanNet Sdn Bhd	PMS
SOLSIS Sdn Bhd	Electronic Labour Exchange
SAINS Sdn Bhd	E-Syariah

Under the E-Services project, the Government has to date, appointed 3 consortiums as Service Providers. These Service Providers act as the interface between the public and the Gateway Provider. They are MYEG, SPEEDS and KOMMS.

*(Source: Independent Market Research Report)*

Meanwhile, for Government regulated commercial E-Services which are not under the E-Government Initiative, such as our E-Cover Note project, there are two (2) other companies providing E-Cover Note services besides our Group, namely, Reward Link Sdn Bhd and Financial Link Sdn Bhd. While various companies may be able to provide the commercial E-Services, our Directors believe that being the only company that is appointed or assigned as a Service Provider under the two (2) projects (E-Services project and E-Cover Note project) will afford our Group a competitive advantage over our competitors. Also, as an integrated Service Provider, our Group is able to maximise its operations by cross leveraging on systems, delivery channels, hardware and personnel.

#### 4.6.6 Government Legislation, Policies and Incentives

There are currently no specific regulations governing the E-Government services industry. However, the implementation of a comprehensive framework of cyberlaws under the MSC Bill of Guarantees shall facilitate and assist the development of the IT and multimedia information and content industries. The rationale for passing the cyberlaws is to provide a framework of societal and commerce-enabling laws to counter the abuses caused by the rapid proliferation and interconnection of computer networks in the World Wide Web. The cyberlaws will provide framework for the following issues:

- Integrity and security of information
- Legal status of online transactions
- Privacy and confidentiality of information
- Intellectual property rights and Government data

In terms of protection of intellectual property rights on software, some of the key Malaysian legislations are the Trade Marks Act 1976, Patents Act 1983, Copyright Act 1987, Industrial Designs Act 1996, Digital Signature Act 1997, Communications and Multimedia Act 1998 and The Computer Crimes Act 1997.

In addition, Malaysia is a member of the World Intellectual Property Organisation (WIPO), Paris Convention, Berne Convention and signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

MSC status is one of the key initiatives of the Government to facilitate ICT growth in Malaysia and to spearhead Malaysia's Vision 2020. To attract participants to the MSC, it has offered various incentives such as:



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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(i) **Bill of Guarantees**

- Provide a world-class physical and information infrastructure.
- Allow unrestricted employment of local and foreign knowledge workers.
- Ensure freedom of ownership by exempting companies with MSC Status from local ownership requirements.
- Give the freedom to source capital globally for MSC infrastructure, and the right to borrow funds globally.
- Provide competitive financial incentives, including no income tax for up to ten (10) years or an investment tax allowance, and no duties on import of multimedia equipment.
- Become a regional leader in intellectual property protection and cyberlaws.
- Ensure no Internet censorship.
- Provide globally competitive telecommunications tariffs.
- Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub.

(ii) **Financial Incentives**

Five-year exemption from Malaysian income tax (Pioneer status), renewable to ten (10) years, or a 100% Investment Tax Allowance (ITA) for up to five (5) years on new investments made in MSC cybercities. These incentives are provided for under the Promotion of Investment (Amendment) Act 1997.

MSC status companies are allowed to import multimedia equipment duty-free, provided that the equipment is used for business operations. The exemption applies to equipment used directly in facilitating the operational processes of MSC-status companies, but excludes imports for the purpose of direct sales and trading or use for as components in manufactured items.

(iii) **Non-financial Incentives**

(a) ***Unrestricted Employment of Foreign Knowledge Workers***

MSC status companies may employ any number of foreign workers possessing any one of the following qualifications:

- Five or more years' professional experience in multimedia/ information technology businesses or in a field that is a heavy user of multimedia.
- A university degree (any discipline) or a graduate diploma (in multimedia/ IT) from a technical college, plus two or more years' professional experience in multimedia/ IT businesses or in a field that will be a heavy user of multimedia.
- A master's degree or above in any discipline.

Malaysia will grant working visas for these foreign knowledge workers for initial periods of up to five years.

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#### 4. INFORMATION ON OUR GROUP (Cont'd)

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(b) ***Freedom to Source Capital for MSC Infrastructure Globally***

Companies that are engaged in developing infrastructure for the MSC are free to source funds globally for their investments.

All MSC status companies will be given exemption by the Controller of Foreign Exchange from exchange control requirements through the MDEC. With these foreign currency exemptions, companies will be free to:

- Execute transactions in any currency in Malaysia or elsewhere in the world.
- Borrow any amount from financial institutions, associate companies or non-residents.
- Hedge their foreign-exchange exposure.
- Remit globally for any purpose.
- Open foreign currency accounts in Malaysia or abroad with no limits on the balances, including accounts for the retention of export proceeds.

(c) **Other MSC Benefits**

Other MSC benefits include:

- Intellectual property protection and a world-first comprehensive framework of cyberlaws.
- World-class physical and IT infrastructure.
- Globally competitive telecommunication tariffs and service guarantees.
- No censorship of the Internet.
- High-quality, planned urban developments.
- Excellent educational facilities, including the region's first Multimedia University.
- Green environment protected by strict zoning.

(iv) **Incentives for ICT Related Companies**

(a) ***Incentive for Software Development***

This incentive is given based on the following guidelines:

- The computer software must be for a general purpose and not for a specific customer.
- For companies undertaking modifications of existing software packages, the cost of acquiring the existing packages must not exceed 25% of the modification expenditure, which includes software tools, labour and equipment costs.

(b) ***Accelerated Capital Allowance***

- Companies receive an initial allowance of 20% and an annual allowance of 40% for expenditure incurred in acquiring computers and information technology assets, including software. Thus, the expenditure can be written off within two years.
- The cost of developing websites is allowed at an annual deduction of 20% for a period of five years.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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(c) ***Other ICT Incentives***

Companies enjoy a single deduction on:

- Operating expenditure including payments to consultants related to IT usage for improving management and production processes.
- Contributions in cash or kind for ICT acculturation projects at local community levels. This is effective until the year of assessment of 2003.
- Computers given by employers to their employees until the year of assessment of 2003 are not deemed as income.

(d) ***Tax Exemption on the Value of Increased Exports***

Companies in the ICT sector can apply for a tax exemption on their statutory income equivalent to 50% of the value of increased exports.

*(Source: Independent Market Research Report)*

#### 4.6.7 Demand and Supply Conditions

The demand for E-Government services and specifically the E-Services pilot project, will predominantly be derived from the Government. The E-Government Initiative is one of the key initiatives of the Government to facilitate ICT growth in Malaysia and to realise Malaysia's Vision 2020. The key demand drivers for E-Services in Malaysia will include increasing computer and Internet penetration, rising population trend, increase in total number of motor vehicles and high development allocation for ICT-related projects. See Section 4.6.4 of this Prospectus for further information on the key demand drivers for E-Services in Malaysia.

Supply for the E-Government Initiative is mainly demand-driven, which in turn is determined by the Government. For the E-Services project, the Government has appointed 3 consortiums as Service Providers. The Service Providers other than MYEG, being SPEEDS and KOMMS, will provide E-Services delivery to the public via multiple access channels such as kiosks, integrated voice response system through telephone, Internet services through web TV and PC.

*(Source: Independent Market Research Report)*

#### 4.6.8 Substitute Products and Services

The threat of product substitution for E-Government and E-Services is minimal. Instead of being substituted, the E-Government and E-Services project are in fact substituting the conventional way of assessing information and conducting payment transactions with agencies such as DBKL, JIM, JPJ, PDRM, TNB and TELEKOM.

The traditional means of access such as personal visits, phone calls and mail delivery to the respective Service Suppliers (such as JPJ) will be supplemented with the availability of the E-Government and E-Services projects. This is because E-Government and E-Services applications enable the public to transact more easily and flexibly with the Service Suppliers via multiple delivery channels such as Internet services through web TV and PC, kiosks and through telephone (via IVR system). The services offered with regards to electronic driver licensing, vehicle registration and licensing services under the E-Services project will most likely substitute the conventional means of conducting the services personally at the JPJ branches.

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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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Nevertheless, substitutes may also come in the form of other Service Providers offering the same services as MYEG. For instance, banks or credit card companies offering utility payment facilities either over the counter or through electronic arrangement. These financial institutions may offer such services by giving away prizes and special gifts to selected customers who pay their bills through them.

*(Source: Independent Market Research Report)*

##### 4.6.9 Prospects and Outlook of the Industry

A dynamic and democratic society, with a strong and productive economy, requires a service-oriented, reliable and innovative government at all levels, to improve the efficiency and effectiveness in the way the governments operate internally and the way it delivers services to the people.

Governments across the world have today created websites aiming at facilitating business investment, citizen complaints and tourism. The E-Government spread across to developing countries such as Malaysia, with the launch of the E-Government Initiative in 1997. E-Government is expected to play an essential role in catalysing the development of the MSC as well as furthering political and economic development goals as per the objectives of Vision 2020. While the E-Government is still at its preliminary stage of implementation, E-Government is recognised as an important part of moving the country towards a knowledge-based economy. In Malaysia, the E-Government Initiative will improve the ways in which the Government operates as well as delivers its services to the general public. It seeks to improve the convenience, accessibility and quality of interactions with citizens and business; simultaneously, it will improve information flows and processes within the Government to improve the speed and quality of policy development, coordination and enforcement.

The vision of E-Government is of the Government, businesses and citizens collaborating for the benefit of the country. The vision focuses on effectively and efficiently delivering services to enable the Government to become more responsive to the needs of its citizens. In taking the citizen-centric approach, the E-Government programme builds bridges between agencies in the same tier of Government and the different tiers of Government to ensure that the service is seamless to the user. The integration of policies from different agencies involved in the specific service will be packaged around the citizen's needs and not on the agency's functions.

In addition to the improved information flow and processes within the Government, the E-Services programme is believed to aid collections for the Government's coffers while convenient, fast and easy payment at kiosks via the Internet would encourage offenders to pay police summons and traffic fines quickly. In addition, the programme will also enhance the efficiency and quality of policy development, coordination and enforcement.

The services offered within the E-Services project will be targeted to the Malaysian citizens to facilitate / ease the transactions with the Government agencies (such as JPI, PDRM, DBKL and JIM) and utility companies (such as TNB and TELEKOM). It was initiated with the belief that the citizens use at least one of the services identified under E-Services on a monthly or annually basis. With the increasing trend on its demand drivers such as number of drivers and number of household, the demand for such services will increase inevitably in the future.

*(Source: Independent Market Research Report)*

##### 4.7 Major Customers

Our Group does not have any customer who individually accounted for 10% or more of our Group's revenue for each of the last three (3) FYE 30 June 2004 to 30 June 2006.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### 4.8 Major Suppliers

Our Group's major suppliers (i.e. those individually contributing 10% or more of the Group's costs of revenue and subcontracting costs) for each of the last three (3) FYE 30 June 2004 to 30 June 2006 are as follows:

Name of supplier	Country	Contribution to our Group's total purchases		
		FYE 2004 %	FYE 2005 %	FYE 2006 %
JPJ	Malaysia	50.16	67.31	39.04
PDX.com Sdn Bhd	Malaysia	15.74	4.10	3.55
JIM	Malaysia	-	-	26.41
PDRM	Malaysia	8.68	6.00	19.83

JPJ is our Group's major supplier in regards to the JPJ-related E-Services, such as the Driving Theory Test Booking, Test Taking, and Security Digital Imaging, under the concession agreement. JPJ is essentially the supplier of database information pertaining to the JPJ drivers licencing application while the Gateway Provider, PDX.com Sdn Bhd transmits data between JPJ and our Group. Our other major suppliers include PDRM (for the electronic delivery of summons and information services) and JIM (to carry out the delivery of its online transactional services).

Our Directors believe that the risks arising from the dependency on any one of the above Service Suppliers are reasonably mitigated as we have established long-standing relationship with most of them. In addition, the likelihood of the Government switching to another new Service Provider is unlikely, since we have proven to be a reliable Service Provider with the relevant capabilities, expertise and technology to implement the E-Services project smoothly. Thus, our Directors believe that the risk of any disruption is minimal.

##### 4.9 Future Plans and Outlook

The various key growth strategies of our Group for the FYE 2007 to FYE 2010, outlined in Section 10 of this Prospectus, have been formulated with the objective of keeping pace with technological changes, developing our competitive advantages, supporting our business expansion plans and the long term sustainable growth of our Group. The strategies to be adopted include optimising our current technological capabilities, retaining employees' and stakeholders' confidence, and increasing revenue growth through market expansion, product expansion and improvement in process and technology along the value chain. We intend to focus and endeavour to bring to fruition our product development plans set out below. In addition to organic growth, our business expansion plans may also include strategic acquisitions which are synergistic to our Group.

#### 4. INFORMATION ON OUR GROUP (Cont'd)

##### (i) Product Development Plans

Our proposed product development milestones for the FYE 2007 to FYE 2010 are as follows:

FYE	Future Milestones
2007	<ul style="list-style-type: none"> <li>• Commercialisation of Issuance of Probationary Driving Licence Service</li> <li>• Commercialisation of Application of Vehicle Registration Numbers and Motor Vehicle Registration (Phase 1 and 2)</li> <li>• Commercialisation of Motor E-Insurance Intermediary Service</li> <li>• Commercialisation of Online Transactional Services for Jabatan Pendaftaran Negara ("JPN")</li> </ul>
2008	<ul style="list-style-type: none"> <li>• Commercialisation of Road Tax Renewal Service</li> <li>• Commercialisation of Transfer of Motor Vehicle Ownership</li> <li>• To expand GES Services into the South East Asian Market</li> </ul>
2009	<ul style="list-style-type: none"> <li>• Online Transactional Services for Department of Statistics</li> <li>• To expand GES Services into the Middle East Market</li> </ul>
2010	<ul style="list-style-type: none"> <li>• Tax Monitoring System</li> <li>• To expand GES Services into the South Asian Market</li> </ul>

##### FYE 2007

##### *Issuance of Probationary Driving Licence*

Upon passing both theory and practical test, JPJ will issue probationary driving licence to successful candidates. Probationary driving licence can be printed through a service kiosk. The issuance of probationary driving licence is in the final stage of testing and is expected to be commercialised in the FYE 2007.

##### *Electronic Application of Vehicle Registration Numbers and Motor Vehicle Registration (Phase 1 and 2)*

We are developing a system with JPJ for the electronic tender and application of vehicle registration numbers and electronic application for vehicle registration numbers. With the development of this system, citizens are able to tender for their preferred numbers online or apply for vehicle registration numbers at our kiosks located nationwide. The Government's approved tariff is RM2.75 for every single transaction in the process.

Under Phase 2, we are developing a system with JPJ for the registration of new motor vehicles. The Government's approved tariff is RM10.00 to complete the process. The target users for this service are mainly car dealers. Given that there are 14.8 million existing vehicles (*Source: Independent Market Research Report*) and 1,051,572 new registrations (*Source: JPJ*) in 2005, the potential income from this business is promising.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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##### ***E-Insurance Intermediary***

E-Insurance Intermediary service is an extended service of the E-Cover Note service where we will earn income from selling motor vehicle insurance. Our role in this service is to act as an agent or intermediary between insurance companies and motor vehicle owners. This service is complementary to E-Cover Note, Road Tax Renewal and Electronic Application of Vehicle Registration Numbers and Motor Vehicle Registration services as the Group's customers will be able to enjoy a one-stop service without going through various channels.

##### ***Online Transactional Services for JPN***

We are working with JPN to develop an on-line interface which would allow comprehensive records of the Malaysian population to be transacted from JPN's centralised database to the Malaysian public through our service kiosks located nationwide. With this system, citizens will be able to access and retrieve their personal information from a single repository. Citizens will also have the flexibility of being able to carry out transactions such as application for replacement of MyKad, loading driving license and/or passport information onto MyKad as well as printing out contents of MyKad via our kiosks.

##### **FYE 2008**

##### ***Transfer of Vehicle Ownership***

Similar to the registration of new motor vehicles, we will develop a system with JPJ for the transfer of motor vehicle ownership. The Government's approved tariff is RM2.75 for every transaction in the process. Given the increasing trend of the automotive industry in terms of number of new vehicles per year, potential income from this business is promising. With the development of this service, users will be able to transfer their vehicle ownership to respective owners without the hassle of queuing up at the JPJ office. This service can be carried out online via our Group's service kiosks located nationwide. Users of this service will be car dealers, finance companies, banks, corporations and citizens.

##### ***Renewal of Road Tax***

Renewal of road tax is complementary to our E-Cover Notes, electronic application of vehicle registration numbers and motor vehicle registration as well as E-Insurance Intermediary services. Therefore, citizens will be able to electronically purchase an E-Cover Note and then submit this information through a centralised database maintained by our Group. Upon verification that the vehicle status is not blacklisted for various reasons, the citizen will be able to renew his road tax from the comfort of his home.

##### **FYE 2009**

##### ***Online Transactional Services for Department of Statistics***

Citizens and businesses will soon be able to purchase customised statistical data from the Government online. The advantage of using this delivery channel is that a broad menu of permutations can be offered by the Department of Statistics. Citizens and businesses will also benefit from the wider selection, as they will be able to obtain precise data relevant to their specific needs.

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#### 4. INFORMATION ON OUR GROUP (*Cont'd*)

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##### **FYE 2010**

##### ***Tax Monitoring System***

Our tax monitoring system is an integrated system to monitor the activities of gaming machines in order to ensure accuracy and timely recording of gaming tax. Our Group intends to develop this system with the Ministry of Finance. Given that the current gaming tax declaration forms are manually filled up, an integrated automated system will bring about convenience, efficiency and accuracy.

##### **(ii) Business Expansion Plans**

We are constantly exploring opportunities to acquire businesses or products which are synergistic to our Group in line with our strategy to broaden our market, products and customer base. At present, we have identified a Malaysian-based company with related business activities for possible acquisition (“Proposed Acquisition”).

Our Directors view the Proposed Acquisition as a strategic investment, which will serve to consolidate and enhance our Group’s market position in Malaysia through immediate increase in market share and expansion of customer base within the E-Services industry. We have recently commenced due diligence assessment on the Proposed Acquisition and our management is in the midst of gathering information and materials required to evaluate the viability of the Proposed Acquisition. As the process is in its preliminary stage, we are unable to quantify the effects of the Proposed Acquisition on the earnings and cashflow of our Group with accuracy at this juncture. However, we expect the Proposed Acquisition to contribute positively to the long term future earnings and cashflow of our Group as a result of the following:

- (a) ability of management to run operations efficiently and effectively, hence ensuring low cost and comparable profit after tax margins;
- (b) benefits from economies of scale as a merged entity as opposed to duplication of functions and in capital expenditures, if both companies operated individually; and
- (c) immediate access to geographical markets that our Group currently does not have a significant presence in.

We currently expect to fund the Proposed Acquisition through internally generated funds subject to the finalisation of the payment schedule under a sale and purchase agreement to be entered into later. The Proposed Acquisition, despite the cash consideration, is not expected to have any material impact nor curtail our Group’s capital expenditure or expansion plans as detailed in this Prospectus. Upon completion, we do not expect the Proposed Acquisition to have any impact on the concession agreements awarded to our enlarged Group as we will continue to provide services under the concession agreements (such as the driving theory test taking and ancillary services, issuance and renewal of licences, online transactional services for PDRM and JIM, etc.), as well as commercial services which are not concession-based (such as the E-Cover Notes, the E-Fulfillment services and other technical services).



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#### 4. INFORMATION ON OUR GROUP *(Cont'd)*

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As with most acquisitions, there are associated risks which could have a material adverse effect on our Group's future profitability and performance. We could encounter difficulties in the Proposed Acquisition, including unanticipated integration problems and business disruption which may result in unforeseen operating difficulties and expenditures. Nevertheless, our Board is confident that the common problems of integrating back end systems may be alleviated to a certain extent, as the target acquiree uses a similar solution platform as ours. Integration of the operations of an acquired company may also consume considerable management time and attention, which could otherwise be available for ongoing development of the business. Moreover, the expected benefits of the Proposed Acquisition may not be realised, to such extent that we may be required to write-off certain associated acquisition costs such as goodwill and other intangible assets, which could be significant.

However, we believe that our management will be able to exercise due discernment on the suitability of the Proposed Acquisition based on their in-depth knowledge of the industry. Additionally, we have commissioned a due diligence on the Proposed Acquisition in consultation with the necessary professional advisers. The Proposed Acquisition may further be subjected to our shareholders' approval, if so required.

Notwithstanding the above, since negotiations for the Proposed Acquisition are still in its preliminary phase, there can be no assurance that the Proposed Acquisition will materialise. In such an event, we do not expect the Proposed Acquisition to have any impact on the business operations of our Group. Additionally, our consolidated profit forecast as disclosed in Section 9.9 of this Prospectus will not be affected since the expected additional contribution in revenue from the Proposed Acquisition is not included therein.

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