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**6 INDUSTRY OVERVIEW (Cont'd)**

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world's first International Civil Aviation Organisation compliant passport. Coupled with the use of the *MyKad* for multiple applications, smart card technology will experience high growth with its mass adoption in the banking sector in the form of EMV-compliant ATM and credit cards as well as in the transportation sector in the form of Touch 'n Go cards. In 2007 the Malaysian Immigration Department announced that they will introduce chip-based visas to make immigration clearance easier.

ID cards are at a growth stage and will continue to enjoy growth in the medium to long term as they are widely applied in the retail sector as well as in the commercial sector as employee ID cards. Furthermore, ID cards are cost effective.

RFID and biometrics are still nascent markets in Malaysia. The high cost of RFID chips is the main factor impeding further growth of the technology. Furthermore, market players seem to suggest that the lack of government subsidies and incentives are also restraining the growth of the RFID technology in Malaysia. Currently implementation of RFID is mainly driven by government initiative, one of it being the RFID system implemented for Penang public library by Jaring communications. This implementation enabled the library to automate management functions such as checkout and return, sorting and inventory. Besides implementing RFID in library, Jaring communications plans to introduce RFID automation system to public sector, especially in education and government ministries. Future adoption of RFID in Malaysia are expected to cover a wide array of application such as managing assets, staff and patient in healthcare sector, automated gas cylinder filing and tracking in oil and gas sector, storing, managing and retrieving documents in logistic sector, and livestock tracking in agriculture sector.

Biometrics is perhaps the most untapped technology in Malaysia as not many companies have been reported to conduct R&D activities and explore the benefits of the technology. Biometrics applications are currently limited to facial and finger print recognition.

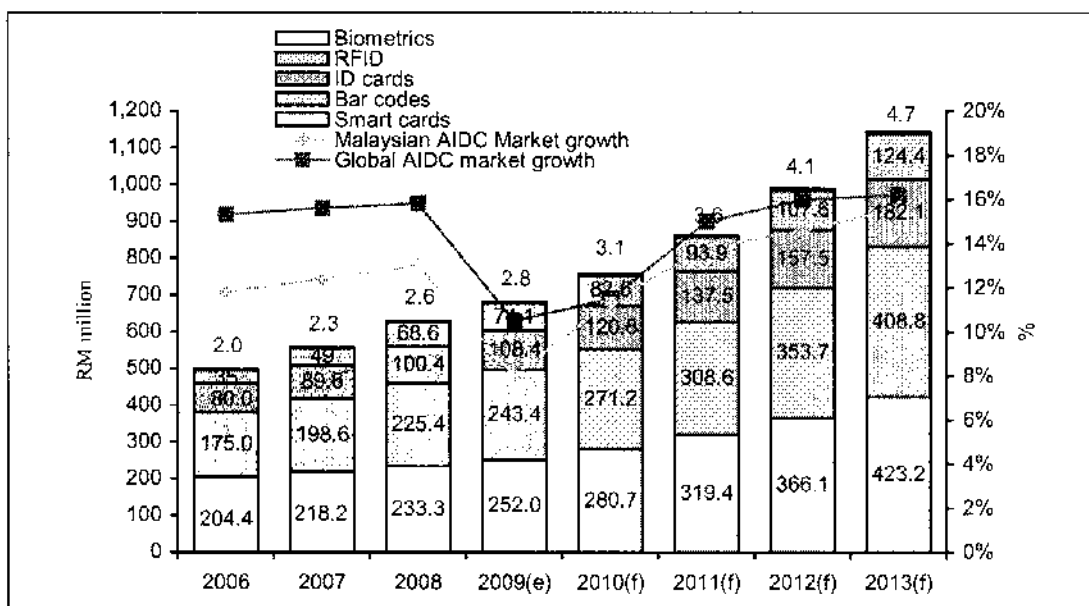
### **6.2.3 The Malaysian AIDC market size and growth**

Malaysia AIDC market will continue to grow due late adoption of AIDC technology, hence in 2008, the market is worth RM630 million representing an increase of 13% from 2007. The AIDC market is expected to grow at slower pace of 8% in 2009 due to economic slowdown and post recession growth rate of 11.4% in 2010. As the economy recovers, the forecast CAGR over the next 3 years is 14.7%. This is due to the growing trends to streamline and automate many of the day-to-day processes as well as mandates from the government and retailers. The outlook for the overall AIDC market is promising.

The smart card market which is valued at RM233.3 million in 2008 and it is expected to grow at 11.0% CAGR over the next 5 years as there will still be a replacement market especially for MyKads as it was reported 890 thousand of MyKads replacement issued in 2008. Barcode technology which is estimated to be worth RM225.4 million in 2008 is expected to grow 12.9% CAGR in the next 5 years in line with the growth of the manufacturing and retail sectors which currently dominate the local barcode scene. Both sectors will still be large users of barcode technology which is currently being used to track items and products on an item and carton basis. The ID card market is worth RM100.4 million in 2008 and is likely to grow at 12.5% CAGR in the next 5 years in light of a replacement trend. The RFID market is forecasted to grow at 19.9% CAGR over the next 5 years with the market value in 2008 of RM68.6 million. The RFID technology is expected to assume significance amongst the government, manufacturing, healthcare, agriculture and logistics sectors. In 2007, the revenue from the integrated smart card and biometric market in Asia Pacific is worth RM822 million. Although the Malaysian biometric market is only worth 2.6 million in 2008, the immense growth of this segment within the region will drive the Malaysia biometrics market with an expected growth at 13% CAGR over the next 5 years. This is largely due to growing appreciation of biometrics benefits in the government as well as the banking and insurance sectors.

6 INDUSTRY OVERVIEW (Cont'd)

The Estimated Malaysian AIDC Revenues by Technology, 2006 – 2013



Source: Trade interviews

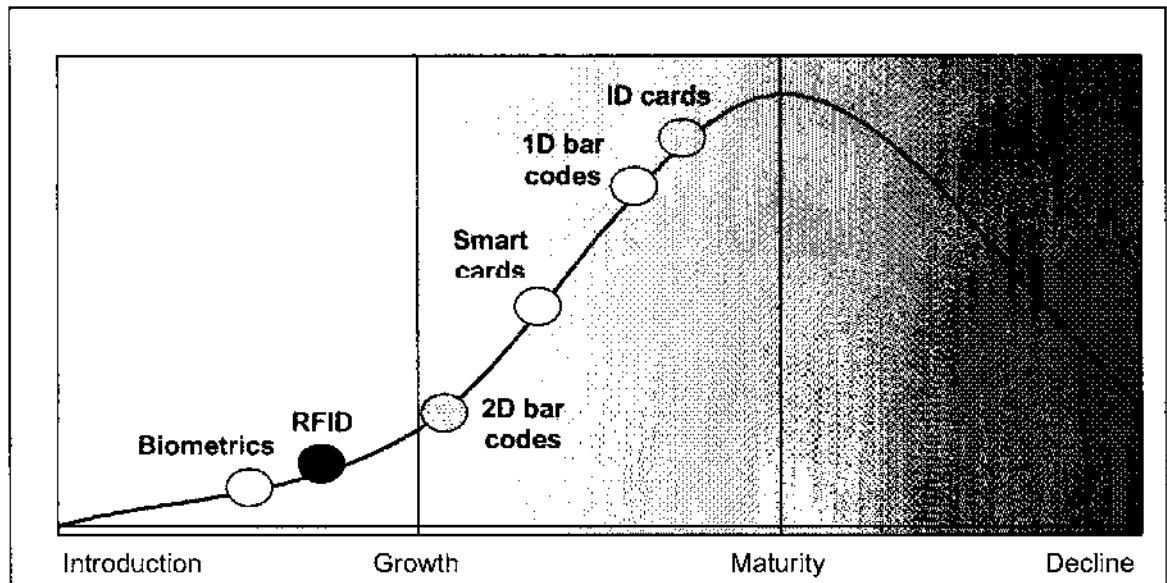
6.2.4 The Singaporean AIDC market

Similar to Malaysia, ID barcodes were introduced in Singapore 1980s but in the early 1990s, industries in Singapore were reluctant to implement the barcoding system due to the lack of barcoding standards. To address this, the Singapore Standard for EAN Barcoding System was drafted and released in 1993 and were endorsed by the Singapore Standards Council. This later saw EAN Barcoding System being widely adopted by retailers, manufacturers and logistic operators in Singapore. ID cards are also an established technology in Singapore. Smart card adoption was also high in the 1990s with the operation of the e-purse project which involves e-cash for low value retail payments and later on in 2004 with the EMV migration exercise being carried out. The Singapore government was one of two governments actively funding the development of the RFID industry in the island republic. Infocomm Development Authority (IDA), the regulatory authority for info-communications in Singapore has developed an RFID development plan that aims to develop into Asia's RFID hub. To date, IDA has implemented plans to assist local and multinational companies in making Singapore a base for RFID research. Besides the government, other big RFID application markets in Singapore include manufacturing and logistics as well as transportation. The uptake of biometrics in Singapore is growing with increased government efforts to implement biometrics to safeguard its borders.

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## 6 INDUSTRY OVERVIEW (Cont'd)

## Technology adoption of the Singaporean AIDC market



Source: Trade interviews

Similar to the Malaysian AIDC market, barcode technology will be the main growth driver for the Singaporean AIDC market. In a market where 1D barcodes are more matured, 2D barcodes will continue to grow and expand into new industry sectors as more and more companies become aware of its capability to encode more information whilst taking up significantly less space. In addition, 2D barcodes can function as the database itself and therefore ensure complete portability for 2D labelled items.

The smart cards market in Singapore is growing at a stage which is higher than that of Malaysia owing to the wide usage of smart cards for e-cash payments known as EZ-Link. EZ-Link has been in operations for more than 8 years and is used in public transportation as well as for retail purchases. Other smart card applications include the CitySIM, a real time location-based service through the SIM card which allows the retrieval of information such as the location of restaurants, banks and other attractions.

ID cards will continue to play a major role as they are cost effective and have become staples in the retail and commercial segment as loyalty and employee ID cards respectively.

RFID adoption in Singapore is increasing largely due to government support for various RFID initiatives. Companies in Singapore have begun pilots although implementation costs for large-scale deployment still remains a concern. RFID markets in Singapore can be categorised into four key application areas namely security and access control where library applications are the largest users, manufacturing and logistics to drive efficiency in supply chains, transportation which is driven by electronic road pricing implementation and others such as conventions and healthcare where RFID is used to track visitors, patients and staff. Singapore authorities have deployed a biometrics system called Sentinel at its border check points which links the republic to the neighbouring Malaysian state of Johor. Implemented in 2004, the iris scanning system helps to expedite immigration clearance for thousands of Malaysians who commute daily to Singapore for work. Biometric passports have also been introduced in Singapore in 2006.

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**6 INDUSTRY OVERVIEW (Cont'd)**


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**Stages of technology adoption**

	<b>Introduction</b>	<b>Growth</b>	<b>Maturity</b>	<b>Decline</b>
<b>Users</b>	Lead users	Early adopters	Early majority	Late majority
<b>Technology</b>	New technology	Enabling technology	Established technology	Technology is phasing out
<b>Product</b>	Product innovation	Improve on dominant designs	Established product	Redundant product
<b>Competitive advantage</b>	Compete on features	Compete on process, costs and quality improvements	Compete on strength of product, economies of scale and brand	Competing with new technology
<b>Profitability</b>	Profits unsure	High profit margins	Moderate margins	Stretched margins
<b>Market players</b>	Led by small players	Larger and more organised players	Dominant and structured players	Uncompetitive players

Source: Trade interviews

### 6.2.5 The Singaporean AIDC market size and growth

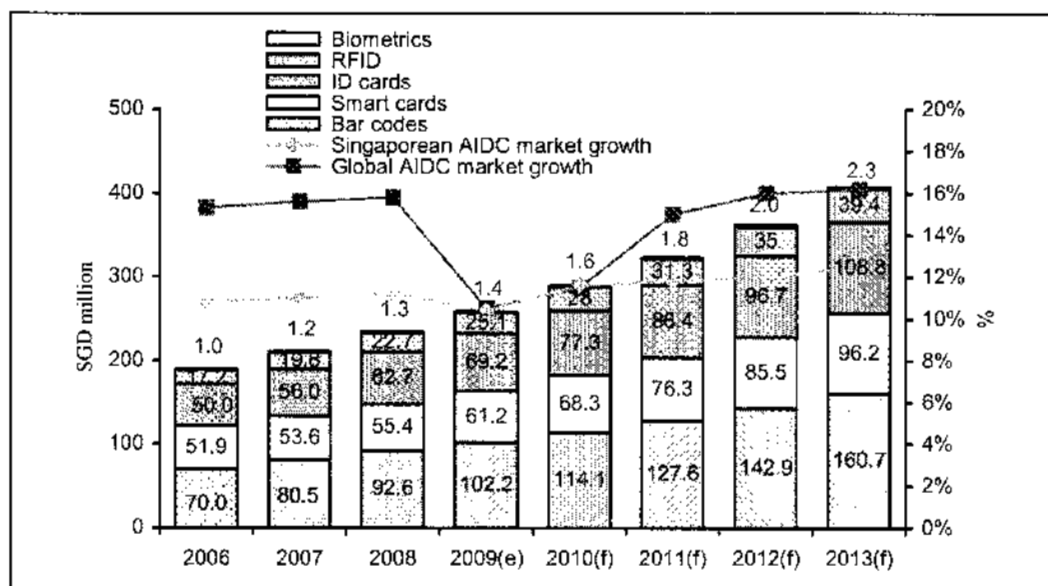
In 2008, Singapore AIDC market is worth SGD234.7 million representing a 15.8% increase from 2007. In the next 5 years, the market average growth rate is expected to be at a slightly faster pace of 11.5% owing to the growing awareness of AIDC technologies as well as an increased need of companies to adopt AIDC technologies in order to meet global standards.

Barcode technology market is estimated to worth SGD92.6 million in 2008 is expected to grow at 12.6% CAGR over the next 5 years as more and more companies in Singapore look to upgrade from traditional 1D barcodes to 2D barcodes. The smart card market which is valued at SGD55.4 million in 2008 is expected to grow at 9.2% CAGR over the next 5 years and this will be mainly driven by an increased uptake of smart card technology by the government in the issuance of e-passports. With high replacement trend due to its cost effectiveness, the ID card segment is expected achieve growth rate of 11.8% CAGR over the next 5 years with market value in 2008 is estimated to worth SGD62.7 million. The RFID market which is estimated to be worth SGD22.7 million in 2008 is forecasted to grow at 12.6% CAGR over the next 5 years. In comparison to RFID technology, barcodes is still prevalent in Singapore due to its low cost and relatively high accuracy. The uptake of RFID technology is nevertheless expected to catch up with barcode technology as more companies begin to recognise its benefits but the cost factor remains a key issue when it comes to large-scale deployment. The biometrics market represents a small fraction of the market but will still assume importance. Growth of biometrics is expected to be driven by the replacement trends of Singaporean passport which has been adopting biometric technology since 2006.

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6 INDUSTRY OVERVIEW (Cont'd)

The Estimated Singaporean AIDC Revenues by Technology, 2006 – 2013



Source: Trade interviews

6.3 BARRIERS TO ENTRY

(a) Industry experience and expertise

Technical expertise and a sound knowledge of the market are crucial in gaining a strong foothold in the AIDC industry. Each AIDC technology is considered to be niche hence technical competence is paramount to gaining customer confidence and securing high value projects. Notable players in the market have invested a considerable amount of time and financial resources in developing software solutions hence nurturing technical expertise involves both the financial and time factor. Generally, domain expertise acquired over at least 10 years is necessary to ensure success in this industry. Relevant experience and a good track record will also ensure a player remains competitive. Furthermore, the observation that each player in the market has developed software solutions catered for niche customer segments is evidence that different market segments require different technical expertise hence barriers to entry are considered high.

(b) Relationship driven industry

The AIDC industry is known to be a relationship driven industry where players who are well-connected will have an advantage over those who do not. It is common for business partners to refer potential clients to AIDC solution providers. Business partners may be pure system integrators or resellers who see potential in working together with solution providers in serving the end user. In addition, a good relationship fostered with principals will also be a barrier to entry as this is developed over a length of time.

(c) MNCs recognise approved vendors

In Malaysia and Singapore, the AIDC market is dominated by MNC clients. MNCs from the US are known to only engage the services of vendors who have been recognised as approved vendors. Generally, vendors who have been involved in the early stages of product development would become approved vendors in view of long term business partnerships fostered. This is the case as vendors would have committed themselves in terms of production volumes, pricing and quality standards. Once a vendor is appointed, business continuity is almost guaranteed as MNCs are known to engage a vendor for support services for up to 10

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**6 INDUSTRY OVERVIEW (Cont'd)**


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years. Typically, there would be more than one vendor servicing an MNC at any one time hence they are known to compete on pricing.

**(d) High switching cost**

There are high costs associated to switching between software applications once a company has invested in a full AIDC system comprising both hardware and software. To implement AIDC technology, software is usually customised to hardware and back-end systems hence it would be costly and cumbersome to reconfigure and reinstall new systems. In this regard, it is very often the case that the appointed AIDC vendor becomes a long term business partner to an AIDC customer. High switching costs are therefore viewed as a barrier to entry.

**6.4 RELEVANT LAWS AND REGULATIONS GOVERNING THE INDUSTRY AND PECULIARITIES OF THE INDUSTRY**

Save for the laws and regulations generally applicable to all companies carrying out business activities in Malaysia and Singapore, as well as the regulatory on radio frequency waves in RFID products, there are no special or peculiar laws and regulations governing our industry.

The key requirements on RFID radio frequency wave are as follows:-

Country	Frequency Range	Power Limit	Description
Malaysia	919 - 923 MHz	0.5W	<ul style="list-style-type: none"> <li>No restrictions and exemption from licensing.</li> <li>Estimated read range (2-3 metre)</li> </ul>
		2W	<ul style="list-style-type: none"> <li>Power limits above 2W are restricted for use inside or within the boundary of the user's building or premises. Licensing via Apparatus Assignment is required.</li> <li>&gt; 5 metre</li> </ul>
	868.1 MHz	0.05W Or 50mW	<ul style="list-style-type: none"> <li>No restriction and exemption from licensing</li> <li>1 – 2 metre</li> </ul>
Singapore	866-869 MHz	0.5W	<ul style="list-style-type: none"> <li>No restriction and exemption from licensing within the authorise frequency and output power</li> <li>RFID equipment must be registered/ approved by Infocomm Development Authority of Singapore</li> </ul>
	920-925 MHz	2W	<ul style="list-style-type: none"> <li>Licence required for above 0.5W</li> </ul>

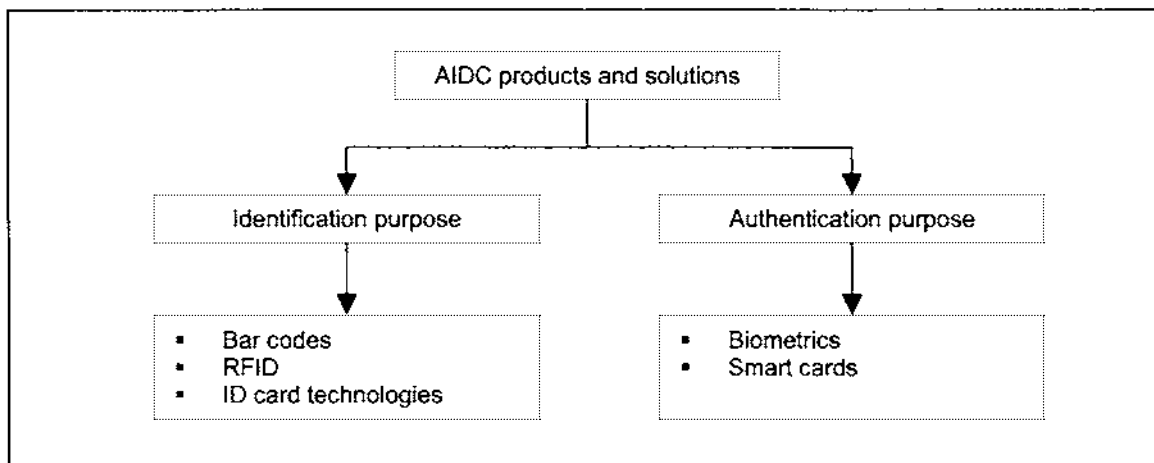
Source: Malaysian Communications and Multimedia Commission, Infocomm Development Authority of Singapore (IDA).

**6 INDUSTRY OVERVIEW (Cont'd)**

**6.5 INDUSTRY PLAYERS AND COMPETITION**

Generally, AIDC products and solutions can be categorised into two (2) types, namely products for identification and authentication. AIDC technologies used for instant identification purposes include barcodes, RFID and identification card technologies whereas technologies used for authentication purposes include biometrics and smart cards. Identification card applications include loyalty cards, door keys, employee ID cards and membership cards.

Types of AIDC products and solutions:



Source: Trade interviews

A majority of Malaysian and Singaporean AIDC players offer products and solutions that cater to the identification segment. Nevertheless, the industries targeted by one player vary significantly from another hence the products and solutions that they offer also vary.

In view of the different types of products and solutions currently offered by AIDC players, there is a need to distinguish between players who compete directly with hybrid players such as our Group and those who do not. Our Group is a one-stop solution provider who competes in the identification category. Their products and solutions are catered to focus on industries and their offerings combine industry-specific functionalities which have the flexibility to accommodate the unique processes of individual companies. In this regard, our only direct competitor in Malaysia is Grand-Flo Solution Berhad (“Grand-Flo”) who targets similar customer segments in Malaysia and offer proprietary AIDC software solutions in addition to distributing the RF Gen software.

In Singapore, the competitors of our Group are Spartan Systems (S) Pte Ltd and Mediatech Marketing Pte Ltd. Spartan Systems are the authorised distributor of the Intellitrack software while Mediatech Marketing is the authorised reseller of the RF Gen software. Again, the competitive intensity between our Group and these players is low hence the potential to gain market share is high.

For comparison purposes, the selection of major comparative local companies is based on the following criteria:-

- Provision of AIDC to public sector and/ or private sector; and/ or
- Listed on the ACE market of Bursa Malaysia

Based on the criteria above, our Group’s comparable competitors in Malaysia are mainly Grand-Flo, D squared, RES Malaysia, Powercomp Automation, Ark Tech (Malaysia), Code Soft and Sato-ID. Whereas the competitors in Singapore are Advantech peripherals, Autoscan Technology, Metrologic Asia, Sato Asia pacific, Ark Tech (Singapore) and Wavex Technologies.

**6 INDUSTRY OVERVIEW (Cont'd)**

Comparative market ranking of our Group and our comparable competitors in Malaysia and Singapore, in terms of revenue, PBT and PBT margin based on the available audited financial statements for the FYE 2007:-

	Company	Revenue* (RM'000)	FYE
1	Sato (combined) **	91,965 <sup>^</sup>	31 March 2007
2	Metrologic Asia	78,862	31 December 2007
3	Grand-Flo	64,670	31 December 2007
4	Advantech peripherals	32,425	31 December 2007
5	Powercomp Automation	28,791	31 December 2007
6	RES Malaysia	17,900	31 March 2007
7	Autoscan Technology	12,346	31 July 2007
8	DSC Group	11,297	30 September 2007
9	Ark Tech (combined) **	9,788 <sup>^</sup>	31 December 2007
10	D Squared	6,759	31 March 2007
11	Wavex Technologies	5,586	1 January 2007 – 31 March 2008
12	Code Soft	4,396	31 December 2007

	Company	PBT margin (%) <sup>*</sup>	PBT (RM'000) <sup>*</sup>	FYE
1	Wavex Technologies	15.66	875 <sup>^</sup>	1 January 2007 – 31 March 2008
2	DSC Group	14.78	1,669	30 September 2007
3	Powercomp Automation	14.55	4,189	31 December 2007
4	Grand-Flo	13.82	8,934	31 December 2007
5	Metrologic Asia	7.51	5,922 <sup>^</sup>	31 December 2007
6	Ark Tech (combined) **	5.17	506 <sup>^</sup>	31 December 2007
7	RES Malaysia	4.83	865	31 March 2007
8	Sato (combined) **	3.90	3,583 <sup>^</sup>	31 March 2007
9	Code Soft	3.23	142	31 December 2007
10	Advantech peripherals	3.14	600 <sup>^</sup>	31 December 2007
11	D Squared	0.82	56	31 March 2007
12	Autoscan Technology	0.01	0.80 <sup>^</sup>	31 July 2007

**Notes:-**

\* Based on 2007 audited financial results

\*\* Combined financial results of Malaysia and Singapore businesses

<sup>^</sup> Exchange rate extracted from Bank Negara Malaysia (SGD 1: RM 2.30)

(Source: Companies Commission of Malaysia, Bursa Malaysia, Accounting and Corporate Regulatory Authority Singapore)

Based on the revenue ranking, our Group is ranked eighth among our peers. However, we gained considerably good PBT margin and hence we are ranked second in terms of PBT margin, as our Group operates on a different business model as compared to our peers. Our Group demonstrates a unique business model whereby we position ourselves as a hybrid AIDC player with a one-stop-solution provider proposition. This competitive advantage means we leverage on providing comprehensive AIDC solutions, using proprietary software and engineering services in order to gain new business footprints and thereafter, we build on our continuity with the provision of value added products and services. This business model enables us to achieve a competitive PBT margin and have a pool of recurring customers to ensure business sustainability. In comparison, a majority of our peers adopt business models which are driven by securing new projects and/or customers to sustain and grow their business.



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**6 INDUSTRY OVERVIEW (Cont'd)**

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**6.6 PROSPECTS AND OUTLOOK OF THE INDUSTRY**

The AIDC markets in Malaysia and Singapore have strong potential to grow especially in barcodes and RFID technologies. Although the AIDC market remains a market with many players, opportunities are aplenty for hybrid Tier 2 and 3 players who are able to offer one-stop AIDC products and solutions based on an ASP model. Immediate adopters of AIDC technologies include SMEs who begin to appreciate the benefits of bar code labeling but at the same time are not willing to spend steeply on its implementation hence opting for the conventional 1D barcode systems. Other adopters of AIDC technologies include MNCs or business partners of MNCs who are striving to meet global standards. MNCs typically have bigger budgets to invest in more costly technologies such as RFID whereas smaller companies may opt for 2D barcode labeling. The public sectors in Malaysia and Singapore have also been large supporters of RFID technology where RFID was adopted in evidence management and electronic road pricing in Malaysia and Singapore respectively. In any case, barcode labelling has almost become a necessity in manufacturing and supply chain management.

Awareness of AIDC technologies is also increasing with public sector adoption, private sector mandates and public awareness initiatives undertaken by experts and associations. Along with this, mindsets are expected to change as more companies begin to recognize and realize the relevance and benefits of AIDC technologies. Overall, competition between hybrid Tier 2 and 3 players remain low owing to differing levels of technical competence and varying target segments.

**Growth Drivers for Asia Pacific****(a) Barcodes**

The first three Asian countries to adopt the EAN (European Article Numbering) barcode system were Japan (1978), Australia (1979) and New Zealand (1981). As for Malaysia, the EAN system was introduced into the country in 1988. Today, the use of barcode technology is widespread in Asia Pacific, and due to various changes in technology and application, more growth can be expected in this region.

**Migration towards GTIN standards**

In the US, most barcodes used are 12-digit UPC, while Europe and Asia uses mostly 13-digit EAN codes. This has led US manufacturers to invest in equipment capable of handling UPC codes as well as EAN codes, thus allowing products to flow between countries without the need for relabelling.

With the increase in global trade, there was a need to create a global standard, and hence the introduction of the 14-digit GTIN. GTINs can be used in various barcode formats, including the RSS which is a compressed barcode format with a greater capacity for data.

In June 2006, GS1 (Global Standard 1, a global organisation that designs and implements barcode standards) announced the setting of January 2010 as the date by which RSS is to become the global standard of barcodes at the point-of-sale level. By this date, barcode systems should be capable of scanning RSS barcodes, though EAN and UPC barcodes will still be in existence.

The Asia Pacific barcode market shows similar trends to the US market, and due to increased globalisation, companies in Asia are also affected by the US adoption of GTIN standards. Most barcode scanners and readers in use in the market are compatible with both UPC and EAN codes while there may be stronger growth in the software market for software that is able to process the various GTIN barcodes, such as UPC, EAN-8, EAN-13 and RSS.

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**6 INDUSTRY OVERVIEW (Cont'd)**

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**Boost for barcodes in biotechnology and pharmaceutical industries**

Barcodes are playing an increasingly critical role in pharmaceutical and patient care. The US' Food and Drug Administration has implemented a "Barcode Rule" in April 2006, which requires barcodes on all drugs and blood products.

As a result, all Asian pharmaceutical companies exporting to USA will need to adopt the barcode system in accordance with this ruling. Increased usage of barcoding on pharmaceutical products help to improve patient care and reduce medication errors. Barcode systems are also relatively low cost in comparison to some other AIDC systems, and hence allows for easier adoption.

In Malaysia, Gribbles Pathology, a well-known pathology laboratory is using barcode technology to reduce occurrences of mistakes in the testing process. Barcodes are attached to all request forms and specimens, and when passed onto the analysers, they will scan the barcodes to retrieve patient and test information from the computer database.

**Growing innovative use of barcodes**

An emerging application to watch out for is the usage of 2D barcodes to store large data files such as video clips, and can be used for advertising purposes. Japanese company Content Idea of Asia has invented such a printable barcode. The barcode can be swiped using a mobile phone, and the contents viewed on the mobile phone's screen. Or, if the mobile phone is connected to the Internet, users can use the barcode to launch a website of the advertiser. If this technology were to grow in popularity, it will encourage the deployment of barcode scanners and applications geared at the general consumers.

Mobile barcoding or barcode SMS is another barcode application that is catching on fast. Mobile barcoding takes place when a barcode in the form of a picture SMS is delivered to a mobile phone. Recipients would save the image, arrive at the destination and present their barcode SMS to be scanned. Mobile barcoding can be used as business cards, e-tickets, billing, coupons, gift certificates as well as discount vouchers on beverages, CDs, books and more. The recipient only has to present his or her mobile phone at pay point for the barcode to be scanned and the information to be processed. These applications are currently used in Japan, Korea and Hong Kong. In addition, barcoding can also be applied in integrated resorts where visitors would carry membership cards containing a barcode that gains them access to facilities such as restaurants and game rooms and at the same time, tracks the facility that is most frequented. This application is already in use in Malaysia and Singapore.

In Singapore, a 3D barcode application known as ZapCode has been introduced by the Singapore Press Holdings Ltd. ZapCode allows the retrieval of information from the Internet through the use of a mobile phone simply by capturing the image of a 3D barcode, which will then be sent to a server. The server extracts the relevant content which will then be redirected to a website where the mobile phone user will be able to download the content. A mobile phone user can download any digital content from the Internet which can then be viewed on the mobile phone instantly. Content can be in the form of text, images, audio and video files. To use ZapCode, users only need to ensure that their mobile phones have a camera and install a special application named ColorCam which can be downloaded via SMS or Wireless Application Protocol.

**Low implementation costs**

The cost of high volume barcodes is less than USD0.01 each. However, high volume RFID tags cost around USD0.50 each, and this cost is prohibitive especially for manufacturers of low value products. Hence, though RFID has often been touted as the replacement technology for barcodes, it is likely that both technologies will co-exist in the near future, as barcodes have achieved economies of scale and are still the most affordable and sensible choice for low-cost items such as food or fast moving consumer goods.

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**6 INDUSTRY OVERVIEW (Cont'd)**

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**New generation of barcodes introduced**

The next generation of barcodes known as 2D barcode, as opposed to its predecessor, the 1D barcode will have a major continuing role to play in the AIDC space as 2D barcodes have built-in correction algorithms and have higher storage capabilities. Furthermore, the cost of implementing 2D barcodes is not significantly higher than that of 1D barcodes. Barcodes and RFID technologies can also be combined to produce a smart label whereby a barcode label with high space saving capabilities will also have security capabilities simply through the addition of an RFID chip.

**(b) Radio frequency identification**

**Mandates from governments and global retail giants**

US retail giant, Wal-Mart had put forth a mandate for its top 100 suppliers to use RFID with pallet and case shipments by 1 January 2005. Wal-Mart's Malaysian suppliers account for 10% of the company's 4,000 suppliers in the Asia Pacific region and are striving to be RFID compliant by 2008 to nullify the risk of losing business deals with the giant retailer. As a result, RFID adoption in Malaysia and in other countries affected by the mandate is likely to receive an enormous boost. Nevertheless, it is expected that only the top 200 suppliers of Wal-Mart would adopt RFID by 2006 with the remaining suppliers expected to come on board by 2008. Similar mandates by other global companies are expected to force suppliers to implement RFID thus fuelling growth in the AIDC industry both locally and worldwide.

**RFID tags and readers are becoming more affordable**

The Generation 2 (Gen 2) standard is the first royalty-free global standard that provides greater products visibility in supply chains worldwide. Developed through a collaborative process involving more than 60 leading global companies that subscribe to EPCglobal Inc, the Gen 2 standard leads the development of industry-driven standards for the Electronic Product Code to support the use of RFID. The Gen 2 standard is designed for worldwide deployment and considers emerging UHF regulations in different regions. Already a large number of manufacturers are supporting the new standard and this has given rise to competitive pressures which have been driving up volume and bringing down prices.

Malaysia was quick to jump on the bandwagon of adopting RFID technology. Realising that US produced RFID components are prohibitively expensive for many Malaysian companies, the Malaysian government got involved in the development and promotion of a 0.5mm wide Malaysian microchip or 'MM Chip' to give local electronic companies affordable access to RFID technology. FEC International (M) Sdn Bhd was established in 2003 to support the government in technical issues as well as to set up the MM Chip backbone committee comprising key persons in the industry and the government. Furthermore, research suggests that new manufacturing methods for tags will potentially bring the price of tags to below USD0.06. In the longer term, advancement in technology will potentially produce tags which are not chip-based and item-level tagging may be enabled through technologies such as printed thin-film transistor circuits, printed electronics and surface acoustic wave devices. The size of reader are also expected to shrink as form factors become progressively smaller and reduced material cost will bring down prices.

Dropping prices of RFID tags and readers have made RFID technology more reasonable to invest in from the Malaysian user's point of view. Early adopters are expected to expand their deployments as new companies are expected to begin spending on RFID, creating growth opportunities for the AIDC industry in Malaysia. On the global front however, suppliers of consumer products are skeptical on adopting RFID in large volumes as the cost of deploying RFID technology remain relatively high and retailers and suppliers appear to be waiting on others to drive up volume and lower the price of RFID components.

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**6 INDUSTRY OVERVIEW (Cont'd)**

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**Set up of RFID business associations and training programmes**

An international RFID business association has been set up in the US in 2003 and recently the RFID business association was set up in Malaysia. The organisation aims to provide a vendor-neutral avenue for providers and users of RFID solutions to share knowledge and experiences and learn more about the technology from each other. In 2005, an RFID Real Lessons' convention was jointly organised by a panel of experts from the International RFID business association and notable Malaysian companies such as CBS Technology Bhd, DHL Malaysia, IBM, Public Packages Bhd, Omron and LogicaCMG to provide a vendor-neutral avenue for RFID solutions providers and users to share knowledge and experiences. The convention served as a platform for discussions and presentations on the deployment of RFID in the perspectives of users and vendors.

RFID business association efforts are expected to contribute to the growth of the RFID market by providing neutral information, education and training on RFID. In general, appreciation of RFID and its benefits can only be possible when the commercial sector has better insights and can relate to real case studies.

**Security concerns fuels RFID and other AIDC technology deployment**

The key focus for RFID deployment in Malaysia and Singapore lies with security issues. RFID systems are expected to monitor, track and control entry and exit of goods or persons. Library management systems are already being adopted by a number of public and university libraries to track high volumes of books and periodicals within the premises. In the Malaysian public sector, the Ministry of Domestic Trade and Consumer Affairs has adopted an RFID evidence management system to maintain the chain of evidence from the moment items are confiscated, through forensic and other investigative procedures to the time they need to be produced in court. RFID may become a key solution to curtailing theft and crime rate in the country.

**(c) ID cards**

ID cards are an established and widely accepted technology locally and the world over. Nevertheless, specific factors will still continue to drive growth in years to come.

**Retail loyalty programs**

ID cards can come in the form of magnetic stripe or non-magnetic stripe cards and in both cases, carry identity information of the card holder. Loyalty cards have become very popular globally as they allow members of the associated store or brand to either obtain discounts or accumulate points which they can later use to exchange for gifts.

**High replacement trend**

Loyalty card holders are inclined to renew their cards once they expire to continue enjoying membership privileges. Furthermore, renewal fees are generally inexpensive. Employee IDs will also be a key segment driving the usage of ID cards in years to come in view of its replacement trend.

**High usage in conventions and exhibitions**

ID cards are also a cost effective way to identify delegates of conventions and events. ID cards used in conventions and events usually contain a barcode which easily identifies delegates through the scanning of the barcode label. Exhibitors and participants are therefore able to expand their database of contacts through a simple and cost effective process.

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**6 INDUSTRY OVERVIEW (Cont'd)**

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**(d) Smart cards**

Industry experts are of the opinion that Asia Pacific is the fastest growing region for smart cards and has been predicted to overtake Europe in the future.

The increasing popularity of smart cards as a multipurpose application card is a notable growth driver for the smart card market in this region. Digital television is gaining popularity in the Asia Pacific region and television channels remain as important channels for service delivery and payment transactions. Set-top boxes for digital satellite and cable television require smart cards which are used to make payments as well as for loyalty purposes.

Furthermore, as e-Commerce assumes an increasingly important role in the future, so will smart cards. Smart cards can carry credit and buying preference information that can be accessed with a mouse click instead of filling out forms. Organisations from the telecommunications, retail and finance sectors are expected to have either issued or plan to issue smart cards to help them in service delivery, fee collection and user identification. Smart cards provide an effective and secured way to transact and to provide, via PKI, real authentication over networks and the Internet. The growth of smart card secured e-commerce will continue to be rapid as mobile phones become an important access device for the Internet.

Industry experts predicted that by 2008, the majority of smart cards sold in PRC will be for various applications other than mobile phone SIM cards or fixed-line payphone cards. This trend is evidenced by the rising number of local smart card suppliers to the Chinese market which is set to increase the competitive intensity in the global smart card market.

Locally, the *MyKad* has simplified the life of Malaysians by storing confidential health information such as allergies and medical history, being a mode of payment for highway tolls, parking and public transportation as well as performing ATM transactions.

As predicted by industry experts, Singapore and Hong Kong will lead the market in terms of smart card deployment, followed closely by Japan. In the short to medium term, large scale projects in the region will involve public transport projects but will likely concern other vertical markets such as logistics and manufacturing, retail, financial services and the government.

**6.7 SUBSTITUTE PRODUCTS/ SERVICES**

There are no substitutes for AIDC products and services as it is the only identification, authentication and imaging technology. Nevertheless, there are alternatives within the AIDC sphere, such as barcodes, RFID, ID cards, smart cards and biometrics, creating a competitive industry. However our Group's R&D team constantly keeps abreast with new technologies and market trends wherein the business development team works closely with the R&D team to provide feedback on market trends and customer requirements. Our Group also focuses on our human resource development by investing in external and in-house training sessions to update and educate our employees.

**6.8 DEMAND CONDITIONS**

**(i) Barcodes**

**Manufacturing**

In 2007, the manufacturing segment accounts for more than 50% of the Malaysian barcodes market. With the globalisation of trade, the GTIN was introduced as a "global language" to facilitate the communication between parties in a supply chain. Although there has been much speculation that RFID technology will completely replace barcode technology, experts believe that both technologies are complimentary and that barcodes will have a major continuing role

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**6 INDUSTRY OVERVIEW (Cont'd)**

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to play as they serve as a useful backup to RFID should an RFID tag get damaged in the production line. Currently, SMEs that predominantly make up the manufacturing sector lack awareness on the benefits of implementing a barcoding system and generally do not want to invest in the technology as they cannot visualise the returns on investment. This segment represents opportunities for local AIDC players who can promote their products and offer affordable barcode solutions.

**Retail**

Retail accounts for approximately 30% of the market. Similar to its application in manufacturing, barcodes are also used to identify and track a product. With the introduction of EAN systems in Malaysia in 1988, barcodes were used mainly to tag and trace items in retail. Barcodes are also applied to identify items, services and locations on top of enabling speedy data entry. Retailers would typically use the same GTIN 13-digit number assigned at the point of manufacture or packing to identify a product. This segment is also expected to have sustainable growth as the cost of implementation is extremely affordable.

**Others**

The remaining segment of the market is represented by the government sector. Malaysia Airports Holdings Berhad has implemented barcode technology for baggage tracking whilst POS Malaysia Berhad and Tenaga Nasional Bhd have relied on barcodes to identify parcels and account holders respectively. This segment will continue to assume significance due to the low cost of implementation.

**(ii) RFID**

**Government**

This segment constitutes more than 50% of the total RFID market size in 2006. The Ministry of Domestic Trade and Consumer Affairs has implemented an RFID evidence management system to enhance its already stringent evidence management process. The new RFID system will be able to maintain the chain of evidence from the moment items are confiscated, through forensic and other investigative procedures, to the time they need to be produced in court. The system is expected to help increase the level of efficiency, accuracy and security involved. In addition to this, an inmate tracking system for the corrections industry has been introduced to the Banda Hilir prisons authorities as a pilot project to control inmate violence as well as to reduce operating costs. This next technology wave is set to catch on in the government sector as the ensuing cost savings from RFID technology gain increasing recognition.

**Manufacturing and logistics**

This segment constitutes approximately 20% of in the Malaysian RFID market. RFID technology enables the process of tracking as well as information retrieval to be automated without requiring the physical scanning of products. This in turn allows increased data accuracy in the product lifecycle and the ability to track every item individually from production to point-of-sale resulting in reduced operating costs and an overall favourable return on investment. Haisan Resources Berhad which is involved in temperature-controlled logistics and warehousing, refrigeration engineering and ice manufacturing has upgraded its logistic facilities with RFID technology to allow greater flexibility and control towards the planning, management and distribution of goods. This segment is expected to move from the pilot stage to large-scale deployment once the commercial sector has better insights and can relate to real case studies.

**Security and access control**

This segment represents approximately 10% of Malaysian RFID revenues, driven by usage in public and university libraries where RFID technology has been installed to track high

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**6 INDUSTRY OVERVIEW (Cont'd)**


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volumes of books and periodicals within a premise. This is currently being implemented by the Open University Malaysia's Digital Library. RFID technology applied in library management systems will have the capability of locating lost and missing books. However, this segment is considered a traditional RFID application which is slowly reaching a point of saturation. Other emerging segments will likely overtake the growth of this segment moving forward.

**Others**

The remaining segments of the market are shared between the banking and healthcare sectors. RFID technology is a convergent technology to retail payment applications based on a contactless smart card system. Contactless smart card programs have been introduced to leverage on global EMV smart card standards. MasterCard International's PayPass chip cards allow the purchase of low value items not exceeding RM110 and this is already being accepted by merchants such as Starbucks Coffee and Carrefour. Similarly, the Visa Wave program also allows contactless payment at various locations including convenience stores, cinemas and petrol stations. Growth in this segment is expected to increase as contactless payment methods become popular for their convenience and security advantages. In addition to this, RFID technology has also been used in document tracking applications in banks as certain documents are required to be kept for many years. For instance, home loan documents are to be kept up to 30 years for the entire duration of the settlement term and a further seven years in order to comply with statutory requirements to promote stronger corporate governance. According to industry players, RHB Bank Berhad and several other banks are said to have implemented a document management system as at the end of 2006.

In the healthcare sector, RFID solution providers are reported to be offering Malaysian hospitals a system to track nurses and help them better attend to patients' needs when they are roaming and not present at their stations. This real-time system has been reported to take off in 10 hospitals globally and the numbers of hospitals around the world are rising with various on-going stages of implementation.

Growth in both sectors is expected to be high as momentum picks up in years to come.

**(iii) ID cards**
**Retail**

In Malaysia, the retail segment accounts for more than 50% of the ID card market as loyalty cards are widely disseminated within the retail sector. Departmental stores, book and music stores are just some of the many facilities in which ID cards are used to identify and associate members. Membership privileges include discounts and points accumulation amongst many others. In Singapore however, the banking sector accounts for more than 50% of the ID card market where ID cards in the form of ATM and credit cards are used.

**Others**

In Malaysia, the remaining segment of the market would be the services sector whereas in Singapore, the retail and services sectors would make up the remaining market segments. In the services sector, ID cards in the form of membership cards are widely used in fitness clubs, holiday resorts and restaurants. In Singapore, this technology is also applied to national ID cards.

**(iv) Smart cards**

Users of smart cards in Malaysia are currently from 4 key segments namely government, telecommunications, retail and transportation. In Singapore however, key users of smart cards are the transportation, banking, telecommunications and the government segments.

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**6 INDUSTRY OVERVIEW (Cont'd)**

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**Government**

In Malaysia, the government segment accounts for more than 60% of the total smart cards market in 2006. The dominance of the government segment is clearly evidenced with the roll-out of the *MyKad* program as a national identification project. It has been estimated that there would be at least 25 million *MyKads* issued nationwide to date. Smart card players estimated that there are approximately 500,000 Malaysians yet to be *MyKad* holders and coupled with the number of cards which have been lost and require replacement, the smart card market will only become bigger. Growth potential in this segment is expected to be high as there are various opportunities available to grow the applications of the *MyKad* which are currently only limited to national identification, driving license, passport information, transportation application, e-Cash, ATM, MEPS and PKI. In addition, the growth prospects for implementations in the public sector is looking positive as the government has also initiated the e-passports and e-Procurement systems in an effort to provide improved services to citizens over networks at reduced costs. One notable large-scale project includes the incorporation of smart chips into library cards at the National Library which will soon see all state libraries in the country following suit. In Singapore however, smart card technology is applied in the issuance of e-passports and in the identification cards of army personnel. This segment makes up less than 10% of the smart card market in Singapore in 2006.

**Banking**

Banking represents the next largest segment in the Malaysian smart card market, however accounting for approximately 20% of the total market in 2006. In line with the EMV and ATM card migration, smart cards have become a staple for credit card companies and banks. The adoption of smart cards in this segment will be mostly driven by the prevention against credit card fraud. In Singapore, this segment represents approximately 30% of the total market where Netchash cards are being used to make purchases electronically over the Internet.

**Others**

The remaining segments of the market are shared between the transportation and telecommunication sectors. The transportation segment represents a wide range of users ranging from passengers of KTM Komuter, the Star and Putra light rail transit systems and the KL Monorail to toll road users. Train and LRT passengers are able to pay for their travel fare while drivers are able to pay for toll charges using the Touch 'n Go application as a common ticketing system. It has been estimated that there are about 3 million Touch 'n Go cards in circulation and some 1 million *MyKad* cardholders whose cards come with built-in Touch 'n Go facilities, registering some 30 million transactions and 1 million reloads per month. Growth in this segment is expected to be mainly driven by users traveling on the KTM Komuter, Star and Putra LRT as the KL Monorail as users learn to appreciate the convenience of Touch 'n Go cards when previously, they had been using cash as payment for travel. In Singapore, this segment represents more than 30% of the total market where smart card technology is being applied in the form of EZ-Link cards in making e-cash payments for public transportation.

In the telecommunications segment constitutes, there is an estimated 28.5 million mobile phone subscribers in Malaysia and the usage of smart cards as SIM cards in mobile phones are expected to increase even further as the mobile market matures with the introduction on of 3G and other value-added telecommunications services. Notable players in this segment currently expanding their product offerings on 3G technology include Maxis and Celcom. This segment represents approximately 20% of the total market in Singapore. SIM cards remain a necessity as mobile phone adoption and replacement trends continue.



**6 INDUSTRY OVERVIEW (Cont'd)**

**(v) Biometrics**

**Government**

This segment dominates the market accounting for more than 30% of the Malaysian biometrics market in 2006. The dominance of this segment is attributed to thumb print recognition in *MyKads*. Other applications of biometrics are evidenced by Malaysian e-passports currently verifying individuals based on facial recognition and finger prints.

**Banking and insurance**

This segment makes up another 30% of the biometrics market in 2006 as biometrics technology has been deployed to various banks including Maybank Berhad to verify account holders prior to transaction approvals. Similarly, insurance companies are also relying on biometrics to verify policy holders prior to claim approvals.

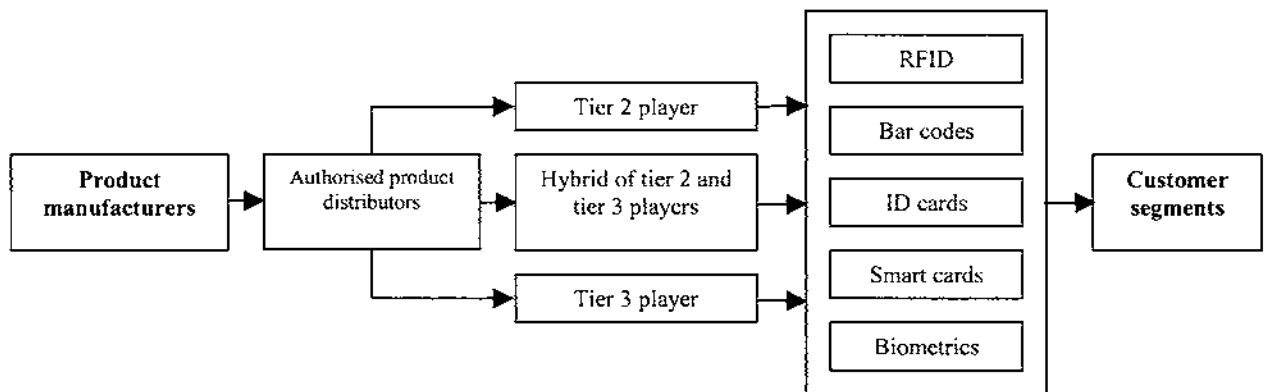
**Others**

The security access and control segment contributes to the remaining share of the market where finger print recognition is used to gain access to facilities. Industry experts however, opinioned that this form of application is still at a teething stage and there are obstacles to overcome as biometrics devices are currently susceptible to tampering.

**6.9 SUPPLY CONDITIONS**

Typically, most of AIDC providers in Malaysia and Singapore are hybrid tier 2 and tier 3 players that offer both hardware and software (proprietary and non-proprietary software) to end users. These players also offer multiple AIDC products. The value chain of supply condition is illustrated below:-

Value chain of supply overview



AIDC solutions are comprised of hardware, software, consumables and services. Hardware and consumables are typically sourced from reputable foreign manufacturers such as Honeywell, Zebra, Motorola Symbol and Intermec. In Malaysia and Singapore, the hardware segment is worth RM409.7 million and SGD152.6 million respectively. Purchase of AIDC hardware is expected to achieve promising growth due to increased awareness on AIDC advantages among key customer industries.

In the software segment, despite presence of key players introducing proprietary software in the market, non-proprietary software is still well demanded in the market due to proven performance and hassle free solution. Non-proprietary software is typically sourced from proven key software manufacturers such as Datamax (RFgen software) and IntelliTrack. Proprietary software are mainly used by company that require high degree of customisation in their day-to-day application, hence the provider normally have R&D expertise to improvised on the software as well technical expertise in

**6 INDUSTRY OVERVIEW (Cont'd)**

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providing integration of hardware and software. The overall software segment in Malaysia and Singapore is worth RM94.6 million and SGD35.2 million respectively. The software segment is expected to growth along with the increase in deployment of AIDC hardware.

**6.10 INDUSTRY'S RELIANCE ON AND VULNERABILITY TO IMPORTS**

Currently, most of AIDC products are imported as these products are manufactured by overseas manufacturers. However, our Group's business development team works closely with our customers to get feedback on market trends and requirements. This would enable us to plan our product orders from overseas suppliers and maintain sufficient stock in order to support our customers.

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## 7 FUTURE PLANS AND STRATEGIES

The following business strategies and HR policies form part of our future plans and are expected to be fully achieved by the end of our three (3) year business development plan.

### 7.1 OUR BUSINESS STRATEGY

For our Group to grow, remain competitive and continue to be relevant to our choice markets, our overall business strategy is guided by four (4) dimensions of the business.

Our business strategy framework is illustrated below:-



#### (a) Corporate Strategy

As a going-concern that seeks to expand its business to the next level, we have strengthened our brand and customer appeal as well as selected the following parameters to operate in:-

- Our identity** – we are an AIDC software and engineering solutions company.
- Type of business** – we provide software and engineering solutions by leveraging on AIDC technology to our choice user segments.
- Target market** – our products and services are offered to our select customers in the hospitality and consumer services as well as other business verticals in the supply chain industry.
- Products and services** – we offer and provide proprietary AIDC software and add-on modules, related 3<sup>rd</sup> party AIDC equipment, engineering know-how and value-added products.

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**7 FUTURE PLANS AND STRATEGIES (Cont'd)**

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**(b) Competitive Strategy**

To remain relevant and maintain our sustainable competitive advantage, we have structured and harnessed our internal resources, processes, development plans and marketing plans around the following strengths and competencies: -

**(i) Costs**

We provide innovative and cost-effective solutions and market them as viable alternatives to US based products with a competitive price point. The lower total ownership costs is achieved as we have an optimum cost structure. This is so as we operate our R&D activities in Malaysia (to reap advantage of the lower costs of operations) and use Singapore (being recognised as a regional hub for commercial activities) as a marketing point to reach our MNC and regional clients.

DSC is a MSC Malaysia Status company and under the incentives of the MSC grant, the company is entitled to a five (5) year tax exemption, which can be extended to a further five (5) years for approved MSC qualifying activities (100% tax exempt income). The tax savings enjoyed can be used to support further R&D activities i.e. via development of new products as well as wholesome integration of new emerging technologies into our suite of products and services. As a result, this will drive and enhance our competitive advantage.

**(ii) Differentiation**

We are able to differentiate ourselves from our competitors and other market players as a one-stop solution provider by integrating our proprietary solutions to AIDC equipment and offer end-to-end solutions. Further, we also leverage on our in-house engineering capabilities to augment and customise electronic components and firmware in the AIDC equipment as a value-add to our customers rather than refer the job to our principal supplier or 3<sup>rd</sup> party engineering providers. This shorter turnaround time (approximately by 20%) to meet customer demands is essential to ensure customer satisfaction.

**(iii) Specialisation**

We are a software and engineering services entity offering one-stop AIDC solutions. Our products are developed specifically incorporating AIDC technologies and our proprietary software platform – “TrekNet” is an “object tracking” solution.

Further this technology platform is also scalable, as we are also able to incorporate new emerging AIDC technologies, such as RFID identification, without a complete “overhaul” of the software.

**(iv) Quality products and services**

We have developed our in house development and implementation methodologies i.e., Project Based Development Framework and Product Based Development Framework, to ensure consistent quality and optimum customer satisfaction.

Our quality standards are high as we are subject to such standards and expectations when dealing with MNCs and regional companies.

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**7 FUTURE PLANS AND STRATEGIES (Cont'd)**

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(v) **Product leadership**

We strive to maintain our product leadership by being a one-stop AIDC solutions provider, offering both proprietary software, engineering services and AIDC equipment within a single proposition.

This journey to morph ourselves into a one-stop solutions provider cannot be undertaken or replicated by a new entrant overnight due to the inherent entry barriers and track record demanded by the industry users.

(vi) **Customer service**

Our service track record is demonstrated as follows:-

- our business interacts mostly with MNC and regional companies in the hospitality and consumer services as well as other business verticals in the supply chain industry, and
- most of our customers have a two (2) to eight (8) years commercial relationship with us and the longest customer has been with us for fifteen (15) years.

In turn, this results in more than 50% of our annual sales being recurring income from our customer base.

(c) **Product Strategy**

Our strategy for organic growth will be driven by the following:-

(i) **Broader range of services through development of new modules**

We shall continuously build upon our proven product suite by developing new modules based on our experiences in the AIDC sector. These new modules will ensure a continuous revenue stream from existing client and competitiveness when addressing new clients. The planned modules are described in Section 5.4.4(iii)(e) of this Prospectus.

(ii) **Continuous improvement in existing services through enhancement of current modules**

Functional enhancements and version upgrades on current modules are a necessity to avoid obsolescence and such upgrades will ensure protection of client investment (hence loyalty and a continuous revenue stream) and incorporation of the latest techniques in our offerings to new clients.

(iii) **Open solution architecture to seamlessly integrate emerging AIDC technologies**

The four (4) core modules, i.e. Trek.BizAPP, UniTrek, Trek.IT and Trek.Manager are the backbone infrastructure required for tracking of objects. Additional service extensions will be led by newer and emerging AIDC technologies. Our solution platform is capable of integrating newer technologies such as smart labels (i.e. hybrid barcode label with an embedded RFID chip), smartcards or even biometric technology extensions.

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**7 FUTURE PLANS AND STRATEGIES (Cont'd)**

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(iv) Penetration into new markets and continuous growth in market segment

Our plans call for both penetrating new markets and increasing market share in our chosen segment, i.e. AIDC segment. We will expand our business footprint in the countries that we are operating in currently using internal resources as well as entering into strategic alliances. For new markets and countries, we plan to engage a business partner who operates there domestically to penetrate the selected marketplace, in order to reduce risk associated to new market penetration.

(v) Continuous R&D

Our growth strategy is to embark on market development and expansion of existing products and services, through introduction of new modules, newer versions of existing modules and continuous development of re-usable software components and tools. R&D plays an important part in our plan to improve and expand the offerings of each of our products and enhanced its functional capabilities.

Please refer to Section 5.4.4(iii) herein for further details on our R&D product plans. Our R&D plans focuses around creating complementary solutions that are in line with emerging technology, needs of customers and market trends.

**(d) Marketing Strategy**

In order to drive revenue growth and ensure a sustainable business strategy, our “Go to Market” marketing strategy adopted is expected to leverage on our Company’s resources and core competency. These marketing strategies are:-

(i) Market positioning

We are a one-stop AIDC solutions provider. We provide an integrated approach which will effectively reduce total ownership costs. Our packaged and localised software takes on a modularised approach. Therefore, companies with limited budgets can first opt for a basic (no database) system and then add on new modules once they are able to upgrade to more expensive modules (with database). Furthermore, companies requiring added hardware features which are not a part of the existing hardware system can rely on our engineering capabilities to modify the hardware to accommodate their specific needs.

(ii) Branding

DSC has a longstanding sixteen (16) year track record in the AIDC industry. Our continuous growth and market presence enhances our brand value and the after sales service assurance to our current and prospective customers and suppliers.

(iii) Market penetration

We have an existing customer network which was established many years ago when we were in the system integration and distribution sales business. We are able to tap into these existing customer base by introducing TrekNet to them. Furthermore, we also penetrate new markets through cooperation with local players therefore enabling our solutions being implemented in new markets e.g. Indonesia, Thailand and PRC.

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**7 FUTURE PLANS AND STRATEGIES (Cont'd)**

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(iv) Customer relationship

We recently invested in a web based CRM system (Zoho.com). The CRM helps the sales force, executives, and management with sophisticated sales force automation tools such as, lead generation & qualification, pipeline analysis, sales stage & probability analysis, competitor analysis, real-time forecasting, quota management, reports & dashboards and other useful metrics. These functions give our sales force an opportunity to completely focus on the customer life-cycle (lead generation - acquisition - conversion - retention - loyalty) rather than sales process, thus emphasising on customer relationship and after sales service which indirectly increases revenue.

(v) Forward integration

Our Group intends to invest in new technologies or R&D, which may continually support our Group's businesses, should such opportunities arise. As the product development cycle is currently long (normally from 10 months to 18 months to develop a solution, depending on the complexity and features of the solution), our Group would ideally reduce our software development cycle to keep abreast with or to stay ahead of our competitors. Our Group intends to source for companies that have developed or are in the late stages of development of products that are in-line with our Group's R&D product development plan. Technically, the solution that is sourced should have the same technology platform as our current solution or a higher level of technology, as this would allow for a faster integration and technology transfer that may further enhance and upgrade our technology.

## **7.2 HR POLICIES**

The sustainable and growing asset for our Group is our employees. We place high emphasis in our HR policy development in the areas of recruiting, developing, training and retaining suitably qualified staff as a basis to grow our knowledge workers.

In line with this policy, our HR development plan is set out as follows:-

### **Management Continuity / Succession Planning**

- Continuity of management by way of a management development plan incorporating project leader development, performance management programme, specific skills or knowledge training to new business strategies or demands.
- We will put in place a succession planning framework after our Listing for key positions to improve planning for future staffing and skills needs, either through training up our current staff and/or identifying prospective employees for recruitment.
- We also plan to cover career path development, career management programmes, and special programs for identification and retention of high-potential staff.

### **Training Programme**

- We identify, train and develop skills needs at all levels - management, executive and technical.
- We conduct in-house training for our employees, via courses conducted by our Founder and/or external parties. We also send our employees for training with our principals.

## 8 FINANCIAL INFORMATION

### 8.1 FINANCIAL HIGHLIGHTS

The following tables summarise our proforma consolidated financial information extracted from the audited combined financial statements of our Group for the FYE 30 September 2006 to 2008 and FPE 30 June 2009 as well as FPE 30 June 2008. The proforma consolidated financial information of our Group is provided for illustrative purposes only, after incorporating such adjustments considered necessary and assuming that the present structure of our Group has been in existence throughout the financial years and periods under review.

You should read the proforma consolidated financial information in conjunction with the Reporting Accountants' Letter on the Proforma Consolidated Financial Information and the management discussion and analysis of financial conditions and results of operations as set out in Sections 15 and 8.2 of this Prospectus respectively.

#### Exchange rate

The financial statements of our Group's subsidiary company, namely Digital for the FYE 30 September 2006, 2007 and 2008 are denominated in SGD. As our Group's reporting currency is in RM, the financial statement of Digital was translated to RM for consolidation purposes. As such, our Group faces translation risk in that any material fluctuation in SGD will have an effect on our consolidated financial statements which are presented in RM. For illustrative purposes, we have set below the applicable historical exchange rates.

As at the LPD, the exchange rate between the SGD and the RM was RM2.4563 for SGD1.00. The table below sets out the high and low exchange rates for SGD/RM for each month during the 6 months prior to the LPD. The table below indicates the equivalent amount of RM for SGD1.00.

Month	SGD/RM	
	High	Low
April 2009	2.4180	2.3724
May 2009	2.4221	2.3849
June 2009	2.4339	2.4103
July 2009	2.4614	2.4279
August 2009	2.4482	2.4297
September 2009	2.4648	2.4485

(Source: Bank Negara Malaysia)

The following table sets out, for each of the financial years and periods indicated, the average and closing exchange rates between SGD and RM. The average exchange rate between SGD and RM is calculated using the average of the exchange rates on active trading days during each financial year. Where applicable, the exchange rates in this table are used for our financial statements disclosed elsewhere in this Prospectus.

FYE/FPE	SGD/RM	
	Average	Closing
FYE 30 September 2006	2.3087	2.2983
FYE 30 September 2007	2.2811	2.3033
FYE 30 September 2008	2.3559	2.4139
FPE 30 June 2008	2.3214	2.4055
FPE 30 June 2009	2.4046	2.4309

(Source: Bank Negara Malaysia)

The exchange rates between SGD and RM as outlined above have been presented for information purposes only. The exchange rates should not be construed as a representation that these SGD amounts could have been or could be converted into RM at any particular rates, the rates above, or at all.



## 8 FINANCIAL INFORMATION (Cont'd)

### 8.1.1 Proforma Consolidated Income Statements

The proforma consolidated income statements have been prepared for illustrative purposes after making certain adjustments to show what the results for the FYE 30 September 2006, 2007, 2008 and FPE 30 June 2009 as well as the comparative period FPE 30 June 2008 would have been if the DSC Group structure as of the date of the Prospectus had been in place since the beginning of the years/periods being reported on.

	<----- Audited -----> <----- FYE 30 September ----->			Unaudited	Audited
	2006 RM'000	2007 RM'000	2008 RM'000	<----- FPE 30 June -----> 2008 RM'000	2009 RM'000
Revenue	9,965	11,297	13,844	9,510	11,218
Gross profit	3,519	3,976	6,511	4,517	5,067
EBITDA	1,817	2,020	3,408	2,554	2,956
Amortisation	(33)	(146)	(286)	(214)	(248)
Depreciation	(79)	(95)	(374)	(256)	(655)
Interest expenses	(146)	(109)	(153)	(112)	(89)
PBT	1,559	1,670	2,595	1,972	1,964
Taxation	(260)	(86)	(93)	(70)	(172)
PAT	1,299	1,584	2,502	1,902	1,792
GP margin (%)	35.31	35.19	47.03	47.50	45.17
PBT margin (%)	15.65	14.78	18.75	20.74	17.50
PAT margin (%)	13.04	14.01	18.08	20.00	15.97
Number of ordinary shares of RM0.10 each assumed in issue #	39,422,000	39,422,000	39,422,000	39,422,000	39,422,000
Gross EPS (sen)	3.96	4.23	6.58	6.67 <sup>^</sup>	6.64 <sup>^</sup>
Net EPS (sen)	3.30	4.02	6.35	6.43 <sup>^</sup>	6.06 <sup>^</sup>

**Notes:-**

1. *The Proforma Consolidated Income Statements have been prepared based on the audited financial statements of DSC, Digital Group and DSCM for the past three (3) FYE 30 September 2006 to 2008 and the FPE 30 June 2009 as well as the unaudited comparative period for the FPE 30 June 2008*
2. *There were no extraordinary or exceptional items in all the financial years/period under review*
3. *DSC Group's results have been restated through appropriate consolidation adjustments to eliminate inter-company transactions under the existing group structure*
- # *As DSC was only incorporated on 19 January 2006, the number of ordinary shares of RM0.10 each assumed in issue was computed using the issued and fully paid-up ordinary share capital of DSC assuming the Acquisition of Digital Group and Acquisition of DSCM have been completed on 1 October 2005*
- ^ *Annualised*

**8 FINANCIAL INFORMATION (Cont'd)****8.1.2 Proforma Consolidated Balance Sheets/ Statement of Assets and Liabilities**

The Proforma Consolidated Balance Sheets of DSC Group as at 30 June 2009 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned below to the Proforma Consolidated Balance Sheets on the assumption that these transactions were completed on 30 June 2009.

Proforma I : After Sub-division of Shares  
 Proforma II : After Proforma I and Acquisitions of Subsidiary Companies  
 Proforma III : After Proforma II and Public Issue  
 Proforma IV : After Proforma III and utilisation of proceeds  
 Proforma V : After Proforma IV and Bonus Issue

	As at 30 June 2009	Proforma I	Proforma II	Proforma III	Proforma IV	Proforma V
	RM	RM	RM	RM	RM	RM
SHARE CAPITAL	2	2	3,942,200	5,200,000	5,200,000	10,400,000
SHARE PREMIUM	-	-	-	5,031,200	4,599,987	-
UNAPPROPRIATED PROFIT	4,452,558	4,452,558	5,151,577	5,151,577	3,882,790	3,282,777
Total shareholders' equity	4,452,558	4,452,558	9,093,777	15,382,777	13,682,777	13,682,777
NON-CURRENT LIABILITIES						
Borrowings	-	-	738,034	738,034	738,034	738,034
Finance creditors	-	-	11,604	11,604	11,604	11,604
Deferred taxation	-	-	158,400	158,400	158,400	158,400
Represented by:-						
NON-CURRENT ASSETS						
Property, plant and equipment	-	-	1,783,435	1,783,435	3,183,435	3,183,435
Development costs	345,731	345,731	345,731	345,731	2,145,731	2,145,731
Intellectual property	-	-	4,320,000	4,320,000	4,320,000	4,320,000
Total non-current assets	345,731	345,731	6,449,166	6,449,166	9,649,166	9,649,166

**8 FINANCIAL INFORMATION (Cont'd)**

	As at 30 June 2009 RM	Proforma I RM	Proforma II RM	Proforma III RM	Proforma IV RM	Proforma V RM
<b>CURRENT ASSETS</b>						
Inventories	-	-	1,526,204	1,526,204	1,526,204	1,526,204
Trade and other receivables	4,111,451	4,111,451	5,846,743	5,846,743	5,264,219	5,264,219
Fixed deposits with a licensed bank	-	-	524,423	524,423	524,423	524,423
Cash and bank balances	3,376	3,376	288,358	6,577,358	2,259,882	2,259,882
Total current assets	4,114,827	4,114,827	8,185,728	14,474,728	9,574,728	9,574,728
<b>CURRENT LIABILITIES</b>						
Trade and other payables	8,000	8,000	3,420,575	3,420,575	3,420,575	3,420,575
Tax payables	-	-	81,710	81,710	81,710	81,710
Borrowings	-	-	1,130,794	1,130,794	1,130,794	1,130,794
Total current liabilities	8,000	8,000	4,633,079	4,633,079	4,633,079	4,633,079
<b>NET CURRENT ASSETS</b>	<b>4,106,827</b>	<b>4,106,827</b>	<b>3,552,649</b>	<b>9,841,649</b>	<b>4,941,649</b>	<b>4,941,649</b>
	<b>4,452,558</b>	<b>4,452,558</b>	<b>10,001,815</b>	<b>16,290,815</b>	<b>14,590,815</b>	<b>14,590,815</b>
<b>NET ASSETS PER ORDINARY SHARE OF</b>						
-RM1.00 EACH (RM)	2,226,279	-	-	-	-	-
-RM0.10 EACH (SEN)	-	222,628	23.07	29.58	26.31	13.16

Further notes to the Proforma Consolidated Balance Sheets of our Company are set out in Section 15 of this Prospectus.

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**8 FINANCIAL INFORMATION (Cont'd)**


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**8.1.3 Proforma Consolidated Cash Flow Statement**

The proforma consolidated cash flow statement have been prepared for illustrative purposes only after making certain adjustments to show what the cashflows of the DSC Group for the FPE 30 June 2009 would have been if our group structure as of the date of the Prospectus had been in place since the beginning of the FPE 30 June 2009.

FPE	30 June 2009 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before taxation	1,963,487
<b>Adjustments for:-</b>	
Amortisation of development costs	248,351
Allowance for doubtful debts	24,323
Bad debts written off	95,455
Property, plant and equipment written off	14,527
Depreciation	654,665
Interest expenses	89,479
Allowance for slow moving inventories	54,293
Unrealised loss on foreign exchange	65,108
Allowance for doubtful debts no longer required	(113,778)
Allowance for slow moving inventories no longer required	(38,371)
Gain on disposal of property, plant and equipment	(11,333)
Interest income	(3,446)
Operating profit before working capital changes	3,042,760
<b>Changes in working capital:-</b>	
Inventories	(248,859)
Director	65,487
Receivables	(572,580)
Payables	(1,285,514)
Related companies	311,309
Holding	(17,376)
Bills payable	152,831
Cash generated in operations	1,448,058
Interest income	3,446
Interest paid	(89,479)
Tax paid	(81,838)
Net cash from operating activities	1,280,187

**8 FINANCIAL INFORMATION (Cont'd)**

FPE	30 June 2009 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(1,197,729)
Payment for development costs	(234,757)
Proceeds from sale of property, plant and equipment	81,600
	<hr/>
Net cash used in investing activities	(1,350,886)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Repayment of hire purchase creditors	(13,826)
Drawdown of term loan	633,972
	<hr/>
Net cash from financing activities	620,146
<b>CASH AND CASH EQUIVALENTS</b>	
Net increase	549,447
Brought forward	89,159
	<hr/>
Carried forward	638,606
<b>CASH AND CASH EQUIVALENTS</b>	
Bank overdrafts	(174,175)
Cash and bank balances	288,358
Fixed deposits with a licensed bank	524,423
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	638,606
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**8 FINANCIAL INFORMATION (Cont'd)**


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**8.2 CAPITALISATION AND INDEBTEDNESS**

The following table sets out our cash and cash equivalents, capitalisation and indebtedness:-

- (i) based on our proforma consolidated balance sheets as at 30 June 2009; and
- (ii) adjusted for the listing proceeds arising from the issue of 12,578,000 DSC Shares pursuant to our Listing scheme and utilisation of proceeds as set out in Section 3.9 of this Prospectus.

	<b>Proforma Group as at 30 June 2009 RM</b>	<b>Proforma Group after Listing and utilisation of proceeds RM</b>
<b>Cash and cash equivalents</b>	3,376	2,259,882
<b>Indebtedness</b>		
Short term	-	1,130,794
Long term	-	738,034
<b>Total indebtedness</b>	-	1,868,828
<b>Capitalisation</b>		
Total shareholders' equity	4,452,558	13,682,777
<b>Total capitalisation</b>	4,452,558	13,682,777
<b>Total capitalisation and indebtedness</b>	4,452,558	15,551,605

As at the LPD, there is no contingent liability incurred by our Group.

Our Group's indebtedness as set out above are all secured by fixed deposits and guaranteed by certain of our Directors, Mr. Seah Liang Chiang and Ms. Chua Yock Peng.

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**8 FINANCIAL INFORMATION (Cont'd)**

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**8.3 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis by our Board and management should be read in conjunction with the Accountants' Report set out in Section 14 of this Prospectus and related notes for the three (3) audited FYE 30 September 2006 to 2008, audited nine (9) months FPE 30 June 2009 and unaudited nine (9) months FPE 30 June 2008.

This management discussion and analysis of financial conditions and results of operations have been made based on the proforma consolidated income statements of the DSC Group for the past three (3) FYE 30 September 2006 to 2008 and FPE 30 June 2009 and 2008 which have been prepared based on the audited financial statements of the Subsidiary Companies for illustrative purposes only after making such adjustments that are considered necessary and assuming that DSC Group had been in existence throughout the years under review.

**8.3.1 Overview**

**(a) Revenue**

We derive our revenue from sales of proprietary software, value added products and AIDC hardware/ equipment.

Our Group's main revenue is derived from the provision of our integrated AIDC software and engineering solutions and the subsequent continuing supply of value added products and services. Our engagement model is to offer cost-effective AIDC solutions in order to gain a foothold to deal with the customer and thereafter, ensure continuity in our business relationship by supplying value-added products and services. Currently, on average, 50% of our business is derived from repeat business from existing customers.

The AIDC solution, which our Group offers are IT related and are geared towards improvement in accuracy, productivity, efficiency and cost savings for the customers' businesses. With this in mind, our Group's strategy is not to just deliver hardware, software and engineering capabilities, but also to provide value-added services to enable our customers to realize the full benefits of the solutions delivered.

Generally, our Group's revenue is derived from the following:-

- (i) The sale of proprietary AIDC software solutions comprising:-
  - a. licencing fees for (a) the right to use the Company's customised in-house software, and (b) annual licensing, maintenance & technical support; and
  - b. project & contract services – fees for system study, installation, integration, implementation, site surveys and consultancy;
- (ii) The sale of value added products and services – contributed from engineering services provided and continuing supply of consumables; and
- (iii) The sale of AIDC hardware/equipment – such as bar code and RFID reading equipment, hand-held computers and RF data communications systems.

The following table depicts the approximate revenue breakdown segmented by company, products and geography for FYE 30 September 2006, 2007 and 2008 and FPE 30 June 2008 and 2009:-

**8 FINANCIAL INFORMATION (Cont'd)**By company

	FYE 30 September 2006		FYE 30 September 2007		FYE 30 September 2008		FPE 30 June 2008		FPE 30 June 2009	
	RM	%	RM	%	RM	%	RM	%	RM	%
DSC	380,289	3.8	1,021,985	9.0	2,136,430	15.4	821,723	8.6	1,809,184	16.1
Digital	9,050,291	90.8	9,895,858	87.6	12,094,831	87.4	8,193,655	86.2	8,454,806	75.4
DSCM	1,635,091	16.4	1,992,540	17.6	2,742,376	19.8	1,973,104	20.7	2,351,929	21.0
	11,065,671	111.0	12,910,383	114.2	16,973,637	122.6	10,988,482	115.5	12,615,919	112.5
Less: Inter-company transactions	(1,100,506)	(11.0)	(1,612,997)	(14.2)	(3,129,643)	(22.6)	(1,478,446)	(15.5)	(1,398,099)	(12.5)
	9,965,165	100.0	11,297,386	100.0	13,843,994	100.0	9,510,036	100.0	11,217,820	100.0

By product

	FYE 30 September 2006		FYE 30 September 2007		FYE 30 September 2008		FPE 30 June 2008		FPE 30 June 2009	
	RM	%	RM	%	RM	%	RM	%	RM	%
Proprietary software	2,682,472	26.9	4,590,314	40.6	7,545,900	54.5	4,914,703	51.7	6,141,285	54.8
Value added products & services	5,285,489	53.0	5,210,784	46.1	5,318,677	38.4	3,777,023	39.7	3,359,061	29.9
AIDC hardware/equipment	3,097,710	31.1	3,109,285	27.5	4,109,060	29.7	2,296,756	24.1	3,115,573	27.8
	11,065,671	111.0	12,910,383	114.2	16,973,637	122.6	10,988,482	115.5	12,615,919	112.5
Less: Inter-company transactions	(1,100,506)	(11.0)	(1,612,997)	(14.2)	(3,129,643)	(22.6)	(1,478,446)	(15.5)	(1,398,099)	(12.5)
	9,965,165	100.0	11,297,386	100	13,843,994	100.0	9,510,036	100.0	11,217,820	100.0

By geographical

	FYE 30 September 2006		FYE 30 September 2007		FYE 30 September 2008		FPE 30 June 2008		FPE 30 June 2009	
	RM	%	RM	%	RM	%	RM	%	RM	%
Singapore	7,195,988	72.2	6,028,997	53.4	7,776,424	56.2	4,635,747	48.8	5,779,949	51.6
Malaysia	2,433,549	24.4	3,556,106	31.5	4,143,730	29.9	2,615,550	27.5	4,227,235	37.7
Thailand	101,885	1.0	1,343,715	11.9	2,168,532	15.7	1,600,193	16.8	1,192,918	10.6
PRC	1,091,026	11.0	1,445,628	12.7	1,986,743	14.4	1,486,154	15.6	878,157	7.8
Indonesia	60,304	0.6	304,552	2.7	463,569	3.3	402,314	4.2	328,123	2.9
Others	182,919	1.8	231,385	2.0	434,639	3.1	248,524	2.6	209,537	1.9
	11,065,671	111.0	12,910,383	114.2	16,973,637	122.6	10,988,482	115.5	12,615,919	112.5
Inter-company transactions	(1,100,506)	(11.0)	(1,612,997)	(14.2)	(3,129,643)	(22.6)	(1,478,446)	(15.5)	(1,398,099)	(12.5)
	9,965,165	100.0	11,297,386	100.0	13,843,994	100.0	9,510,036	100.0	11,217,820	100.0



**8 FINANCIAL INFORMATION (Cont'd)**

As set out above, DSC Group's revenue has been growing on a year-to-year basis. The consistent growth in revenue was mainly due to new customers secured throughout the years/ periods under review. For FPE 30 June 2009, revenue recorded was RM11.22 million. On an annualised basis, the revenue for FYE 30 September 2009 of RM14.96 million is slightly higher than that achieved in FYE 30 September 2008 of RM13.84 million by 8.1%. In addition, DSC Group achieved improved revenue results of RM11.22 million in FPE 30 June 2009 as compared to RM9.51 million recorded in FPE 30 June 2008.

Revenue from DSC Group's proprietary software accounts for a major portion of total revenue. Based on the above, the contribution from proprietary software has been growing on a year-on-year basis i.e. accounting for 26.9% of revenue in FYE 30 September 2006 to 40.6% and 54.5% of revenue for FYE 30 September 2007 and FYE 30 September 2008 respectively. Contribution of AIDC hardware/ equipment has averaged at 29.4% and value added products & services provided fairly consistent revenue contribution of above RM5.0 million for the past three (3) FYE 30 September 2006 to FYE 30 September 2008. There has been a higher revenue contribution from proprietary software sales over the aforementioned years. This was due to the different business model adopted in the implementation of new products where we secured a higher mix of project-based contracts which have higher component of software sales as compared to services based contracts.

Historically, the revenue of the Group has been concentrated in Singapore with 72.2% contribution in FYE 30 September 2006 with a year-on-year decline to 56.2% in FYE 30 September 2008. The decline in revenue contribution from Singapore was mainly due to the diversification efforts of revenue to other countries whilst the contribution from Malaysia had demonstrated consistent growth due to acquisition of new projects. The increase in revenue contribution from China and Thailand was due to sales to Seagate Group which were for Seagate's other manufacturing facilities located in China and Thailand.

**(b) Gross profit margin**

Our gross profit margin with respect to FYE 30 September 2006, 2007 and 2008 and FPE 30 June 2008 and 2009 are as set out below:-

	FYE 30 September 2006	FYE 30 September 2007	FYE 30 September 2008	FPE 30 June 2008	FPE 30 June 2009
Gross profit margin	35.3%	35.2%	47.0%	47.5%	45.2%

The following table depicts the approximate gross profit and gross profit margin segmented by company and products for FYE 30 September 2006, 2007 and 2008 and FPE 30 June 2008 and 2009:-

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**8 FINANCIAL INFORMATION (Cont'd)**By company

Gross profit	FYE 30 September 2006		FYE 30 September 2007		FYE 30 September 2008		FPE 30 June 2008		FPE 30 June 2009	
	RM	%	RM	%	RM	%	RM	%	RM	%
DSC	347,182	9.9	842,437	21.2	1,850,440	28.5	607,230	13.4	1,560,833	30.8
Digital	2,735,112	77.7	2,490,024	62.6	3,616,628	55.5	2,908,020	64.4	2,504,753	49.4
DSCM	436,734	12.4	643,170	16.2	1,010,983	15.5	1,002,220	22.2	973,626	19.2
	3,519,028	100.0	3,975,631	100.0	6,478,051	99.5	4,517,470	100.0	5,039,212	99.4
Add: Inter-company transactions	-	-	-	-	33,367	0.5	-	-	27,778	0.6
	3,519,028	100.0	3,975,631	100.0	6,511,418	100.0	4,517,470	100.0	5,066,990	100.0

**Margin**

DSC	91.3	82.4	86.6	73.9	86.3
Digital	30.2	25.2	29.9	35.5	29.6
DSCM	26.7	32.3	36.9	50.8	41.4

By product

Gross profit	FYE 30 September 2006		FYE 30 September 2007		FYE 30 September 2008		FPE 30 June 2008		FPE 30 June 2009	
	RM	%	RM	%	RM	%	RM	%	RM	%
Proprietary software	2,195,836	62.4	2,630,952	66.2	3,782,079	58.1	2,437,532	54.0	3,040,546	60.0
Value added products & services	1,241,845	35.3	1,208,762	30.4	2,303,618	35.4	1,862,740	41.2	1,682,913	33.2
AIDC hardware/equipment	81,347	2.3	135,917	3.4	392,354	6.0	217,198	4.8	315,753	6.2
	3,519,028	100.0	3,975,631	100.0	6,478,051	99.5	4,517,470	100.0	5,039,212	99.4
Add: Inter-company transactions	-	-	-	-	33,367	0.5	-	-	27,778	0.6
	3,519,028	100.0	3,975,631	100.0	6,511,418	100.0	4,517,470	100.0	5,066,990	100.0

**Margin**

Proprietary software	81.9	57.3	50.1	49.6	49.5
Value added products & services	23.5	23.2	43.3	49.3	50.1
AIDC hardware/equipment	2.6	4.4	9.6	9.5	10.1

DSC Group's gross profit grew with a significant jump by 63.8% between FYE 30 September 2007 and FYE 30 September 2008. This was due to our Group's business strategy to transform ourselves into a software solutions and engineering services centric proposition. As a result, we focused on securing project based projects which carries a higher mix of revenue from proprietary software thus contributing higher profit margins. For FPE 30 June 2009, gross profit recorded was RM5.07 million. On an annualized basis, the gross profit for FYE 30 September 2009 of RM6.76 million is slightly higher than that achieved in FYE 30 September 2008 of RM6.51 million by 3.8%. As compared to FPE 30 June 2008, gross profit was higher by 12.2% in FPE 30 June 2009.

**8 FINANCIAL INFORMATION (Cont'd)**

The gross profit margins of DSC throughout the years under review ranged from 73.9% to 91.3% mainly due to the tax incentives benefits from MSC Malaysia Status accorded to DSC to perform R&D where approved qualifying MSC activities are entitled to a five (5) year tax exemption which may be extended for up to another five (5) years.

As for Digital, the gross profit margins were reasonably consistent, ranging from 25.2% to 35.5%. On the other hand, DSCM recorded gross profit margins of between 26.7% to 50.8%. This is mainly due to the different sales mix of projects secured, where in the earlier financial years/ period under review herein, such projects consisted of more hardware components, thus resulted in lower margins.

The gross profit margins for our proprietary software dropped from 81.9% in FYE 30 September 2006 to 50.1% in FYE 30 September 2008 mainly due to our Group's marketing efforts to penetrate the SME market which commands a larger customer base. By providing an attractive pricing proposition, the price sensitive SME prospects would be able to consider our affordable solutions. Gross profit margins were further constrained in FYE 30 September 2008 due to price competition as well as negotiations in light of the weakened market conditions.

As for value added products & services, our gross profit margins increased from an average of 23.0% in FYE 30 September 2006 and 2007 to 43.3% in FYE 30 September 2008. The increase is due to the switch of value added product suppliers as well as in-sourcing of certain resources rather than outsourcing it to third parties which reduced our cost of goods by as much as 30.0%.

Gross profit margins for AIDC/ hardware equipment is generally low, at between 2.6% to 10.1%, whereby hardware usually carries lower profit margins. The relatively higher gross profit margins of 9.5% and 10.1% recorded in FYE 30 September 2008 and FPE 30 June 2009 respectively was due to a change in the sales mix of AIDC equipment. More card-based AIDC equipment (e.g. card printers, readers, etc) were sold in the last two (2) years compared to barcode-based equipment. Card-based hardware generally has a higher margin as the technology is relatively new. Barcode-based equipments have been around longer in the AIDC market with older technology where pricing is already at its optimum level.

As set out above, gross profit margins between FPE 30 June 2008 and FPE 30 June 2009 for both segments tabulated had remained fairly consistent.

**(c) Administration, distribution and other operating expenses**

Administration, distribution and other operating expenses consists mainly of staff related expenses which include salaries of our marketing and administrative staff as well as Employee Provident Fund contribution, Central Provident Fund contribution, benefits and training for all staff. Other significant component of our operating expenses include depreciation of our fixed assets, provision for doubtful debts and slow moving of inventories, bad debts and asset write offs as well as office rentals.

Our Group's administration, distribution and operating expenses for the past three (3) FYE 30 September 2008 and FPE 30 June 2009 are as follows:-

	FYE 30 September 2006	FYE 30 September 2007	FYE 30 September 2008	FPE 30 June 2008	FPE 30 June 2009
Administration expenses	1,481,205	1,856,066	3,253,935	2,440,451	2,791,147
Distribution expenses	394,519	351,905	514,248	385,686	243,772
Operating expenses	174,130	43,453	52,504	39,378	195,407

**8 FINANCIAL INFORMATION (Cont'd)**

The increasing trend of our administration and distribution expenses is directly related to our increasing sales trend over the past three (3) FYE 30 September 2008. Apart from the FYE 30 September 2006, our Group's operating expenses have been fairly low for the past three (3) FYE 30 September 2008. The significant increase in operating expenses for the FPE 30 June 2009 was due to the bad debts written off of RM95,455 and provision for slow moving inventories of RM54,293.

**(d) Taxation**

Our Group's effective tax rate for the past three (3) FYE 30 September 2008 and FPE 30 June 2009 are as follows:-

	FYE 30 September 2006	FYE 30 September 2007	FYE 30 September 2008	FPE 30 June 2009
Effective tax rate	16.7%	5.2%	3.6%	8.7%

DSC was accorded MSC Malaysia Status on 3 August 2006 and is entitled to a five (5) year tax exemption, which can be extended for a further five (5) years. Since then, our Group's effective tax rates have been on a declining trend up to FYE 30 September 2008. Our Group's effective tax rate increased to 8.7% as compared to an effective tax rate of 3.6% recorded in FYE 30 September 2008 which was due to a deferred tax charge arising from the timing difference of depreciation and tax capital allowance as a result of the purchase of operating assets.

Sufficient tax provisions have been made by the remaining subsidiary companies of our Group for all the relevant years under review.

**8.3.2 Review of past performance*****FYE 30 September 2006*****Revenue**

In the FYE 30 September 2006, total revenue of our Group increased by RM0.23 million or 2.3% as compared to the FYE 30 September 2005. The slight increase was due to the change in the sales mix which comprised mainly of sales from proprietary software and value added products and services.

**Gross profit margin**

Gross profit margin in the FYE 30 September 2006 recorded at 35.3% which has improved by 1.0% compared to the last financial year. The slight increase in gross profit margin derived from DSC which was incorporated in the FYE 30 September 2006 due to the implementation of projects for Popular Book Company Pte Ltd, Sentosa Development Corporation, Vivo City, MGC Pure Chemicals (Singapore) Pte Ltd and Singapore Zoological Gardens.

**Profit before taxation**

The profit before taxation for the FYE 30 September 2006 has increased by RM1.0 million or 178.4% as compared to the FYE 30 September 2005 which was contributed by prudent cost management of Digital with a decrease in other expenses of RM763,441 mainly arising from lower Director's remuneration. In addition to contribution from improved business results and new customers secured, the increase in profit before taxation was also contributed partly by the increase in other income in Digital, whereby the Group had recorded a realised gain from:-

- (i) foreign exchange translation of RM55,400; and
- (ii) write back of prior year provision for slow moving stocks of RM167,300.

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**8 FINANCIAL INFORMATION (Cont'd)**

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***FYE 30 September 2007***

**Revenue**

Revenue of our Group increased by RM1.33 million or 13.4% in the FYE 30 September 2007 as compared to FYE 30 September 2006. This was mainly due to newly secured customers by Digital and DSCM of RM0.35 million and RM0.30 million respectively. The new customers secured by Digital are Kenwood Electronics Pte Ltd, PT ACNielsen Indonesia and Jurong Hi-Tech Industries Pte. Ltd. The new customers secured by DSC are DST Data Stream Technologies Sdn Bhd, Aeon Co. (M) Bhd and Superstar Virgo Services (Limited).

**Gross profit margin**

Gross profit margin of our Group remained constant at approximately 35.2% as compared to the FYE 30 September 2006.

**Profit before taxation**

Profit before taxation of our Group increased from RM1.56 million in the FYE 30 September 2006 to RM1.67 million in the FYE 30 September 2007 resulting from higher revenue and generated with consistent gross profit margins.

***FYE 30 September 2008***

**Revenue**

Group's revenue for FYE 30 September 2008 increased by RM2.55 million representing 22.5% growth as compared to FYE 30 September 2007. This was mainly contributed by new customers secured by Digital and DSCM and an increase in recurring businesses. The major new customers secured by our Group are Advance Interactive Technologies Pte Ltd which contributed RM0.35 million whilst DSCM secured Pantai Fomema & Systems Sdn Bhd and Advance Interactive Technologies Sdn Bhd (now known as Kiosk Media (M) Sdn Bhd) which contributed RM0.53 million and RM0.32 million respectively.

**Gross profit margin**

The Group's gross profit margin has increased from 35.2% in FYE 30 September 2007 to 47.0% in FYE 30 September 2008. This was as a result of the Group's successful implementation of its cost effective strategy via the switch of value added product suppliers as well as in-sourcing of certain resources rather than outsourcing it to third parties.

**Profit before taxation**

The profit before taxation of the Group has increased by RM0.93 million or approximately 55.7% to RM2.60 million in FYE 30 September 2008 compared to RM1.67 million in FYE 30 September 2007. The increase in profit before taxation was as a result of the Group's high revenue growth and the ability to achieve higher gross profit margins during the financial year.

***FPE 30 June 2009***

**Revenue**

The Group's revenue increased by RM1.71 million or approximately 18.0% to RM11.22 million as at the FPE 30 June 2009 compared to RM9.51 million as at the FPE 30 June 2008. The increase was due to new customers secured by DSC during the period i.e. Kiosk Media (M) Sdn Bhd and Hesper Consulting Sdn Bhd which have contributed a total sales of RM0.96 million to the Group. During this period, we were also providing our value added products & services at full capacity to Pantai Fomema & Systems Sdn Bhd.

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**8 FINANCIAL INFORMATION (Cont'd)**

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**Gross profit margin**

The Group's gross profit margin during the FPE 30 June 2009 has dropped slightly by 2.3% compared to FPE 30 June 2008. This was due to higher operating costs incurred and price re-negotiations due to the global recession that started in the last quarter of 2008.

**Profit before taxation**

The Group's profit before taxation decreased slightly from RM1.97 million to RM1.96 million, representing a drop of 0.5% in the FPE 30 June 2009 as compared to FPE 30 June 2008. This was due to lower gross profit margins recorded, which arose due to price re-negotiations to secure business continuity with our customers, during the recession period.

**8.3.3 Impact of Foreign Exchange, Interest Rates, Inflation and Commodity Prices**

Our Group is exposed to foreign currency risk as part of our sales and purchases are denominated in SGD or USD. Any future significant fluctuation in the exchange rate may have material impact on our Group's financial performance. In this respect, please refer to Section 4(B)(vi) of this Prospectus for a discussion on our foreign currency risk as well as Section 4B(viii) for political, economic and legislative considerations in relation to our Company.

As at 30 June 2009, our Group's total bank borrowings amounted to RM1.87 million. All the borrowings of our Group are interest bearing. Given that our Group has borrowings and the payment of the borrowings' interest is dependent on interest rate, future fluctuations of the interest rate may affect our Group's profitability.

There is no material impact to our Group arising from inflation or commodity prices.

**8.3.4 Exceptional and Extraordinary Items**

There were no exceptional and extraordinary items for the financial years/ periods under review.

**8.3.5 Change in Accounting Policies and Practices**

We adopted applicable approved financial reporting standards issued by the Malaysia Accounting Standard Board as well as the Singapore Accounting Standards Council (ASC) for the FPE 30 June 2009. The adoption of new/revised Financial Reporting Standards does not have a significant effect on the prior year financial statements of our Group save as disclosed in the Accountants' Report set out in Section 14 of this Prospectus.

**8.3.6 Trend Information**

Based on our segmental analysis of revenue and gross profit margin by our business activities, and the overview of our operations for the past three (3) FYE 30 September 2008 and the FPE 30 June 2009, our Board is of the opinion that:-

- (i) Our Group's revenue from AIDC activities is expected to be sustainable with a slight upward trend, primarily supported by recurrent business activities;
- (ii) The current challenging economic conditions will have an impact on our Group's future financial performance given that the AIDC industry is driven by the economy. As the global economy moves towards its recovery phase, we expect that the financial performance to gradually improve;
- (iii) Our liquidity is expected to improve further subsequent to our Listing given that fresh funds are injected into our Company to enable us to carry out our future plans as stated in Section 7.1 of the Prospectus; and

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**8 FINANCIAL INFORMATION (Cont'd)**

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- (iv) We were granted MSC Malaysia Status by the MDeC on 3 August 2006, where a portion of our Group's income was exempted from taxation. However, with the expiry of our MSC Malaysia Status on 2 August 2011, and in the event an extension is unable to be obtained, our Group will have to incur tax expense based on the prevailing statutory tax rate which may result in the decrease of our net profit from its previous level.

In addition to the above and barring any unforeseen circumstances, our Board is not aware of any circumstances which would result in a significant decline in our revenue and gross profit margins or known factors that are likely to have a material impact on our liquidity, revenue or profit/losses.

Save as disclosed in Section 8.3.1 above, our financial conditions and operations for the past three (3) FYE 30 September 2008 were not materially affected by any of the following:-

- (a) significant recent trends in state of the order book, sales, selling prices and costs of products and services, and
- (b) any known trends, demands, commitments, events or uncertainties that :
- (i) have had, or that we would reasonably expect to have, a material favourable or unfavourable impact on the financial performance, position and operations of our Group; and
- (ii) would cause the historical financial statements to be not necessarily indicative of future financial information.

**8.3.7 Liquidity and Capital Resources**

Our Group has been financing our operations through cash generated from our operations and external sources of funds. Our Group's external sources of funds mainly comprise shareholders equity and bank borrowings.

As at 30 June 2009, our Group's material sources of unutilised liquidity comprises cash and bank balances and total borrowings of approximately RM812,781 and RM1.87 million respectively. Further details of our borrowings are set out below.

Our Directors are of the opinion that, after taking into account of our consolidated cashflow position, banking facilities available and the net proceeds from the Public Issue, our Group will have adequate working capital for a period of twelve (12) months from the date of this Prospectus.

***Proforma Group Cashflow Summary***

Our Group's cash and cash equivalent at the end of the FPE 30 June 2009 is RM638,606 representing an improvement of RM549,447 from FYE 30 September 2008 of RM89,159. The increase was mainly due to the improvement of cash flows from operating activities.

In respect of the above, it should be noted that had the proceeds from the Public Issue of RM6.29 million been factored in the proforma consolidated cash flow statement, the cash and cash equivalents at the end of the financial period, would have increased to RM2.26 million (after assuming the utilisation of the listing proceeds).

To the best of our Directors' knowledge and subject to the risk factors as set out in Section 4 of this Prospectus, there is currently no legal, financial or economic restriction on the ability or requirements to obtain any approvals for our Subsidiary Companies to transfer funds to us in the form of cash dividends, loans or advances.

**8 FINANCIAL INFORMATION (Cont'd)**

The following is the net cash flow from the respective activities of our Group for FPE 30 June 2009:-

	<b>Proforma Group FPE 30 June 2009 Net Cash Inflow/ (Outflow) RM'000</b>
Operating Activities	1,280
Investing Activities	(1,350)
Financing Activities	620
	<u>550</u>
Net Cash Flow at the beginning of FPE 30 June 2009	89
<b>Net Cash Flow</b>	<b><u>639</u></b>

**Net cash flow from operating activities**

The operating activities of our Group generated a net cash inflow of RM1.28 million. The increase in receivables was RM572,580 which was attributable to our business growth.

Interest paid on borrowings and taxation were RM89,479 and RM81,838 respectively.

**Net cash flow used in investing activities**

The net cash flow used in investing activities amounted to approximately RM1.35 million. Our Group invested RM234,757 in research and development for our AIDC products. In addition, the Company also invested in operating assets which amounted to a total of RM1.19 million.

**Net cash flow from financing activities**

Net cash inflow from financing activities is RM0.62 million. During the financial period, our Group has drawdown RM633,972 in term loan to fund our business operations.

**Borrowings**

As at 30 June 2009, the total borrowings for our Group amounted to approximately RM1.87 million all of which are interest-bearing, as follows:-

	<b>RM'000 equivalent</b>
<b>Borrowings</b> <sup>^</sup>	
Short term:-	
• Term loan	957
• Bank overdrafts	174
Long Term:-	738
<b>Total Borrowings</b>	<b><u>1,869</u></b>
Shareholders' equity (After Acquisitions of Subsidiary Companies but before Public Issue and utilisation of proceeds)	9,094
Gearing ratio (times)	0.21*

**Notes:-**

<sup>^</sup> All of the above borrowings are interest bearing

\* The gearing is expected to reduce to 0.12 times after the Public Issue

Based on the above, RM0.45 million of our borrowings is denominated in USD with RM1.07 million denominated in SGD and the remaining is in RM.



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**8 FINANCIAL INFORMATION (Cont'd)**


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We have been paying our loan interest and principal on time and there have been no defaults on payment of either interest and/or principal sums in respect of any borrowing throughout the past three (3) FYE 30 September 2008 and up to FPE 30 June 2009 and in the subsequent period immediately preceding the date of this Prospectus.

The interest expense for the FPE 30 June 2009 was RM89,479. This translated into an interest coverage ratio of approximately 0.21 times. There was minimal impact of interest rates on our Group's historical operating profits.

To the best of our Directors' knowledge, as at the LPD, neither we nor our Subsidiary Companies are in breach of any terms and conditions or covenants associated with credit arrangement or bank loan, which can materially affect our financial position and results or business operations, or the investments by holders of securities in our Company.

### 8.3.8 Treasury policies and objectives

We have been financing our operations via cash generated internally from our operations and through external sources of funds, e.g. term loan and bank overdrafts.

We have short and long terms borrowings facilities that are available for utilisation. The interest rate for our borrowings are based on the base lending rate prevailing at the dates of the respective transactions as well as the base lending rate plus a margin agreed upon by our bankers when those respective loans were granted.

Our operations are mainly denominated in RM, USD and SGD. As set out in Section 4(B)(vi), our Group is exposed to foreign exchange fluctuation risks i.e. USD and SGD. Our Management constantly monitors our Group's foreign currency exposure and reviews our Group's need to hedge. Should the exposure become substantial, we will consider hedging our position.

### 8.3.9 Other Key Financial Ratios

	<-----Proforma Group----->			
	<---- FYE 30 September ---->			FPE 30 June
	2006	2007	2008	2009
Trade receivables turnover period (months) *	1.18	2.46	2.50	3.83
Trade payables turnover period (months) **	5.14	3.35	3.11	4.12
Inventory turnover period (months)	2.40	2.05	1.91	2.07

**Note:-**

\* Excluding inter-company balances

#### (i) Trade receivables turnover period

Generally, it is the policy of our Group to grant credit terms ranging from 30 to 90 days (1 – 3 months) to our customers. Other credit terms are assessed and approved on a case to case basis. Throughout the FYEs under review, the trade receivables turnover period of our Group has been fairly consistent at about two (2) months. However, trade receivables turnover period increased to 3.83 months in FPE 30 June 2009 mainly due to the economic slowdown which affected our customers, especially those which had direct exposures to the export markets. This had directly impacted those companies which were generally healthy but due to cash flow issues related to the economic slowdown, they have renegotiated for an additional 9 – 12 months credit period and have verbally committed to service their payments. Nonetheless, with the economic climate moving out of recession and into recovery phase, our Management remains committed to actively improve the trade receivables turnover period in tandem with the recovering economic conditions through vigorous monitoring to ensure the consistent servicing as well as assessing the recoverability of those debts.

**8 FINANCIAL INFORMATION (Cont'd)**

The credit term given to large project implementation revenue is normally longer than trading, which ranges between 120 to 180 days. Based on FPE 30 June 2009, these project implementation revenue comprised 41.4% of the Group's total revenue. Another contributing factor towards the high trade receivables turnover was slow collection due to the economic downturn.

**(ii) Trade payables turnover period**

Generally, the trade payables turnover period ranged from 3.11 months to 5.14 months and it is relatively longer as compared to the trade receivables turnover period as credit period granted by suppliers was up to three (3) months. The higher trade payables turnover period in FPE 30 June 2009 was a flow through effect from the slow collection from our customers.

**(iii) Inventory turnover period**

Generally, the inventory turnover period ranges from 1.91 months to 2.40 months. The higher inventory turnover period in FPE 30 June 2009 is due to our Group's intent to maintain more inventories in order to ensure that we meet our customers' demand.

**8.3.10 Debtors' Ageing Analysis**

An ageing analysis of the trade receivables of our Group as at FPE 30 June 2009 is set out as follows:-

Number of days	Within credit period			Exceeding credit period of 90 days			Total RM
	0-30 days RM	31-60 days RM	61-90 days RM	91-180 days RM	181-365 days RM	More than 365 Days RM	
Trade receivables	1,774,316	2,048,992	297,833	538,917	1,735,005	1,082,120	7,477,183
Less: Allowance for doubtful debts	-	-	-	-	-	(62,590)	(62,590)
Less: Inter-company balances	(97,186)	(96,410)	(117,495)	(322,221)	(1,197,522)	(812,255)	(2,643,089)
Net trade receivables	1,677,130	1,952,582	180,338	216,696	537,483	207,275	4,771,504
Subsequent collection up to 30 September 2009	482,633	289,512	65,106	90,649	12,054	49,680	989,634
Balance as at 30 September 2009	1,194,497	1,663,070	115,232	126,047	525,429 *	157,595	3,781,870
% of subsequent collection to net trade receivables	28.78	14.83	36.10	41.83	2.24 *	23.97	20.74

**Note:-**

\* As at 18 November 2009, we had collected a further 3.7% representing RM20,000 of the balance trade receivables comprised within the 181-365 days credit period

As at 30 June 2009, 79.9% of the trade receivables amounting to approximately RM3.81 million were within the credit period given. The remaining balances of approximately RM0.96 million of the trade receivables exceeded our Group's credit period. Based on the Management's records as at 30 September 2009, approximately RM0.15 million or 15.9% of the total debts exceeding the credit period have been collected (after netting off provisions for doubtful debts).

**8 FINANCIAL INFORMATION (Cont'd)**

Adequate allowance for doubtful debts was made and the Management estimates that the aforementioned allowance of approximately RM62,590 is adequate. Our Management is confident that the receivables exceeding credit limits are collectible after taking into account the stable relationship between our Group and these customers have verbally committed to settle the amount owing.

**8.3.11 Creditors' Ageing Analysis**

An ageing analysis of the trade payables of our Group as at FPE 30 June 2009 is set out as follows:-

Number of days	Within credit period			Exceeding credit period of 90 days			Total RM
	0-30 days RM	31-60 days RM	61-90 days RM	91-180 days RM	181-365 days RM	More than 365 Days RM	
Trade payables	1,989,246	394,385	359,568	567,605	130,003	360,632	3,801,439
Less: Inter-company balances	(79,472)	(127,875)	(87,070)	(249,415)	(43,189)	(300,092)	(887,113)
Net trade Payables	1,909,774	266,510	272,498	318,190	86,814	60,540	2,914,326
Subsequent payments up to 30 September 2009	1,752,866	188,082	232,938	138,795	39,294	24,864	2,376,839
Balance as at 30 September 2009	156,908	78,428	39,560	179,395	47,520	35,676	537,487
% of subsequent collection to net trade payables	91.78	70.57	85.48	43.62	45.26	41.07	81.56

As at 30 June 2009, 84.0% of the trade payables amounting to approximately RM2.45 million were within the credit period given. The remaining balances of approximately RM0.47 million of the trade payables exceeded our suppliers' credit period. Based on the Management's records as at 30 September 2009, approximately RM0.20 million or 43.6% of the total purchases exceeding the credit period have been paid.

**8.4 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE**

As the LPD, save for the risk factors disclosed in Section 4 and trends disclosed in Section 8.3.6 of this Prospectus, the financial conditions and operations of our Group are not affected by any of the followings:-

- (a) known trends, demands, commitments, events or uncertainties that have had or that our Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of our Group;
- (b) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group;
- (c) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position; and
- (d) pending and threatened litigation and arbitration proceedings having an impact on the financial position of our Group.

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**8 FINANCIAL INFORMATION (Cont'd)**

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**8.5 MATERIAL LITIGATION, MATERIAL CONTINGENT LIABILITIES AND MATERIAL CAPITAL COMMITMENT**

**(a) Material Litigation**

As at the LPD, our Group is not engaged whether as plaintiff or defendant in any legal action, proceedings, arbitration or prosecution for any criminal offence, which has a material effect on the financial performance and position of our Group and our Board has no knowledge of any proceedings pending or threatened against our Group or any facts likely to give rise to any proceedings which might materially affect the position and business of our Group.

**(b) Material Contingent Liabilities**

As at the LPD, there are no material contingent liabilities incurred by us, which upon becoming enforceable may have a material impact on our Group.

**(c) Material Commitment**

As at the LPD, there are no material commitments for capital expenditure incurred or known to be incurred by our Group which may have a substantial impact on the results or the financial position of our Group.

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## 9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT

### 9.1 INFORMATION ON PROMOTERS/SUBSTANTIAL SHAREHOLDERS

#### 9.1.1 Shareholdings in DSC

The promoters and substantial shareholders of DSC and their respective shareholdings as at the LPD and after the Public Issue and Bonus Issue are as follows:-

	Nationality/ Country of Incorporation	Designation	No of DSC Shares held as at the LPD		No of DSC Shares held after the Public Issue and Bonus Issue <sup>^</sup>	
			Direct	Indirect	Direct	Indirect
<b>Promoters</b>						
Seah Liang Chiang	Malaysian	Founder and Group Managing Director	10	-	3,127,238	55,738,146 <sup>e</sup>
Chua Yock Peng	Singaporean	Operations Director	-	10 <sup>f</sup>	256,582	58,608,802 <sup>g</sup>
Wong Ee Sing	Malaysian	Chief Technical Officer	-	-	3,349,600	-
Lcong Siong Weng	Singaporean	Sales & Marketing Director	-	-	3,621,070	-
DSCH <sup>h</sup>	Singapore	-	-	-	11,172,418	-
DSCS <sup>&amp;</sup>	Singapore	-	-	-	44,309,146	-
<b>Substantial Shareholders</b>						
Seah Liang Chiang	Malaysian	Founder and Group Managing Director	10	-	3,127,238	55,738,146 <sup>e</sup>
Chua Yock Peng	Singaporean	Operations Director	-	10 <sup>f</sup>	256,582	58,608,802 <sup>g</sup>
DSCH <sup>h</sup>	Singapore	-	-	-	11,172,418	-
DSCS <sup>&amp;</sup>	Singapore	-	-	-	44,309,146	-
Tan Soon Hiang	Malaysian	-	10	-	20	-

**Notes:-**

<sup>a</sup> Deemed interested by virtue of her spouse, Seah Liang Chiang's, shareholdings in DSC.

<sup>b</sup> Deemed interested by virtue of his shareholdings in DSCH and DSCS and his spouse, Chua Yock Peng's, shareholdings in DSC.

<sup>c</sup> Deemed interested by virtue of her shareholdings in DSCS and her spouse, Seah Liang Chiang's, shareholdings in DSC and DSCH.

<sup>d</sup> Immaterial.

<sup>e</sup> Assuming full take up of pink form allocations.

<sup>f</sup> Beneficial ownership ultimately owned by Seah Liang Chiang and Chua Yock Peng.

<sup>g</sup> Beneficial ownership ultimately owned by Seah Liang Chiang, Chua Yock Peng and DSCH.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**


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**9.1.2 Profile of Promoters and Substantial Shareholders****DSCH**

DSCH was incorporated in Singapore on 23 July 1999 under the Singapore Companies Act as a private limited company. The paid-up capital of DSCH is SGD250,000 comprising 250,000 ordinary shares of which SGD250,000 comprising 250,000 ordinary shares are issued and fully paid-up. DSCH's principal activity is that of investment holding.

The substantial shareholder of DSCH and his shareholdings are as follows:-

Name	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
Seah Liang Chiang	Malaysian	249,990	99.99	-	-

The directors of DSCH are Mr. Seah Liang Chiang and Ms. Chua Yock Peng.

**DSCS**

DSCS was incorporated in Singapore on 1 October 1999 under the Singapore Companies Act as a private limited company. The paid-up capital of DSCS is SGD5,000,000 comprising 5,000,000 ordinary shares of which SGD5,000,000 comprising 5,000,000 ordinary shares are issued and fully paid-up. DSCS's principal activity is that of investment holding.

The substantial shareholders of DSCS and their respective shareholdings are as follows:-

Name	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
Seah Liang Chiang	Malaysian	3,960,000	79.2	1,040,000 *	20.8
Chua Yock Peng	Singaporean	740,000	14.8	3,960,000 ^	79.2
DSCH	Singapore	300,000	6.0	-	-

*Notes:-*

\* Deemed interested by virtue of his shareholdings in DSCH and his spouse, Chua Yock Peng's, shareholding in DSCS.

^ Deemed interested by virtue of her spouse, Seah Liang Chiang's, shareholding in DSCS.

The directors of DSCS are Mr. Seah Liang Chiang and Ms. Chua Yock Peng.

**Seah Liang Chiang**, Malaysian, aged 45

**Founder and Group Managing Director**

*B. Sc (Economics), National University of Singapore (1987)*

Mr. Seah is the Founder and Group Managing Director of our Group and leads the management team in DSC Group. He has been in the AIDC industry for over 18 years and in the IT industry for over 20 years with the requisite in-depth experience and knowledge in the various aspects of the AIDC industry.

He graduated from National University of Singapore with an Economics degree in 1987. Upon graduation, he joined the IT industry as a Sales Executive in Computer Industries Pte Ltd. He joined the computer division of TrioTech Pte Ltd six (6) months later. Within the same year, he joined a US-based MNC company dealing with AIDC products, Dynamar Computer Products Pte Ltd, as a sales engineer and was promoted to sales manager within six (6) months of service. He then decided to leave the commercial fold and setup a company with a few colleagues in the industry, called Datacorp Pte Ltd. He was the Sales Director of the company until 1992. In 1993, he decided to start out on his own and established Digital.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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In addition to his commercial and business success, Mr. Seah has also been invited to participate in several industry forums and business committees organised by the Singapore Government. He was President of the Young Entrepreneurs' Organisation (2000-2003) (now known as Entrepreneur's Organisation or EO), a committee member of the Institute of Policy Studies (2002), committee member of Council for Corporate Disclosures & Governance under Singapore's Ministry of Finance (2003), Pro-enterprise Panel under Singapore's Ministry of Trade and Industries (2003-present), committee member of Temasek Polytechnic Business Advisory Board (2003-present), executive committee member of Action Committee for Entrepreneurship under Singapore's Ministry of Trade and Industries Singapore (2005-present) and committee member of ACRA Standing Law Review Focus Group (2005-present).

He was nominated and was a finalist for Phoenix award by the Singapore Economic Development Board ("EDB") in 2002. His leadership in the AIDC industry also attracted the attention of the EDB and subsequently DSC Group had received investments and grants for R&D.

**Wong Ee Sing, Malaysian, aged 43**

**Chief Technical Officer**

*B. Engineering (Electronics & Electrical), Nanyang Technological University (1990)*

*M.Sc (Communications & Computing), Nanyang Technological University (1994)*

Mr. Wong is the Chief Technical Officer of our Group. He obtained his degree in Electrical and Electronics Engineering from Nanyang Technological University, Singapore in 1990. Upon graduation, he started his career in Singapore as a Systems Engineer with International Video Products Pte Ltd mainly involved in video recording and streaming technologies industry. He was involved in development and testing activities as well as ISO9000 certification processes. In his four (4) years with the company, he helped develop and manage the Factory Automation System. In January 1995, he joined POSB Computer Service Pte Ltd, a subsidiary of the largest consumer bank in Singapore, i.e. POSB Bank as a Network Engineer. He was involved in the setting up and commissioning of the bank's wide area computer network (WAN), internet banking and e-commerce platforms. In June 1997, he was headhunted to join Network for Electronic Transfers (S) Pte Ltd (NETS), the company operating Singapore's largest electronic payments network as a Project Manager (NETS is the equivalent of MEPS in Malaysia). At NETS, he was the project manager overseeing several key milestones projects that established Singapore as one of the global success stories in the implementation of electronic payments.

It was in NETS that Mr. Wong had his working exposure on AIDC technologies, in particular technologies adopted for identification purposes and for secured verification purposes. He left in March 1999 to setup his own IT engineering services and project company, called Innolab Pte Ltd. Due to his extended exposure in solution development and large scale AIDC and electronic payment project implementation coupled with several collaborations with our Group, he was engaged by our Group as a technical consultant in 2000. Mr. Wong officially joined our Group in January 2007 as Chief Technical Officer.

Mr. Wong, being dedicated to continuous self improvement, also holds a Master of Science in Communications and Computing from Nanyang Technological University of Singapore in (1994). He has also won awards for his academic and work excellence. He received a Merit Award for being an exemplary staff from POSB in 1996, a Singapore National Science & Technology Board Gold Medal award for being the best overall student in his Masters degree course in 1994 and Asia's Best of the Best prize in a Quality Process Competition organized by the Thompson Group in 1993.

Mr. Wong has twelve (12) years of experience in payment processing and internet servicing industries. He is currently responsible for development of new products and enhancement of existing modules as well as overseeing the product testing and certification processes. He is also our technology officer for identifying emerging technologies relevant to our Group.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**Leong Siong Weng**, Singaporean, aged 33

**Sales & Marketing Director**

*B. Science (Hons), National University of Singapore (2000)*

Mr. Leong is the Sales and Marketing Director of our Group. He holds a general honours degree from National University of Singapore. Upon graduation in 2000, he joined Digital as a Sales Engineer. A self driven and highly motivated individual, he surpassed his sales targets and was made Sales Manager within a year. He continued to show hard work and dedication by securing more major accounts for our Group. He was promoted to the position of Sales Director in 2004 and leads Digital's sales team.

He currently services major accounts for our Group such as Seagate Technology International, Motorola Electronics Pte Ltd, Kenwood Electronics Technologies Pte Ltd, Texas Instruments Singapore Pte Ltd and Cyclect Electrical Engineering Pte Ltd.

In his nine (9) years with our Group, he has led the sales team to win milestone projects for Digital such as Thai Smartcard Project, Orga Telco SIM Cards Perso for Telkomsel, NUS Matriculation Smartcard Project, ST Aero Mifare Card Project, Star Cruises Guests / Visitor Tracking Project.

His responsibility as Sales Director includes managing the sales team, formulating sales strategies, identifying and appointing new value added resellers, identifying new partners for ALDC turnkey projects and securing international business.

**Chua Yock Peng**, Singaporean, aged 44

**Operations Director**

*B. Business Administration, National University of Singapore (1987)*

Ms. Chua, the Operations Director of DSC Group, is in charge of operations, logistics and technical support services. Ms. Chua holds a degree in Business Administration from the National University of Singapore.

Ms. Chua graduated in 1987 and worked in the field of event organisation and management of venues for Sentosa Development Corporation and Singapore Indoor Stadium. In 1992, she joined Marina Village Pte Ltd as a marketing executive and gained exposure in the commercial sector. She was responsible in providing marketing support for the promotional activities in marketing the properties developed as well as assuming the role of project manager, managing the logistics to support the many roadshows and sales programmes organised. She left in 1994 and joined Prudential Assurance Ltd as a financial planner for two (2) years.

She joined Digital as an Operations Manager in charge of office administration, customer support and logistics in 1999. She assumed the role of Operations Director since 2004.

**9.1.3 Promoters' and Substantial Shareholders' Directorships and Substantial Shareholdings in Other Public Companies for the Past Three (3) Years**

None of our Promoters and substantial shareholders as at the LPD hold or have held any directorship or substantial shareholdings (5% or more of the issued and paid-up share capital) in other public companies for the past three (3) years.



## 9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

### 9.1.4 Changes in Substantial Shareholders and Promoters

The changes in the shareholdings of our substantial shareholders and Promoters since incorporation are as follows:-

	As at incorporation			As at 26 October 2009 *		
	Direct	Indirect	%	Direct	Indirect	%
<b>Substantial shareholders</b>	No. of ordinary shares of RMI.00 each	No. of ordinary shares of RMI.00 each	%	No. of DSC Shares	No. of DSC Shares	%
Ng Lui Keng @ Ng Joo Keng ^	1	50.00	-	-	-	-
Tan Wang Tiang ^	1	50.00	-	-	-	-
Seah Liang Chiang	-	-	-	1,558,019	27,863,473 <sup>α</sup>	70.68
Chua Yock Peng	-	-	-	122,691	29,298,801 <sup>β</sup>	74.32
DSCH @	-	-	-	5,586,209	-	-
DSCS &	-	-	-	22,154,573	-	-
Tan Soon Hiang	-	-	-	10	-	-
<b>Promoters</b>						
Seah Liang Chiang	-	-	-	1,558,019	27,863,473 <sup>α</sup>	70.68
Chua Yock Peng	-	-	-	122,691	29,298,801 <sup>β</sup>	74.32
Wong Ee Sing	-	-	-	1,674,400	-	-
Leong Siang Weng	-	-	-	1,808,935	-	-
DSCH @	-	-	-	5,586,209	-	-
DSCS &	-	-	-	22,154,573	-	-

**Notes:-**

<sup>α</sup> Ceased as substantial shareholders as at 28 March 2006.

<sup>α</sup> Deemed interested by virtue of his shareholdings in DSCII and DSCS and his spouse, Chua Yock Peng's, shareholdings in DSC.

<sup>β</sup> Deemed interested by virtue of her shareholding in DSCII and her spouse, Seah Liang Chiang's, shareholdings in DSC and DSCII.

# Immaterial.

\* After the sub-division of shares and Acquisitions of Subsidiary Companies which were completed on 23 October 2009.

@ Beneficial ownership ultimately owned by Seah Liang Chiang and Chua Yock Peng.

& Beneficial ownership ultimately owned by Seah Liang Chiang, Chua Yock Peng and DSCII.

## 9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

	After Public Issue <sup>e</sup>			After Bonus Issue		
	Direct No. of DSC Shares	%	Indirect No. of DSC Shares	Direct No. of DSC Shares	%	Indirect No. of DSC Shares
<b>Substantial shareholders</b>						
Seah Liang Chiang	1,563,619	3.01	27,869,073 <sup>a</sup>	3,127,238	3.01	55,738,146 <sup>a</sup>
Chua Yock Peng	128,291	0.25	29,304,401 <sup>β</sup>	256,582	0.25	58,608,802 <sup>β</sup>
DSCH	5,586,209	10.74	-	11,172,418	10.74	-
DSCS	22,154,573	42.60	-	44,309,146	42.60	-
<b>Promoters</b>						
Seah Liang Chiang	1,563,619	3.01	27,869,073 <sup>a</sup>	3,127,238	3.01	55,738,146 <sup>a</sup>
Chua Yock Peng	128,291	0.25	29,304,401 <sup>β</sup>	256,582	0.25	58,608,802 <sup>β</sup>
Wong Ee Sing	1,674,800	3.22	-	3,349,600	3.22	-
Leong Siang Weng	1,810,535	3.48	-	3,621,070	3.48	-
DSCH	5,586,209	10.74	-	11,172,418	10.74	-
DSCS	22,154,573	42.60	-	44,309,146	42.60	-

**Notes:-**<sup>a</sup> Deemed interested by virtue of his shareholdings in DSCH and DSCS and his spouse, Chua Yock Peng's shareholdings in DSC.<sup>β</sup> Deemed interested by virtue of her shareholding in DSCS and her spouse, Seah Liang Chiang's shareholdings in DSC and DSCH.<sup>e</sup> Assuming full take up of pink form allocations.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**9.2 INFORMATION ON DIRECTORS**

**9.2.1 Profiles of Directors**

**Seah Liang Chiang**  
**Founder and Group Managing Director**

Please refer to Section 9.1.2 of this Prospectus.

**Wong Ee Sing**  
**Chief Technical Officer**

Please refer to Section 9.1.2 of this Prospectus.

**Leong Siong Weng**  
**Sales & Marketing Director**

Please refer to Section 9.1.2 of this Prospectus.

**Chua Yoek Peng**  
**Operations Director**

Please refer to Section 9.1.2 of this Prospectus.

**Dato' Dr. Mohd Ibrahim A. Wahid**, Malaysian, aged 47  
**Independent Non-Executive Chairman**  
*University of Wales College of Medicine, Cardiff, Wales, United Kingdom, (1985)*

Dato' Dr. Mohd Ibrahim A. Wahid is our Independent Non-Executive Chairman and the Chairman of our Nomination Committee. He was appointed a Medical Director and Clinical Oncologist Consultant at Wijaya Baru International Medical Centre in 2008. He is also a visiting Clinical Oncologist Consultant at Pantai Medical Centre. He has been practising medicine for over 23 years and he has specialised in Clinical Oncology for 16 years.

He graduated from the University of Wales, College of Medicine, Cardiff, Wales, United Kingdom with a medical degree in 1985. Upon graduation, he did his housemanship at Singleton & Morrison Hospital, Swansea, Wales. A year later, he became a Senior House Officer in North Tees General Hospital. He went on to take up the roles of Clinical Oncology Registrar in Velindre Hospital, Cardiff, Wales and Royal Free Hospital, London, England in the early nineties before returning to Malaysia. Upon his return in 1993, he was appointed as the lecturer of the medicine of Universiti Malaya. Subsequently, he was appointed as Head of the Clinical Oncology Unit of the University of Malaya Medical Centre, Kuala Lumpur.

In addition to his career success, Dato' Dr. Mohd Ibrahim A. Wahid, has been appointed on several committees. He was on the Expert Committee to write the Clinical Practice Guidelines on breast cancer in Malaysia (2002), a National Advisory Board Member for Astra Zeneca on Iressa (2003), an International Advisory Board Member for Schering AG for Bonefos (2005), an International Advisory Board Member for Astra Zeneca on breast cancer (2005), an International Advisory Board Member for Bayer Pharmaceutical on Sorafanib (2006) and a Clinical Trials committee member of the South East Asia Radiation Oncology Society (SEAROS) (2006).

Throughout his career, Dato' Dr. Mohd Ibrahim A. Wahid has conducted numerous medical researches. In 2003, he was part of a team which received a bronze medal IRPA research

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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award for his work in "Using artificial network as a prognostic indicator for predicting survival in Nasopharyngeal cancer".

He is currently the president of Malaysian Oncology Society as well as the Asian Pacific Federation of Organisation for Cancer Research and Control (APFOCC) and is also the Vice President of the Selangor Association for the Mentally Handicapped.

**Muk Sai Tat**, Malaysian, aged 46

**Independent Non-Executive Director**

*Chartered Accountant (M) (1990)*

*Master of Business Administration, University of Bath, United Kingdom, (1996).*

Mr. Muk is our Independent Non-Executive Director and the Chairman of our Audit Committee. Upon graduation from Victoria Institution, Kuala Lumpur in 1983, Mr. Muk started his career with Price Waterhouse as an Audit Assistant. He was later promoted to the position of Audit Senior upon his successful completion of the Malaysian Institute of Certified Public Accountants (MICPA) final examination in June 1989 and he was admitted to the Malaysia Institute of Accountants (MIA) in 1990.

In 1996, he completed his Executive Master of Business Administration Programme after taking up positions in Ogilvy & Mather (Malaysia) Sdn Bhd and Eveready Battery Company (M) Sdn Bhd. He then became the Financial Controller (Southeast Asia) of Emerson Electric (M) Sdn Bhd for three (3) years before becoming the Chief Financial Officer of Pemas Otis Elevator Co. Sdn Bhd & Otis Manufacturing Company Sdn Bhd, the General Manager for Skyline Concepts Sdn Bhd and Group Chief Executive Officer of Concino Sdn Bhd from 2001 to 2004.

In April 2004, Mr. Muk was appointed as the Group Chief Executive Officer / Executive Director of Mangium Industries Bhd. During his tenure, he oversaw the Group's businesses, which includes industrial timber plantation, timber processing and trading, printing, blending and distribution of alcoholic beverages. He also developed and implemented business strategies, as well as initiated a corporate restructuring plan with the aim of turning the Group around.

In October 2007, he left Mangium Industries Bhd and is currently a business consultant.

**Edward Khor Yew Heng**, Malaysian, aged 38

**Independent Non-Executive Director**

*Associate, Chartered Institute of Management Accountants, UK (CIMA)*

*Chartered Accountant (M) (2004)*

Mr. Khor is our Independent Non-Executive Director and the Chairman of our Remuneration Committee. Mr. Khor is a chartered management accountant by training and is an Associate member of the Chartered Institute of Management Accountants, UK (CIMA) since 1996 and a registered chartered accountant with the Malaysian Institute of Accountants (MIA).

He has over 13 years of experience in areas of corporate affairs, corporate finance, strategy planning and financial management and has spent most of his years in the ICT industry. He has held various positions in the areas of corporate planning, corporate finance, business development, accounting operations, strategic marketing, debt and credit recovery and legal affairs.

He started his career as an auditor and management consultant with international public accountants, Deloitte Touche Tohmatsu. He also spent seven (7) years with the TIME Engineering Berhad Group which is the Technology & Engineering division of Renong Berhad Group (now known as UEM World Group). He is also an Independent Non-Executive Director of TFP Solutions Berhad.

## 9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

## 9.2.2 Shareholdings in DSC

The direct and indirect shareholdings of our Directors as at the LPD and after the Public Issue and Bonus Issue are as follows:-

Name	Nationality/ Country of Incorporation	Designation	No. of DSC Shares held as at the LPD		No. of DSC Shares held after the Public Issue and Bonus Issue ^	
			Direct	%	Direct	%
Seah Liang Chiang	Malaysian	Founder and Group Managing Director	10	50.00	3,127,238	3.01
Chua Yock Peng	Singaporean	Operations Director	-	-	256,582	0.25
Wong Ec Sing	Malaysian	Chief Technical Officer	-	-	3,349,600	3.22
Leong Siong Weng	Singaporean	Sales & Marketing Director	-	-	3,621,070	3.48
Dato' Dr. Mohd Ibrahim A. Wahid	Malaysian	Independent Non- Executive Chairman	-	-	100,000	0.10
Muk Sai Tat	Malaysian	Independent Non- Executive Director	-	-	60,000	0.06
Edward Khor Yew Heng	Malaysian	Independent Non- Executive Director	-	-	60,000	0.06
					55,738,146 <sup>a</sup>	53.59
					58,608,802 <sup>b</sup>	56.35

## Notes:-

\* Deemed interested by virtue of her spouse, Seah Liang Chiang's shareholdings in DSC.

<sup>a</sup> Deemed interested by virtue of his shareholdings in DSC and DSCS and his spouse, Chua Yock Peng's shareholdings in DSC.

<sup>b</sup> Deemed interested by virtue of her shareholding in DSCS and her spouse, Seah Liang Chiang's shareholdings in DSC and DSCS.

<sup>^</sup> Assuming full take up of pink form allocations.

**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

**9.2.3 Directors' Directorships in Other Companies for the Past Five (5) Years**

Save as disclosed below, none of our other Directors hold or have held any directorships in other companies for the past five (5) years preceding the LPD, details of which are as follows:-

Name of Director	Name of Company	< ---- Directorship ---- >	
		Date of appointment	Date of resignation
Seah Liang Chiang	DSCS	01.10.1999	-
	DSCH	23.07.1999	-
Chua Yock Peng	DSCS	03.01.2002	-
	DSCH	23.07.1999	-
Wong Ee Sing	Innolah Pte Ltd	11.03.1999	-
	Iktiraf Bakti Sdn Bhd	19.06.2007	-
Dato' Dr. Mohd Ibrahim A. Wahid	Nufri Holdings Sdn Bhd	20.11.2007	-
	Dr. Ibrahim Cancer Clinic Sdn Bhd	23.07.2002	-
Muk Sai Tat	Concino Sdn Bhd	22.10.2001	-
	Concino Management Sdn Bhd *	30.11.2001	-
	Citarasa Ayu Sdn Bhd	17.05.2002	-
	Anika Impot Dan Edar Sdn Bhd	01.01.2004	21.11.2007
	Mangium Industries Berhad	02.04.2004	11.10.2007
	Anika Timber Sdn Bhd	02.04.2004	21.11.2007
	Furneflex Marketing Sdn Bhd	02.04.2004	21.11.2007
	Duncan Gibley (Malaysia) Sdn Bhd	02.04.2004	21.11.2007
	MR Print Sdn Bhd	02.04.2004	21.11.2007
	Mangium Plantations Sdn Bhd	02.04.2004	21.11.2007
	MS Research Sdn Bhd	19.07.2004	21.11.2007
	Anika Plantations Services Sdn Bhd	19.07.2004	21.11.2007
Edward Khor Yew Heng	TFP Solutions Berhad	28.12.2007	-

*Note:-*

\* *The company has been wound up since 18 September 2006*

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**


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**9.2.4 Directors' Remuneration and Benefits**

The remuneration and benefit-in-kind of our Directors for services rendered in all capacities to our Group for the FYE 30 September 2008 to 2010 are as follows:-

	<-- FYE2008--> RM ('000)	<-- FYE2009--> RM ('000)	<-- FYE2010--> RM ('000)
<b><u>Non-executive Directors</u></b>			
Dato' Dr. Mohd Ibrahim A. Wahid	-	-	0 to 50
Muk Sai Tat	-	-	0 to 50
Edward Khor Yew Heng	-	-	0 to 50
<b><u>Executive Directors</u></b>			
Seah Liang Chiang	300 to 350	450 to 500	450 to 500
Chua Yock Peng	100 to 150	150 to 200	150 to 200
Wong Ee Sing	100 to 150	100 to 150	250 to 300
Leong Siong Weng	100 to 150	100 to 150	250 to 300

There is no contingent or deferred compensation accrued for the year.

**9.2.5 Appointment and Retirement of Directors**

Mr. Seah Liang Chiang and Ms. Chua Yock Peng were appointed as our Directors on 23 March 2006 whilst Mr. Wong Ee Sing was appointed as our Director on 21 July 2008. The rest of our Directors were appointed to the Board on 26 October 2009.

All our Directors have served in their respective capacity since the date of appointment and are subject to retirement by rotation according to our Company's Articles of Association. At every annual general meeting of our Company, at least one-third of our Directors for the time being shall retire from office and shall be eligible for re-election.

**9.3 AUDIT, REMUNERATION AND NOMINATION COMMITTEES****9.3.1 Audit Committee**

The composition of our Audit Committee is as follows:-

Name	Designation	Directorship
Muk Sai Tat	Chairman of the Committee	Independent Non-Executive Director
Dato' Dr. Mohd Ibrahim A. Wahid	Member of the Committee	Independent Non-Executive Chairman
Edward Khor Yew Heng	Member of the Committee	Independent Non-Executive Director

Our Audit Committee comprises three (3) Independent Non-Executive Directors. The major terms of reference for our Audit Committee include reviewing the financial statements of our Group before submission to our Board, recommendations of the external auditors, reviewing the results and scope of the audit and other services provided by our external auditors. In addition, our Audit Committee reviews and evaluates our Group's internal audit and control functions. Our Audit Committee is also responsible for the assessment of financial risks and

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**


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matters relating to related party transactions and conflict of interests. Our Audit Committee may obtain advice from independent parties and other professionals in the performance of its duties.

### 9.3.2 Remuneration Committee

The composition of our Remuneration Committee is as follows:-

Name	Designation	Directorship
Edward Khor Yew Heng	Chairman of the Committee	Independent Non-Executive Director
Dato' Dr. Mohd Ibrahim A. Wahid	Member of the Committee	Independent Non-Executive Chairman
Muk Sai Tat	Member of the Committee	Independent Non-Executive Director

Our Remuneration Committee reviews and proposes, subject to the approval of our Board, the remuneration policy and terms and conditions of service of each Executive Director for his services as a member of our Board as well as Committees of our Board. Nevertheless, the remuneration of the non-executive Directors is a matter for our Board as a whole and the Directors are required to abstain from deliberation and voting on decisions in respect of his individual remuneration. The remuneration of Directors is generally based on market conditions, responsibilities held and the overall financial performance of our Group. Decisions and recommendations of our Remuneration Committee shall be reported back to our Board for approval and where required by rules and regulations governing our Company, for approval of shareholders at the annual general meeting.

### 9.3.3 Nomination Committee

The composition of our Nomination Committee is as follows:-

Name	Designation	Directorship
Dato' Dr. Mohd Ibrahim A. Wahid	Chairman of the Committee	Independent Non-Executive Chairman
Muk Sai Tat	Member of the Committee	Independent Non-Executive Director
Edward Khor Yew Heng	Member of the Committee	Independent Non-Executive Director

Our Nomination Committee is responsible for identifying and recommending new nominees to our Board as well as committees of our Board. Our Nomination Committee will assess the effectiveness of our Board as a whole, our Board Committees and each individual Director on an annual basis. In developing such recommendations, our Nomination Committee will consult all Directors and reflect that consultation in any recommendation brought forward to our Board. Our Board makes all decisions on appointments after considering the recommendations of our Nomination Committee.



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9      **PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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9.4      **KEY MANAGEMENT**

9.4.1      **Profiles of Key Management**

**Seah Liang Chiang**  
**Founder and Group Managing Director**

Please refer to Section 9.1.2 above.

**Wong Ee Sing**  
**Chief Technical Officer**

Please refer to Section 9.1.2 above.

**Leong Siong Weng**  
**Sales & Marketing Director**

Please refer to Section 9.1.2 above.

**Chua Yock Peng**  
**Operations Director**

Please refer to Section 9.1.2 above.

**Chua Wee Siang**, Singaporean, aged 39  
**Business Development Manager**  
*B Engineering (e-Commerce) - La Trobe University, Australia (2002)*  
*Diploma (Electronics & Electrical Engineering) - Ngee Ann Polytechnic, S'pore (1989)*

Mr. Chua is the Business Development Manager of our Group. He is in charged of our Malaysian operations which also involves client sourcing. He graduated from Ngee Ann Polytechnic in 1989. Upon completing his National Service, he joined Ngee Ann Polytechnic and has participated in numerous smart identification and automated identification R&D projects, involving numerous digital scanning technologies in particular biometric and speech recognition.

In 1997, he joined a subsidiary of an international IT company, Process and Analysis Services Pte Ltd as a Process Engineer. During his stint with the company, he was exposed to structured analysis and documentation of IT manufacturing processes.

In 2000, he decided to enhance his knowledge by pursuing an engineering degree course in Australia, majoring in electronic commerce. He completed his studies in 2002. Upon his return, he joined Digital as a Senior Technical Engineer and later was promoted as Business Development Manager of our Group in 2003, leading a team of ten (10) staffs to establish the Malaysian business.

Mr. Chua has 13 years of experience within the IT industry and nine (9) years in the AIDC industry. He is also well versed with programming and development knowledge in MS Visual, Oracle DB, Java php, MS asp, Microsoft .Net and Microsoft .Net Compact.

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9      **PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY  
MANAGEMENT (Cont'd)**

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**Wee Chuen Lii**, Malaysian, aged 37

**Group Finance Manager**

*Fellow of Certified Chartered Accountants (2005)*

*Chartered Accountant, Malaysian Institute of Accountant (2004)*

*Diploma in Accounting, Tunku Abdul Rahman College (1996)*

Mr. Wee is a registered Chartered Accountant with Malaysian Institute of Accountant. Upon graduation from his diploma studies in Tunku Abdul Rahman College, he began his career as an accounts executive in a civil engineering firm. He brings with him over ten (10) years of working experience in finance and accounting from his past employments.

He joined DSC Group as Group Finance Manager in June 2009. As our Group's Finance Manager, he is responsible for the overall management of the finance functions of our Group, as well as our compliance with the financial reporting requirements and the supervision of our accounting staff.

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## 9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)

## 9.4.2 Shareholdings in DSC

The direct and indirect shareholdings of the key management as at the I.P.D and after the Public Issue and Bonus Issue are as follows:-

Name	Nationality/ Country of Incorporation	Designation	No. of DSC Shares held as at the LPD		No. of DSC Shares held after the Public Issue and Bonus Issue ^	
			Direct	%	Direct	%
Seah Liang Chiang	Malaysian	Founder and Group Managing Director	10	50.00	3,127,238	3.01
Chua Yock Peng	Singaporean	Operations Director	-	-	256,582	0.25
Wong Ee Sing	Malaysian	Chief Technical Officer	-	-	3,349,600	3.22
Leong Siang Weng	Singaporean	Sales & Marketing Director	-	-	3,621,070	3.48
Chua Wee Siang	Singaporean	Business Development Manager	-	-	2,118,000	2.04
Wee Chuen Lii	Malaysian	Group Finance Manager	-	-	2,108,400	2.03
					55,738,146 <sup>a</sup>	53.59
					58,608,802 <sup>b</sup>	56.35

## Notes:-

\* Deemed interested by virtue of her spouse, Seah Liang Chiang's, shareholdings in DSC.

<sup>a</sup> Deemed interested by virtue of his shareholdings in DSC:H and DSCS and his spouse, Chua Yock Peng's, shareholdings in DSC.

<sup>b</sup> Deemed interested by virtue of her shareholding in DSCS and her spouse, Seah Liang Chiang's, shareholdings in DSC and DSC:H.

<sup>^</sup> Assuming full take up of pink form allocations.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**


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**9.5 INVOLVEMENT OF EXECUTIVE DIRECTORS AND KEY MANAGEMENT IN OTHER BUSINESSES/CORPORATIONS**

Save as disclosed below, none of our other Executive Directors or key management have any interests in other businesses or corporations as at the LPD:-

Executive Director	Name of company	Principal activities	Designation	Shareholdings (%)
Seah Liang Chiang	DSCS	Investment holding	Director	79.20
	DSCH	Investment holding	Director	99.99
Chua Yock Peng	DSCS	Investment holding	Director	14.80
	DSCH	Investment holding	Director	0.01
Wong Ee Sing	Iktiraf Bakti Sdn Bhd	Manufacturing of electronic components	Director	40.00
	Innolab Pte Ltd	IT engineering services and project	Director	-
Chua Wee Siang	Asia Selling.com	Selling of laser printing components	-	50.00

Seah Liang Chiang, Chua Yock Peng, Wong Ee Sing and Chua Wee Siang allocate a substantial portion of their time to the affairs of our Group. They are not involved in the day-to-day management of the above companies. As such, they do not spend a substantial amount of time in these companies save for attending necessary board meetings. Their involvement in these other businesses do not impact their ability to act as our Group's Directors or key management (as the case may be).

**9.6 DECLARATION OF PROMOTERS, DIRECTORS AND KEY MANAGEMENT**

Mr. Muk Sai Tat, one of our Directors, was a director of Concino Management Sdn Bhd which has since been wound up voluntarily effective 18 September 2006.

Save as disclosed above, none of our other Promoters, Directors and key management personnel is or was involved in the following events, whether in or outside Malaysia:-

- (a) a petition under any bankruptcy or insolvency laws filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (b) such person was disqualified from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (c) such person was charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (d) any judgement was entered against such person involving a breach of any law or regulatory requirement that relates to the securities or futures industry; or
- (e) such person was the subject of any order, judgement or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity.

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**9 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT (Cont'd)**

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**9.7 RELATIONSHIPS AND ASSOCIATES**

Save as disclosed below, there are no other family relationships (as defined in Section 122A sub (2) in paragraph (1)(a)\* of the Act) or associations between our substantial shareholders, Promoters, Directors and Management:-

- (a) Chua Yock Peng is the spouse of Seah Liang Chiang; and
- (b) Chua Wee Siang is the brother of Seah Liang Chiang's spouse, Chua Yock Peng.

**Note:-**

\* Section 122A sub (2) in paragraph (1)(a) of the Act has set out "a member of the Directors' family" shall include his spouse, parent, child (including adopted child and stepchild), brother, sister and the spouse of his child, brother or sister.

**9.8 SERVICE AGREEMENT**

Save as disclosed below, as at the LPD, none of the other Directors or key management personnel of DSC Group have entered into or proposed to enter into any service agreements with DSC Group.

We entered into a Service Agreement dated 27 October 2009 with Mr. Seah Liang Chiang whereby we agree to appoint and Mr. Seah Liang Chiang agrees to serve as our Group Managing Director commencing from 27 October 2009 and thereafter the appointment shall automatically continue for an indefinite period until the appointment is terminated by either party.

The salient terms of the Service Agreement are reproduced as follows. Terms defined in the Service Agreement shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires.

- (a) *Our Group may also terminate the employment of the Appointee without notice or payment in lieu of notice under, inter alia, the following circumstances:*
  - (i) *if the Appointee is guilty of any dishonesty or act of gross default or grave misconduct in connection with or affecting the business of our Company;*
  - (ii) *in the event of any serious or repeated breach or non-observance by the Appointee of any of the stipulations contained in the Contract; or*
  - (iii) *if the Appointee become bankrupt or make any composition or enter into any deed of arrangement with his creditors.*
- (b) *The Appointee will also be entitled to an annual performance bonus for each financial year at the Company's absolute discretion as may be determined by the Company in respect of each complete financial year of the Company which the Contract subsists. The Company will provide the Appointee with life assurance and medical health insurance.*
- (c) *In the event that the Company terminates the Appointee, other than for the reasons as set out in (b) above, the Company shall compensate the Appointee as follows:*
  - (i) *by paying to the Appointee sixteen (16) months salary in addition with the number of years in service from 27 October 2009; and*
  - (ii) *agreeing to appoint the Appointee as a Consultant/ Advisor to the Group for a sum equal to his last drawn salary for a period of 24 months after termination.*

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**9      PROMOTERS,      SUBSTANTIAL      SHAREHOLDERS,      DIRECTORS      AND      KEY  
MANAGEMENT (Cont'd)**

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- (d)      *Under the Contract, the Appointee has covenanted not to be employed or engaged or he interested in a similar business as the business of the Group or engage in any activities where it could reasonably be anticipated that the Appointee would be required to disclose or use any trade secrets and/or confidential information acquired by the Appointee during the course of his employment to any third party.*
- (e)      *The Appointee also undertakes not to solicit business from an existing or prospective customer of the Group or entice away any of our employees during the course of his employment and for 6 months after ceasing to be employed by the Group either as a director or consultant. The Appointee has also covenanted not to carry on any activity or business in competition with us during the course of his employment and for 6 months after ceasing to be employed by the Group either as a director or consultant.*

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**10 APPROVALS AND CONDITIONS**


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**10.1 CONDITIONS TO THE APPROVALS AND COMPLIANCE THEREOF**

In conjunction with, and as an integral part of our Listing, we undertook a listing scheme which was approved by the SC (including the approval under the FIC Guidelines on the acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests), pursuant to Section 212(5) of the CMSA, via its letter dated 28 November 2008 with subsequent approval for an extension of time to 31 December 2009 to implement the Listing via its letter dated 26 May 2009. Further thereto, arising from the introduction of the ACE Market, we had applied and the SC had approved via its letter dated 22 October 2009, a variation to the listing scheme (collectively, the “**SC Approval Letters**”). The terms and conditions as stipulated in the SC Approval Letters are set out as follows:-

<b>SC's Conditions</b>	<b>Remarks/ Status of compliance</b>																				
(i) Pursuant to paragraph 3.19 of the AMLR, the moratorium on the shareholdings of DSC's promoters is as follows:-	Complied. Please refer to Section 10.2 of this Prospectus																				
<table border="1"> <thead> <tr> <th rowspan="2"><b>Promoter</b></th> <th colspan="2"><b>DSC Shares to be held under moratorium</b></th> </tr> <tr> <th><b>No. of shares</b></th> <th><b>% of enlarged issued and paid-up share capital of DSC</b></th> </tr> </thead> <tbody> <tr> <td>DSCH</td> <td style="text-align: right;">11,172,417</td> <td style="text-align: right;">10.74</td> </tr> <tr> <td>DSCS</td> <td style="text-align: right;">32,144,248</td> <td style="text-align: right;">30.91</td> </tr> <tr> <td>Wong Ee Sing</td> <td style="text-align: right;">1,674,400</td> <td style="text-align: right;">1.61</td> </tr> <tr> <td>Leong Siong Weng</td> <td style="text-align: right;">1,808,935</td> <td style="text-align: right;">1.74</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>46,800,000</b></td> <td style="text-align: right;"><b>45.00</b></td> </tr> </tbody> </table>		<b>Promoter</b>	<b>DSC Shares to be held under moratorium</b>		<b>No. of shares</b>	<b>% of enlarged issued and paid-up share capital of DSC</b>	DSCH	11,172,417	10.74	DSCS	32,144,248	30.91	Wong Ee Sing	1,674,400	1.61	Leong Siong Weng	1,808,935	1.74	<b>Total</b>	<b>46,800,000</b>	<b>45.00</b>
<b>Promoter</b>			<b>DSC Shares to be held under moratorium</b>																		
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Leong Siong Weng	1,808,935	1.74																			
<b>Total</b>	<b>46,800,000</b>	<b>45.00</b>																			
(ii) Approval to be obtained from other relevant authorities, if any;	Noted.																				
(iii) Full compliance with all relevant requirements as specified by the AMLR; and	To be complied.																				
(iv) Kenanga/ DSC to inform SC when the proposed flotation on the MESDAQ Market (now known as ACE Market) is completed.	To be complied.																				

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

DSC was granted MSC Malaysia Status by the MDeC vide its letter dated 31 May 2006. To maintain its preferential status, DSC is expected to operate according to certain conditions as follows:-

<b>Conditions</b>	<b>Status of compliance</b>
DSC hereby agrees to:	
1.1 complete business registration of the proposed entity as a locally incorporated company under the <i>Companies Act 1965</i> within one (1) month from the date of this letter, commence operations of the proposed entity within six (6) months from the date of this letter, and undertake such activities specified in the company's business plan as approved by MDeC below (" <b>MSC-Qualifying Activities</b> ") within six (6) months from the date of this letter or by such date(s) as may be specified in the company's business plan as approved, which date(s) may be extended or modified with the written consent of MDeC, and thereafter continue with such business and activities unless otherwise approved by MDeC. The MSC Qualifying Activities are as follows:-	Complied
1.1.1 research, development and commercialization of the TrekNet suite of development tools and business applications for the Automatic Identification and Data Capture (AIDC) industry; and	
1.1.2 provision of technical support and maintenance services related to TrekNet suite of business applications and development tools.	
Any changes proposed to the above MSC Qualifying Activities as detailed in the Business Plan must receive the prior written consent of MDeC:	
1.2 locate the implementation and operation of the MSC Qualifying Activities in a Designated Zone in Cyberjaya with an office space requirement of 600 sq ft within six (6) months from the date of this letter, and will seek MDeC's prior written approval in the event of any changes in the location or address of the company; and	Complied <sup>#</sup>
1.3 ensure that at all times at least 15% of the total number of employees (excluding support staff) of DSC shall be "knowledge workers" (as defined by MDeC). Knowledge workers shall be recruited, employed and/or appointed solely for the purpose of undertaking the MSC Qualifying Activities. The recruitment, employment and/or appointment of foreign knowledge workers (if any) shall be sole responsibility of DSC and MDeC shall not be held responsible for any liability arising from such recruitment, employment and/or appointment;	Complied
1.4 ensure that any products produced pursuant to the MSC-Qualifying Activities are original, and that no part or portion of such Product is an infringement or violation of any intellectual property or any property rights of any third party, or constituted a misappropriation of know-how belonging to any third-party;	Complied
1.5 submit to MDeC a copy of the Company's Annual Report and Audited Statements in parallel with submission to the Companies Commission of Malaysia;	Complied
1.6 ensure that all information and/or documents furnished by DSC to MDeC or any other authority or agency do not contain any false, untrue or inaccurate statements or omit to state any facts, the omission of which would make any statements made therein in the light of the circumstances under which they are made, misleading;	Complied
1.7 inform and obtain the prior approval of MDeC for any proposed change in the name of DSC;	To be Complied <sup>*</sup>
1.8 inform MDeC of any change in the equity structure or shareholding structure of DSC, or such other changes that may affect the direction or operation of DSC. MDeC must be informed of any change before steps are taken to effect such change; and	To be Complied <sup>*</sup>
1.9 comply with all such statutory, regulatory and/or licensing requirements as may be applicable.	See note <sup>(1)</sup>

**Notes:-**

\* The application letter was submitted to the MDeC on 26 October 2009. Pending approval from MDeC



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

# DSC is currently located at MSC Cyberport, which is a MDeC designated zone in Johor Bahru. The Company is currently occupying an office suite including shared area of 167 square metres.

(1) Save for late filing of accounts as disclosed below, DSC Group is in compliance with all such statutory, regulatory and/or licensing requirements:-

	<b>FYE</b>	<b>Due date for filing</b>	<b>Remarks</b>
DSC	30 September 2006	By March 2007	The audited accounts were filed with the CCM in July 2008 which could result in a late filing penalty of up to RM1,000.
DSCM	30 September 2006	By March 2007	The audited accounts were filed with the CCM in May 2008 resulting in a late filing penalty of RM1,000.
DSC	30 September 2007	By March 2008	The audited accounts were filed with the CCM in July 2008 which could result in a late filing penalty of up to RM300.
DSCM	30 September 2007	By March 2008	The audited accounts were filed with the CCM in July 2008 which could result in a late filing penalty of up to RM1,000.
Digital	30 September 2007	By March 2008	The audited accounts were filed with the ACRA of Singapore in September 2008. Under Section 197 of the Singapore Companies Act, the company and every officer of the company who is in default shall be liable on conviction to a fine not exceeding SGD5,000 and also to a default penalty for each day during which the offence continues of not more than SGD200.
DSC	30 September 2008	By March 2009	The audited accounts were filed with the CCM in September 2009 which could result in a late filing penalty of up to RM500.
DSCM	30 September 2008	By March 2009	The audited accounts were filed with the CCM in September 2009 which could result in a late filing penalty of up to RM250.
Digital	30 September 2008	By March 2009	The audited accounts were filed with the ACRA of Singapore in October 2009. Under Section 197 of the Singapore Companies Act, the company and every officer of the company who is in default shall be liable on conviction to a fine not exceeding SGD15,000 and also to a default penalty for each day during which the offence continues of not more than SGD200.

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**10 APPROVALS AND CONDITIONS (Cont'd)****10.2 MORATORIUM ON PROMOTERS' SHARES**

Upon the completion of the Listing, the DSC Shares held by our Promoters consisting 63.28% of the enlarged issued and paid-up share capital of DSC are as tabulated below.

In compliance with the MESDAQ Market Guidelines of which the approval of the Listing of DSC was based upon, the DSC Shares amounting to 45% of the enlarged share capital of DSC, and any interest therein may not be sold, transferred, assigned or otherwise disposed of, within one (1) year from the date of admission of DSC to the Official List of the ACE Market. Thereafter, they are permitted to sell, transfer, assign or otherwise dispose of up to a maximum of one third per annum on a straight-line basis of their respective shareholdings in our Company, which is under moratorium.

The DSC Shares held by our Promoters which are under moratorium are as follows:-

Name	No. of DSC Shares held after the Proposed Listing and Proposed Bonus Issue ^				No. of DSC Shares under moratorium	
	Direct	%	Indirect	%		%
DSCH	11,172,418	10.74	-	-	11,172,417	10.74
DSCS	44,309,146	42.60	-	-	32,144,248	30.91
Seah Liang Chiang	3,127,238	3.01	55,738,146 <sup>a</sup>	53.59	-	-
Chua Yock Peng	256,582	0.25	58,608,802 <sup>b</sup>	56.35	-	-
Wong Ee Sing	3,349,600	3.22	-	-	1,674,400	1.61
Leong Siang Weng	3,621,070	3.48	-	-	1,808,935	1.74
<b>Total</b>	<b>65,836,054</b>	<b>63.30</b>			<b>46,800,000</b>	<b>45.00</b>

**Notes:-**

<sup>a</sup> Deemed interested by virtue of his shareholdings in DSCH and DSCS and his spouse, Chua Yock Peng's, shareholding in DSC.

<sup>b</sup> Deemed interested by virtue of her shareholding in DSCS and her spouse, Seah Liang Chiang's, shareholdings in DSC and DSCH.

<sup>^</sup> Assuming full take up of pink form allocations.

The restriction which is fully acknowledged by the aforesaid shareholders is specifically endorsed on the share certificates of DSC representing the shareholding of the aforesaid shareholders, which are under moratorium to ensure that the Company's Share Registrars will not register any transfer not in compliance with the aforesaid restriction.

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## 11 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS

### 11.1 EXISTING AND PROPOSED RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Save for the following transactions, the amount disclosed which are of that transacted during the relevant FYEs/ FPE, there are no other related party transactions and/or conflict of interests, existing or proposed, entered into by our Group which involves the interest, direct or indirect, of a director, substantial shareholder, persons connected to them and the key management personnel of our Group for the past three (3) FYE 30 September 2006 to 2008 and the subsequent financial period thereof, immediately preceding FPE 30 June 2009:-

Name of Company	Transacting/ interested party	Nature of transaction	FYE 30 September 2006 (RM)	FYE 30 September 2007 (RM)	FYE 30 September 2008 (RM)	FPE 30 June 2009 (RM)
(i) Digital	Seah Liang Chiang, our Group Managing Director	Advance to director <sup>#</sup>	342,157 <sup>*</sup>	684,255 <sup>*</sup>	- <sup>(a)</sup>	-
(ii) Digital	DSCS, our substantial shareholder and a company which our Group Managing Director, Seah Liang Chiang has substantial interest	Purchase of software by DSCS from Digital <sup>^</sup>	-	109,262	-	-
(iii) Digital	DSCS, our substantial shareholder and a company which our Group Managing Director, Seah Liang Chiang has substantial interest	Sales of AIDC equipment for R&D purpose <sup>#</sup>	182,224	-	-	-
(iv) Digital	DSCS, our substantial shareholder and a company which our Group Managing Director, Seah Liang Chiang has substantial interest	Payment on behalf for R&D related expenses <sup>#</sup>	322,973	142,920	- <sup>(a)</sup>	-
(v) Digital	DSCH, our substantial shareholder and a company which our Directors, Seah Liang Chiang and Chua Yock Peng has substantial interest	Payment on behalf for administrative expenses <sup>#</sup>	6,808	8,700	-	-
(vi) DSCM	Seah Liang Chiang, our Group Managing Director	Advance to director <sup>#</sup>	46,893 <sup>^</sup>	46,415 <sup>^</sup>	-	-
(vii) Digital	DSCS, our substantial shareholder and a company which our Group Managing Director, Seah Liang Chiang has substantial interest	Acquisition of IP by Digital from DSCS	-	-	1,929,114 <sup>(b)</sup>	-

**Notes:-**

<sup>^</sup> The advance was given to Seah Liang Chiang to meet expenditures incurred by him for the purpose of enabling him to perform his duties as an officer of the Company and as such is permissible under Section 133(1)(a) of the Act

<sup>\*</sup> The advance was given to Seah Liang Chiang for provision of funds to directors with funds to meet expenditure incurred or to be incurred by him for the purposes of the company or for the purpose of enabling him properly to perform his duties as an officer of the company (subject to the prior approval by Company at a general meeting) is permissible under Section 162 (a) of the Singapore Companies Act

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## 11 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS *(Cont'd)*

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# *As at LPD, the amounts have been fully settled/ set off*

@ *As set out in Section 5.2(b)(i) of this Prospectus, Digital acquired IP from DSCS for a gross consideration of SGD1,800,000 (RM4,140,000) which was satisfied via issuance of SGD838,745 (RM1,929,114) ordinary shares in Digital, after setting off amount owing to Digital of SGD961,255 (RM2,210,886) assigned by DSCS and Seah Liang Chiang (via Deed of Assignment of Debt as disclosed in Section 17.8(b) of this Prospectus) to Digital*

The Directors are of the opinion that:-

- (a) the advances set out in (i), (iv), (v) and (vi) above between our Group and the Director of our Company are permissible under the Section 133(1)(a) of the Act and Section 162(a) of the Singapore Companies Act; and
- (b) the transactions set out in (ii), (iii) and (vii) above are on an arms' length basis and on terms not more favourable to the related parties than those generally available to the public.

The Audit Committee will supervise the terms of related party transactions, and the Directors of our Company will report related party transactions, if any, annually in our Group's annual report.

Save as disclosed in (ii) and (iii) above, none of the Directors of our Company have interests in any of our Group's other customers or suppliers. Therefore, there is no conflict of interest between our Group with our other customers and suppliers.

### 11.2 RECURRENT RELATED PARTY TRANSACTION OF A REVENUE OR TRADING NATURE

Our Group, in the ordinary course of business, may enter into transactions that are of revenue or trading in nature with related parties ("**Recurrent Transactions**"), which are necessary for our day-to-day operations. Our Directors confirm that such Recurrent Transactions will be carried out (if any) on an arm's length basis and on commercial terms which are not more favourable to the related parties than those generally available to third parties and which will not be detrimental to our minority shareholders.

Under Chapter 10 of the AMLR, a listed company may seek a shareholders' mandate for recurrent transactions of a revenue or trading nature or those necessary for its day to day operations such as supplies and materials, which may be carried out with the listed company's interested persons.

Transactions, which do not fall within the ambit of the shareholders' mandate, shall be subject to the relevant provisions of the AMLR.

We will make disclosures in our annual report of the aggregate value of transactions conducted based on the nature of Recurrent Transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

There has been no recurrent related party transactions involving Recurrent Transactions involving our Company or our Group in respect of the past three (3) FYE 30 September 2006 to 2008 and up to FPF 30 June 2009.

### 11.3 MITIGATING FACTORS AND STEPS

#### 11.3.1 Mitigating Factors

The appointment of independent non-executive directors on to our Board and disclosure in accordance with the requirements of Bursa Securities and good corporate governance will ensure that corporate transactions are conducted at an arms-length basis. Further in relation to matters arising from or to do with related party transactions, the substantial shareholders would be required to abstain from voting.

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**11 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)**

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**11.3.2 Monitoring of related party transactions and conflict of interest situations**

**Audit Committee Review**

An audit committee of the Company has been constituted by our Board ("Audit Committee"). The Audit Committee reviews any related party transaction and conflict of interest that may arise within our Group (including any future related party transaction and conflict of interest situation). The Audit Committee periodically reviews the procedures set by our Company to monitor related party transactions to ensure that these transactions are carried out on normal commercial terms not more favourable to the related party than those generally available to the third parties, at arm's length with our Group and are not to the detriment of our Company's minority shareholders. All reviews by the Audit Committee are reported to our Board for its further action. Please refer to Section 9.3.1 of this Prospectus for details of the Audit Committee.

**11.4 TRANSACTIONS WHICH ARE UNUSUAL IN THEIR NATURE OR CONDITIONS**

There are no unusual transactions in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party in respect of the past three (3) FYE 30 September 2006 to 2008 and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

**11.5 OUTSTANDING LOANS MADE TO OR FOR THE BENEFIT OF RELATED PARTIES**

There are no outstanding loans (including guarantees of any kind) made by our Group to or for the benefit of related parties in respect of the past three (3) FYE 30 September 2006 to 2008 and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

**11.6 INTEREST IN BUSINESS AND CORPORATIONS CARRYING SIMILAR TRADE**

None of our other Directors and/or substantial shareholders has any interest, direct or indirect, in any other businesses and corporations carrying on a similar trade as that of our Group.

**11.7 PROMOTION OF ANY MATERIAL ASSETS ACQUIRED, DISPOSED OF OR LEASED**

Save as detailed below, none of our Directors and/or substantial shareholders has any interest, direct or indirect, in the promotion of or in any material assets which have, within the three (3) most recent completed financial years and the subsequent financial period thereof, immediately preceding the date of this Prospectus, been acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to our Group:-

- (i) Deed of Assignment of Copyright dated 31 July 2008 entered into between DSCS and Digital whereby DSCS has agreed to assign and Digital has agreed to accept the assignment of the copyright in the software known as TrekIt! Engine for a consideration sum of SGD1,800,000 payable from Digital to DSCS.
- (ii) Sale and Purchase Agreement dated 8 September 2008 between DSC (the "Purchaser"), Seah Liang Chiang and Chua Yock Peng (collectively the "Vendors") for the acquisition of 200,000 ordinary shares of RM1.00 each in DSCM from the Vendors for a consideration sum of RM168,070 satisfied entirely by the issuance of 1,558,009 new DSC Shares.
- (iii) Sale and Purchase Agreement dated 8 September 2008 between DSC (the "Purchaser"), DSCH, DSCS, Spring Seeds Capital Pte Ltd and Leong Siong Weng (collectively the "Vendors") for the acquisition of 1,038,745 ordinary shares in Digital from the Vendors for a

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**11 RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS (Cont'd)**

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consideration sum of SGD1,640,925 satisfied entirely by the issuance of 37,741,280 new DSC Shares.

**11.8 DECLARATION OF ADVISERS**

- (a) Kenanga hereby confirms that there are no existing or potential conflicts of interest in its capacity as the Adviser, Underwriter and Placement Agent for the Public Issue;
- (b) Messrs Cheang & Ariff have given its confirmation that there are no existing or potential conflicts of interest in its capacity as the Solicitors for the IPO;
- (c) Messrs SJ Grant Thornton has given its confirmation that there are no existing or potential conflicts of interest in its capacity as the Reporting Accountant and Auditors for the Public Issue; and
- (d) Synovate Sdn Bhd has given its confirmation that there are no existing or potential conflicts of interest in its capacity as the Independent Market Researcher.

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**12 EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON**  
(Prepared for the inclusion in this Prospectus)

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**26 OCT 2009**

The Board of Directors

**DSC Solutions Berhad**

Third Floor, No. 79 (Room A),

Jalan SS21/60,

Damansara Utama,

47400 Petaling Jaya,

Selangor

Dear Sirs,

**DSC SOLUTIONS BERHAD (FORMERLY KNOWN AS INTELEK SEKUTU SDN. BHD.) ("DSC" OR "COMPANY")**


**Independent Assessment of the AIDC industry in Malaysia and Singapore**

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This independent assessment of the AIDC industry in Malaysia and Singapore is prepared by Synovate Sdn Bhd for inclusion into the prospectus to be dated [ **19 NOV 2009** ] pursuant to the proposed listing of **DSC SOLUTIONS BERHAD** on THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD.

Synovate Sdn Bhd conducted the assessment of the AIDC industry as an independent party and has taken due consideration and care to ensure the report represents a true and fair assessment of the industry. Whilst every effort has been made to ensure that information contained in this report is accurate, up-to-date and reliable, Synovate cannot be made liable for any errors, omissions or incorrect information it may contain, or for any loss or consequential loss arising as a result of decisions taken based on its contents.

Yours faithfully,  
For and on behalf of Synovate Sdn Bhd

  
\_\_\_\_\_  
Kiranjit Singh s/o Rajinder Singh  
Business Group Director  
Head – Business Consulting Malaysia



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12 EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND  
THE LETTER THEREON (Cont'd)

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## 1. AIDC Industry overview

The AIDC market comprises 5 technologies namely bar codes, RFID, ID cards, smart cards and biometrics. To implement a complete AIDC system, 4 components are required namely hardware, software, engineering services and consumables. The software component is a crucial component of the AIDC system as it puts business logic into data collected. Generally, AIDC products and solutions cater to 2 distinct purposes namely identification and authentication. AIDC technologies catering to identification purposes include bar codes, RFID and ID cards whereas technologies catering to authentication purposes include smart cards and biometrics.

- **Bar codes.** Bar codes were first introduced in the early 1950s in the US and have since revolutionized the global business community. Bar code technology has enabled improved data accuracy over conventional key board entry as well as accelerated the flow of products and information within a business or between businesses. Bar code technology encompasses the symbologies that encode data to be optically read, the printing technologies that produce machine-readable symbols, the scanners and decoders that capture visual images of the symbologies and convert them to computer-compatible digital data and the verifiers that validate symbol quality
- **Radio Frequency Identification (RFID).** RFID is a portable memory device on a chip which is aimed at allowing the reading of information embedded in a microchip. This microchip can be embedded into any object and can store information about the item. An RFID system typically consists of a tag or label containing data storage, an antenna to communicate with the tag and a "controller" to manage the communication between the antenna and the computer. RFID based AIDC systems are commonly applied to livestock identification, library checkouts, automated vehicle identification, manufacturing and supply chain management
- **Identification (ID) cards.** ID cards are cards that store identity information of the card holder. Identity information of the card holder retrieved by swiping the card through a card reader. Common application of ID cards include employee ID cards, door keys and loyalty cards
- **Smart cards.** A smart card is a card that is embedded with either a microprocessor and a memory chip or only a memory chip with a non-programmable logic. The microprocessor card or commonly known as "chip cards", can add, delete and otherwise manipulate information on the card whereas the memory-chip card can only undertake a pre-defined operation. Unlike magnetic stripe cards, smart cards can carry all the necessary functions and information on the card and do not require access to remote databases at the point of transaction. Examples of an integrated circuit microprocessor card include "stored value cards", affinity cards and cards that provide secure access to a network. An integrated circuit memory card for example comes in the form of a pre-paid disposable phone card which does not have a microprocessor hence is dependent on a card reader for processing.
- **Biometrics.** Biometric technology encompasses a range of technologies that verify or recognize a person's identity based on unique personal characteristics. It uses a physiological trait, digitally encoded and stored, to accomplish this identification. Biometrics provide the basis for dispensing with conventional personal identification or verification methods based upon passwords, tokens, ID cards, and personal identification numbers (PINs). Common biometric systems include those that identify persons using fingerprints, hand geometry, retinal scan and voice identification





### 1.1 Global AIDC market

Globally, the AIDC market has been experiencing rapid growth in the first decade of the 21<sup>st</sup> century. The three key drivers of growth include the need for automated processes in the retail, manufacturing and automotive sectors, the heightened security focus since 9/11 and the need to develop unique and fraud-proof identification methods. In the US, automation of business processes specifically in retail and automotive sectors have made it necessary to consider the actual value addition involved in adopting AIDC technologies. AIDC development trends in the Europe mimic that of the US but Europeans are reported to be slower in accepting and adopting new AIDC technologies such as biometrics. The European smart card market has been experiencing high growth. AIDC development in the Asian market is slightly behind the US and Europe and research suggested that Asia is lagging by approximately two years. Nonetheless, it has been forecasted that the Asia Pacific region will overtake the rest of the world primarily in the usage of smart cards due to the requirement to meet EMV standards.

### 1.2 Malaysia AIDC market

Bar coding systems were present in the country since the 1980s and were popularly used in the retail sector to attach product-related information on consumer goods. Overall, the growth of the AIDC market in Malaysia is driven by the high growth of bar code technology. Market players have indicated that there are still opportunities for further expansion of market base especially amongst SMEs who generally have yet to fully appreciate the benefits of implementing a bar coding system. Market players also anticipate further growth in bar code technology with current globalization trends which will see higher adoption of the technology by Malaysian companies as they try to meet global standards in order to remain competitive. Despite the fact that 1D bar codes are considered an established technology, there is an anticipated resurgence in the adoption of bar code labelling with the introduction of 2D bar codes.

Smart cards became the next AIDC technology to hit Malaysian shores and were popularly used in the government, banking, telecommunications and transportation sectors. The smart cards market is at the growth stage and this is mainly attributable to the government's implementation of a national identification project known as the *MyKad* in 2001.

ID cards are an established technology and are widely applied in the form of loyalty cards in various retail outlets such as departmental stores, music and book stores.

RFID technology on the other hand, was only recently introduced in Malaysia and is used in the security and access control, government, manufacturing and logistics sectors with prospective applications in the tagging of high value items such as pharmaceutical products as well as jewellery.

The market for biometrics in Malaysia is still very nascent although the Malaysian government had already incorporated the technology into e-passports which verify individuals by facial recognition and finger prints.



### 1.3 Singapore AIDC market

Bar code technology is the main growth driver for the Singaporean AIDC market. In a market where 1D bar codes are more matured, 2D bar codes will continue to grow and expand into new industry sectors as more and more companies become aware of its capability to encode more information whilst taking up significantly less space.

The smart cards market in Singapore is growing at a stage which is higher than that of Malaysia owing to the wide usage of smart cards for e-cash payments known as EZ-Link. EZ-Link has been used in public transportation as well as for retail purchases. Other smart card applications include the CitySIM, a real time location-based service through the SIM card which allows the retrieval of information such as the location of restaurants, banks and other attractions.

ID cards will continue to play a major role as they are cost effective and have become staples in the retail and commercial segment as loyalty and employee ID cards respectively.

RFID adoption in Singapore is increasing largely due to government support for various RFID initiatives. Companies in Singapore have begun pilots although implementation costs for large-scale deployment still remains a concern. RFID markets in Singapore can be categorized into four key application areas namely security and access control where library applications are the largest users, manufacturing and logistics to drive efficiency in supply chains, transportation which is driven by electronic road pricing implementation and others such as conventions and healthcare where RFID is used to track visitors, patients and staff.

Biometrics system known as Sentinel was introduced by the Singapore government in 2004 at its border check points which links the republic to the neighbouring Malaysian state of Johor to expedite immigration clearance for thousands of Malaysians who commute daily to Singapore for work.

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**12 EXECUTIVE SUMMARY FOR THE INDEPENDENT MARKET RESEARCH REPORT AND THE LETTER THEREON (Cont'd)**


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Table 1 Summary of AIDC market in Malaysia and Singapore

Parameter	Market characteristics (Global)	Market characteristics (Malaysia)	Market characteristics (Singapore)
<b>Level of technology adoption</b>			
Bar codes	Growth	Growth	Growth
RFID	Growth	Introduction	Introduction
Identification (ID) cards	Maturity	Growth	Growth
Smart cards	Growth	Growth	Growth
Biometrics	Growth	Introduction	Introduction
Estimated market size (2008)	USD21 bil <sup>1</sup>	RM630 mil	SGD234.7 mil
Historical growth rate (2007)	15.6%	12.4%	11.0%
Forecast growth rate (CAGR 2008 - 2013)	13.8%	12.6%	11.7%
<b>Market structure</b>	<i>Market profiling was not conducted for the global market</i>	<b>Tier 1</b> - Companies that are authorized distributors of principals  <b>Tier 2</b> - Companies that are authorized resellers of principals  <b>Tier 3</b> - Companies that develop and distribute software (proprietary and non-proprietary) and provide system integration services	
<b>Degree of competition</b>	<i>Market profiling was not conducted for the global market</i>	Low Medium Medium	Medium Low Low
<b>Customer segments</b>	<i>Market profiling was not conducted for the global market</i>	<b>Bar codes</b> Manufacturing, Retail, Others  <b>RFID</b> Government, Manufacturing & Logistics, Security & Access Control, Healthcare, Others  <b>Identification (ID) cards</b> Retail, Banking, Others  <b>Smart cards</b> Government, Banking, Others  <b>Biometrics</b> Government, Banking & Insurance, Others	

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THE LETTER THEREON *(Cont'd)*

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## 2. Substitute products

There are no substitutes for AIDC, as all the integral elements for authentication and identification are covered within the AIDC.

## 3. AIDC market drivers

### 3.1 Bar codes

- **Migration towards GTIN standards:** creation of global standards on bar code
- **Boost for bar codes in biotechnology and pharmaceutical industries:** Mandate by US' Food and Drug Administration (FDA) which requires bar codes on all drugs and blood products.
- **Growing innovative use of bar codes:** Usage of 2D bar code, mobile bar code (bar code SMS) and 3D bar code
- **Low implementation costs:** The cost of high volume bar codes is less than USD0.01 each. However, high volume RFID tags cost around USD0.50 each, and this cost is prohibitive especially for manufacturers of low value products
- **New generation of bar codes introduced:** The next generation of bar codes known as 2D bar code have built-in correction algorithms and have higher storage capabilities.

### 3.2 Radio frequency identification (RFID)

- **Mandates from governments and global retail giants:** Global companies are expected to force suppliers to implement RFID system to enhance efficiency and accuracy in delivery order, thus fuelling growth in the AIDC industry both locally and worldwide.
- **RFID tags and readers are becoming more affordable:** Dropping prices of RFID tags and readers have made RFID technology more reasonable to invest. Early adopters are expected to expand their deployments as new companies are expected to begin spending on RFID, creating growth opportunities for the AIDC industry in Malaysia.
- **Set up of RFID business associations and training programmes:** RFID business association (RFIDba) was set up in Malaysia to contribute to the growth of the RFID market by providing neutral information, education and training on RFID. In general, appreciation of RFID and its benefits can only be possible when the commercial sector has better insights and can relate to real case studies.
- **Security concerns fuels RFID and other AIDC technology deployment:** Key focus for RFID deployment in Malaysia and Singapore is security issues. RFID systems are expected to monitor, track and control entry and exit of goods or persons.

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### 3.3 ID cards

- Retail loyalty programs
- High replacement trends
- High usage in conventions and exhibitions

### 3.4 Smart cards

- **EMV and ATM card migration: Leading card associations:** Europay, Mastercard and Visa (EMV) implemented a common specification for smart card-based debit and credit. EMV specification created a base for interoperability between chip cards and terminals on a global basis and became the global framework for the growth of smart card payment applications.
- **E-cash for low value retail payments becoming popular:** E-cash refers to money which is exchanged electronically and typically involves the use of computer networks or the Internet. In the Asia Pacific region, e-cash systems are already in use in various countries including Malaysia.
- **Public sector chip migration:** Implementations in the public sector are expected to see an upward trend as governments strive to provide services to citizens over networks in order to improve public sector service delivery at reduced costs.
- **Increased usage in mobile phones as SIM cards:** SIM card market has reached the next level of technology revolution with the implementation of 3G technology and other value-added telecommunication services. In this regard, it is expected that there will be a steady demand for high-end SIM cards.
- **Increased usage of smart cards for various applications:** Multipurpose application card is a notable growth driver for the smart card market in this region. Digital television is gaining popularity in the Asia Pacific region and television channels remain as important channels for service delivery and payment transactions.

### 3.5 Biometrics

- **Increased usage for immigration and security purposes:** Existing biometric technologies support personal characteristics such as a person's signature, voice, iris, hand geometry, face and finger print. Biometrics is expected decrease the clearance time of each passenger at immigration checks.
- **Absence of global biometric standards:** Many countries are taking advantage of the low regulation on biometric technology by developing their own standards, and hence this will provides distinctive competitive edge for the growth and development in the biometrics market



#### 4. Barriers to entry

##### 4.1 Bar codes

- **Susceptibility to tampering:** Bar codes are also susceptible to tampering, as the scanners will not be able to read the barcode if it is damaged or soiled

##### 4.2 Radio frequency identification (RFID)

- **High cost of RFID deployment:** The current high cost of RFID equipment and immaturity of the technology has created a debate on whether RFID can provide tangible benefits in return on investment. While the investment in RFID technology can be high, the benefits may not be obvious especially for those dealing with inexpensive goods. RFID technology has received recognition for its benefits such as reduced inventory, better visibility and enhanced labour efficiency but these benefits may not translate to a significant return for participants unless prices of tags and readers drop even further.
- **Physical limitations:** RFID tags are still faced with many physical limitations. The broadcast range is affected by natural factors such as the humidity in the air. Furthermore, radio waves tend to bounce off metals and are absorbed by water at ultra high frequencies. RFID chips which operate on radio waves are also susceptible to wave interference from strong magnetic fields as well as microwaves.
- **Absence of global RFID standards:** Early adopters of RFID technology are therefore at risk of having to repeat the procedure of implementation once there is a globally accepted standard.

##### 4.3 ID cards

- There are no known growth barriers for this segment as it is a very established and widely accepted technology.

##### 4.4 Smart cards

- **Lack of global standards:** There is currently a lack of global standards for contact less smart cards due to the co-existence of multiple protocols.
- **High cost involved in migration exercise:** Cost becomes a major challenge for the ATM and EMV migration exercise. Not only do chip cards cost more than magnetic stripe cards, a migration exercise will typically involve investment on infrastructure which may require updates, new terminals as well as back-end support and solutions.

##### 4.5 Biometrics

- **High cost of biometrics deployment:** Many existing infrastructures will have to be replaced and the basic design of the airports will have to be restructured in order to allow these technologies to work effectively in ensuring security and maximum efficiency.
- **Susceptibility to tampering**
- **Shortcomings of fingerprint biometrics:** The reliability of fingerprint readers are often questioned as there is a limit to the number of fingerprint presses a reader can register. Furthermore, fingerprint devices also require a certain calibration frequency to operate effectively.

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- **Limited applications:** Biometrics technology currently has very limited applications in Malaysia. It is solely used for authentication purposes and has only been implemented for immigration and banking security purposes.

## **5. Critical Success Factors**

### **5.1 Competitive pricing**

The set-up of an AIDC system generally necessitates high investment costs and capital outlay. The DSC Group operates on an ASP model that allows them to maintain ownership over hardware that is kept with the end user and only charge their customers based on repeat sales of consumables. The ASP business model adopted by the DSC Group hence is advantageous to the end user in that the total cost of ownership remains affordable. In addition, AIDC players who are able to offer one-stop solutions in the form of product bundling will have an edge over players who sell AIDC system components separately. Customers who purchase packaged solutions will typically enjoy higher value for money spent as opposed to purchasing AIDC components separately. The DSC Group is a one-stop AIDC solution provider.

### **5.2 Industry experience and technical expertise**

In view of each AIDC technology being unique, technical competence and a good track record is important to ensure business continuity for an AIDC player. Generally, domain expertise acquired over at least 10 years is necessary to ensure success in this industry. Furthermore, making a name in the market requires years of building business relationships and a strong brand name.

### **5.3 Diversified product offerings**

An AIDC player who offers an array of AIDC products and solutions will have a competitive edge over rivals. Customers of AIDC products and solutions typically adopt the technology as they learn to appreciate its benefits which may eventually lead to widespread adoption within an organization or across organizations to involve other business partners. Existing customers may also look at upgrading their existing systems to include other AIDC technologies hence returning to a one-stop service provider who can provide the A to Z of AIDC products and solutions will help the AIDC player gain a stronger foothold in the industry. Again, one-stop AIDC solution providers will have an edge over other AIDC players.

### **5.4 Continuous research and development**

Continuous research and development initiatives to develop new products and solutions are necessary to ensure the business survival of an AIDC player. The DSC Group has set up a dedicated R&D centre under Malaysia's Multimedia Super Corridor.

### **5.5 Wide marketing and distribution network**

In gaining customer confidence and securing high value projects, there is a need to put in place a wide marketing and distribution network. This will help an AIDC player to establish a name in the local market and eventually penetrate other AIDC markets.



## 6. Market Size and growth

### 6.1 Malaysia market size and growth

Malaysia AIDC market will continue to grow due late adoption of AIDC technology, hence in 2008, the market is worth RM630 million representing an increase of 13% from 2007. The AIDC market is expected to grow at slower pace of 8% in 2009 due to economic slowdown and post recession growth rate of 11.4% in 2010. As the economy recover, the forecast CAGR over the next 3 years is 14.7%. This is due to the growing trends to streamline and automate many of the day-to-day processes as well as mandates from the government and retailers. The outlook for the overall AIDC market is promising.

### 6.2 Singapore market size and growth

In 2008, Singapore AIDC market is worth SGD234.7 million representing a 15.8% increase from 2007. In the next 5 years, the market average growth rate is expected to be at a slightly faster pace of 11.5% owing to the growing awareness of AIDC technologies as well as an increased need of companies to adopt AIDC technologies in order to meet global standards.

Table 2 Comparison of AIDC CAGR

Technology	CAGR (%)		
	Global	Malaysia	Singapore
Bar codes	7.1%	12.9%	12.6%
RFID	31.1%	19.9%	12.6%
ID cards	-	12.5%	11.8%
Smart cards	7.8%	11.0%	9.2%
Biometrics	28.5%	15.0%	12.3%
<b>TOTAL</b>	<b>16.0%</b>	<b>12.6%</b>	<b>11.7%</b>

## 7. Competition

In view of the different types of products and solutions currently offered by AIDC players, there is a need to distinguish between players who compete directly with hybrid players such as the DSC Group and those who do not. The DSC Group is a one-stop solution provider who competes in the identification category. Their products and solutions are catered to focused industries and their offerings combine industry-specific functionalities which have the flexibility to accommodate the unique processes of individual companies. In this regard, the only direct competitor for the DSC Group in Malaysia is Grand-Flo who targets similar customer segments in Malaysia and offer proprietary AIDC software solutions in addition to distributing the RF Gen software.

An indirect competitor to the DSC Group is Spartan Peripherals who are authorized resellers of the Intellitrack software but which is sourced from the US. This however, does not qualify Spartan as a one-stop AIDC solution provider but merely a reseller of hardware and non-proprietary software.

In Singapore, the competitors of the DSC Group are Spartan Systems and Mediatech Marketing. Spartan Systems are the authorized distributor of the Intellitrack software while Mediatech Marketing is the authorized reseller of the RF Gen software. Again, the competitive intensity between the DSC Group and these players is low hence the potential to gain market share is high.

In summary, direct competitors to the DSC Group are hybrid Tier 2 and Tier 3 players, targeting the same customer segments as the group and offering competing proprietary software. Hybrid Tier 2 and Tier 3 players who target the same customer segments as the group but offer competing non-proprietary software are considered indirect competitors to the DSC Group.