

10.0 SUMMARY INDEPENDENT BUSINESS MARKET AND RESEARCH CONSULTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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9 SEP 2005

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Assessment of the Lighting Industry Focusing on Sensor Lighting

The following is a summary of the Assessment of the Lighting Industry Focusing on Sensor Lighting in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of IQ Group Holdings Berhad (herein together with all its subsidiaries will be referred to as IQGHB Group) in relation to its proposed listing on the Main Board of Bursa Malaysia Securities Berhad.

1. Background

- The objective of the report is to provide an independent assessment of the Lighting Industry Focusing on Sensor Lighting in Malaysia.
- IQGHB Group is primarily a designer and manufacturer of Passive Infrared (PIR) motion sensor lighting and motion sensors. Other business activities include the sale, marketing and distribution of PIR motion sensor lighting and motion sensors.
- Based on audited accounts for the financial year ended 31 March 2005, IQGHB Group recorded total revenue of RM138.6 million. Export revenue accounted for 99.8% of IQGHB Group's total revenue, while the remaining 0.2% was derived from local markets. The export markets of the Group include the United Kingdom, Japan, France, the United States, Belgium, Germany, New Zealand, Hungary, the Netherlands, Switzerland, Singapore, Mexico, Eire and China.

2. Overview of the Lighting Industry

- The Lighting Industry is a sub-sector of the Consumer Electrical Products Industry, and is under the total umbrella of the Electrical Industry.



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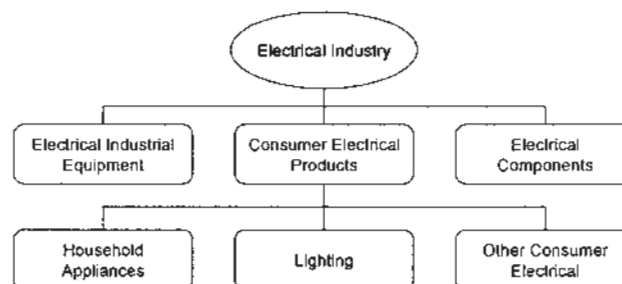
- The Lighting Industry can be segmented into General Lighting, Sensor Lighting, and Other Lighting.
 - In 2004, exports of Consumer Electrical Products (a sub-sector of the Electrical Industry, which includes the Lighting Industry) amounted to RM5.2 billion (Source: Malaysian Industrial Development Authority);
 - Export value of Electrical sound or visual signalling apparatus, other visual signalling apparatus (which included Security Lighting/Sensor Lighting, Standalone PIR Motion Sensors, and PIR Controlled Decorative Outdoor Lighting) increased at an average annual rate of 28.5% between 2000 and 2004. Export value for this category amounted to RM168.2 million in 2004;
 - The export value of Other electric lamps and lighting fittings declined at an average annual rate of 30.9% between 2000 and 2004. Export value for this category reached RM8.9 million in 2004;

(Source: Department of Statistics)
- In addition to its contribution to the nation's foreign exchange earnings, the Consumer Electrical Products Industry also contributes towards employment generation, value-added creation and income generation.

3. Industry Structure

Structure of the Electrical Industry

- The structure of the Electrical Industry is as follows:



Source: Malaysian Industrial Development Authority

Figure 1 Electrical Industry Segmentation

- Electrical Industry is segmented into the following:
 - Electrical Industrial Equipment;
 - Electrical Components;
 - Consumer Electrical Products.



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- Electrical Industrial Equipment comprises the manufacturing of electric motors, generators, electricity transmission or distribution equipment, switchgear, transformer or other electrical machinery and equipment.
- Electrical Components refer to components such as resistors, inductors, conductors and capacitors, cables and wires, batteries and insulators, which do not require power to operate.
- Consumer Electrical Products refer to household appliances, lighting and other consumer electrical products.
- This report focuses on the Consumer Electrical Products sector.

Structure of the Lighting Industry

- The Lighting Industry is further segmented as follows:

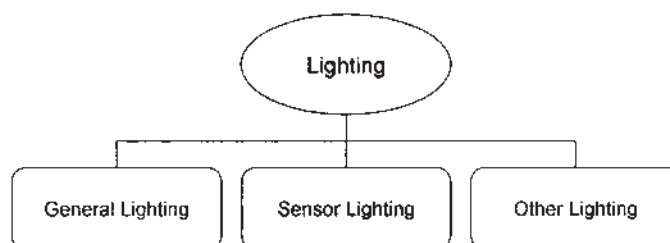


Figure 2 Lighting Industry Segmentation

- General Lighting refers to electrically powered lighting devices that require some form of direct human action to function, for example, the working of a switch or the setting of a timer.
- Sensor Lighting refers to electrically powered lighting devices whose function is automatically determined by the detection of external signals, for example, presence of infrared radiation or sound.
- Other Lighting refers to electrically powered lighting devices whose function is determined by instructions received from remote means, for example through instructions received via the internet or through wireless communications as found in some “smart” home applications.
- IQGHB Group is primarily involved in the manufacture of Sensor Lighting using Passive Infrared Radiation (PIR).



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Vertical Structure of the Lighting Industry

- The vertical structure of the Lighting Industry is illustrated in the figure below:

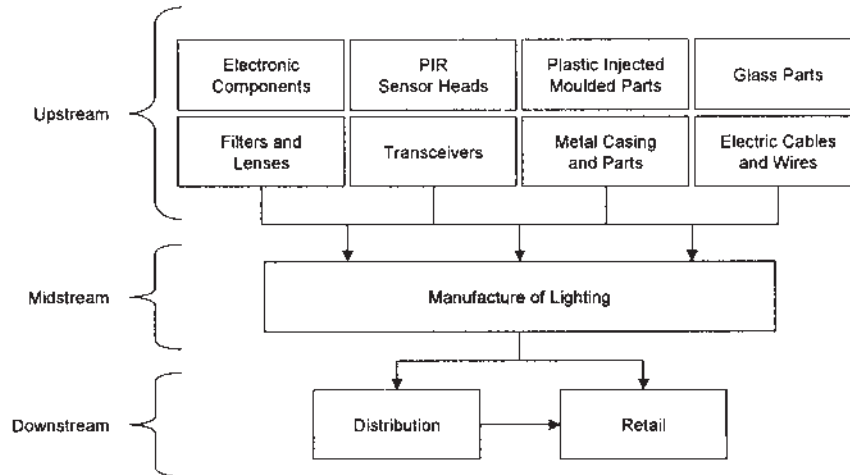


Figure 3 Vertical Structure of the Lighting Industry

- The activities within the Lighting Industry incorporating Sensor Lightings can be segmented into the following categories:
 - Upstream;
 - Midstream;
 - Downstream.

Upstream

- Upstream activities primarily involve the supply of key components that are commonly made by third parties. These could include highly technical components like electronic components, PIR sensor heads, radio wave transceivers, filters, and lenses, and parts like plastic injected moulded parts, metal casing and parts and glass parts.
- In 2004, the ex-factory value for the manufacture of Semiconductors and other electronic components and communication equipment and apparatus amounted to RM110.0 billion (Source: Department of Statistics).

Midstream

- Midstream activities include the manufacturing of General Lighting, PIR Sensor Lighting and PIR Motion Sensors.
- In 2004, there were approximately 77 manufacturers in the Consumer Electrical Products Industry in Malaysia (Source: Malaysian Industrial Development Authority).



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- There are currently two companies engaged in the manufacture of Sensor Lighting and Motion Sensors operating in Malaysia. (Source: Primary market research conducted by Vital Factor Consulting Sdn Bhd)
- IQGHB Group is actively involved in the midstream activities of design and manufacturing of PIR Sensor Lightings and PIR Motion Sensors.

Downstream

- Downstream activities involve distribution and retailing.
- The downstream activities of consumer-based lighting involve distribution and retailing, while downstream activity for Industrial and Commercial Lightings involve only distribution.
- IQGHB Group sells its products to both distributors as well as directly to retailers.

Industry Linkages

- The Lighting Industry has extensive linkages to many industries, as depicted in the diagram below:

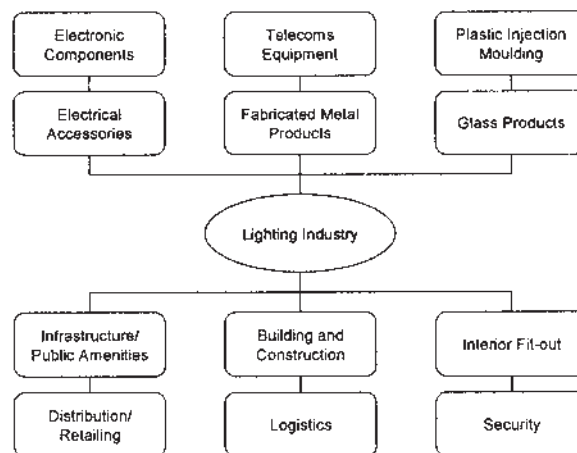


Figure 4 Linkages to the Lighting Industry

- The wide linkages of the Lighting Industry illustrate its contributory role to many other dependent industries.
- As such, the significant role of the Lighting Industry will act as a catalyst for economic activities, employment and creation of wealth for the nation.



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4. Government Legislation, Policies and Incentives

Government Regulations

- Apart from the normal manufacturing licence, there are no material Government laws, regulations and policies that may impede on the performance and growth of operators within a free enterprise environment.
- According to the Industrial Coordination Act, 1975 which mandates all manufacturing companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees to attain a manufacturing licence (*Source: Malaysian Industrial Development Authority*).

Government Incentives

- The major incentives for companies investing in the manufacturing sector are:
 - Pioneer Status and Investment Tax Allowance;
 - Reinvestment Allowance;
 - Import Duty Exemption;
 - Double Tax Deduction;
 - Operational Headquarters Status and Tax Exemption.

Pioneer Status and Investment Tax Allowance

- Eligibility for incentives under Pioneer Status and Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.
- IQ Malaysia (IQM) was granted full Pioneer Status by the Malaysian Industrial Development Authority for the manufacture of "Passive Infrared Detectors & Motion Sensor Light Controllers" on 1 September 1989. The incentive expired on 31 August 1994. No extension related to the manufacture of Passive Infrared Detectors & Motion Sensor Light Controllers has been sought, as IQ Malaysia no longer qualifies for the Pioneer Status and Investment Tax Allowance incentive.
- On 11 April 2005, IQM filed an application for Pioneer Status for the manufacture of Wireless (RF) Video Communication, Wireless (RF) Video Communication With Close Circuit TV (CCTV) Monitoring Capability and Video Doorphone and 'Audio Only' Two-Way DoorPhone. To date, the application is pending a decision from the Malaysian Industrial Development Authority.



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Reinvestment Allowance

- All manufacturing companies that have been in operation for at least 12 months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities can claim a Reinvestment Allowance.
- Eligible manufacturers for Reinvestment Allowance are entitled to the following:
 - The Reinvestment Allowance is 60% of qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.
 - The Reinvestment Allowance will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim upon completion of the qualifying project, for example after the building is completed or when the plant/machinery is put to operational use. Assets acquired for the reinvestment cannot be disposed during two years from the time of reinvestment.

(Source: Malaysian Industrial Development Authority)

- IQGHB Group is currently enjoying the Reinvestment Allowance incentive. This incentive will expire on 31 March 2012.

Import Duty Exemption

- Export-oriented manufacturers operating in Free Trade Zones may be eligible for import duty exemption on components and raw materials that are used in the manufacture of goods that are ultimately exported.
- As an export-oriented manufacturer operating in a Free Trade Zone, IQM is exempted from paying import duties on components and raw materials that are used in the manufacture of goods that are ultimately exported.

Double Tax Deduction

- IQGHB Group was allowed to claim double tax deduction for R&D expenses incurred on certain projects during the financial year ended 31 March 2003 under Section 34A, Income Tax Act 1967 from the Inland Revenue Board Malaysia.



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- As at 1 September 2005, the Group has submitted an application to the Inland Revenue Board Malaysia with respect to a double tax deduction claim under Section 34A, Income Tax Act 1967 with respect to eligible R&D expenses incurred during the financial year ended 31 March 2005. To date, the application is still pending approval from the Inland Revenue Board Malaysia.

Operational Headquarters Status and Tax Exemption

- On 29 August 2005, the Malaysian Industrial Development Authority approved IQGHB Group's application for Operational Headquarters (OHQ) status and OHQ tax exemption under Section 127, Income Tax Act 1967 for a period of 10 years, from the year of assessment 2005 to the year of assessment 2014, for undertaking OHQ activities in Malaysia, which involve the provision of qualifying services to related companies outside Malaysia.
- An approved OHQ refers to a locally incorporated company that carries on a business in Malaysia to provide qualifying services to its offices or related companies within or outside Malaysia (*Source: Malaysian Industrial Development Authority*).
- The Malaysian Industrial Development Authority granted IQGH Group approval for income tax exemption, not exceeding 20% of the total income of the OHQ operations in relation to qualifying service provided to related companies in Malaysia.

5. Environmental Regulations

- Solder dross, which is generated during the course of IQM's manufacturing activities is classified as a Scheduled Waste, "N202, Dross from soldering process" under the Environmental Quality (Scheduled Wastes) Regulations 1989 (*Source: Environmental Quality Act and Regulations*).
- The transport and treatment (including recycling) of scheduled waste solder dross must be undertaken by approved contractors of the Department of Environment (DOE).
- IQM has appointed an approved Contractor to transport and recycle Solder Dross.
- The approved Contractor is licensed by the Department of Environment to carry out the following activities under Section 11 of the Environmental Quality Act, 1974:
 - Offsite storage: collection and transport of Scheduled Waste; and
 - Offsite recycling facility for Scheduled Waste.

6. Supply and Demand Dependencies

- Operators in the Lighting Industry are mainly dependent on the continued availability of various raw materials and components used in the manufacture of finished products.



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- The major raw materials and components used in the manufacture of PIR Sensor Lightings and Motion Sensors are diverse depending on the type of products manufactured under this category.
- However for the purpose of this assessment, the report will focus on the major raw materials and components which includes:
 - Electronic components including semiconductors, capacitors, printed circuit boards and integrated circuits;
 - Motion detectors, halogen lamps and halogen lamp tubes.
- One of the major raw materials for the manufacture of PIR Sensor Lightings and Motion Sensors are electronic components. As Malaysia is a manufacturer of Semiconductors and Electronic Components, most of these raw materials can be sourced locally.
- In 2004, the ex-factory value for the manufacture of Semiconductors and Other Electronic Components and Communication Equipment and Apparatus (hereafter referred to as "Semiconductors" in this section) reached RM110.0 billion.
- Between 2000 and 2004, the import value of Capacitors declined at an average annual rate of 18.4%. In 2004, import value of Capacitors declined by 15.1% to reach RM888.1 million.
- Between 2000 and 2004, the import value of Printed Circuit Board declined at an annual average rate of 5.7%. The import value of Printed Circuit Board declined by 1.8% to reach RM5.0 billion in 2004.
- Between 2000 and 2004, the import value of Halogen Lamps increased at an annual average growth rate of 72.3%. In 2004, the import value of Halogen Lamps declined by 69.7% to reach RM61.0 million.
- Between 2000 and 2004, the import value of Halogen Lamp Tubes declined at an average annual rate of 31.0%. In 2004, the import value of Halogen Lamp Tubes declined by 14.1% to RM111.4 million.
- Between 2000 and 2004, the import value of Integrated Circuits declined by an average annual rate of 1.4%. In 2004, the import value of Integrated Circuits declined by 12.3% to reach RM36.7 billion.
- The import value of Motion Detectors declined at an average annual rate of 17.7% between 2000 and 2004. In 2004, the import value of Motion Detectors declined by 82.9% to reach RM21.1 million.

(Source: Department of Statistics)



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7. Demand and Demand Dependencies

- The demand for PIR Sensor Lighting and Motion Sensors is primarily dependent on the following sectors:
 - Industrial;
 - Commercial, comprising Commercial Complexes and Purpose-build Offices;
 - Residential.
- In addition, demand also comes from both local and overseas markets.
- Residential, Commercial and Industrial Property trends and indicators in Malaysia are as follows:
 - The number of residential units in Malaysia increased at an annual average growth rate of 8.7% between 2000 and 2004. The number of residential units in Malaysia increased by 5.0% in 2004 to reach 3.5 million units;
 - The number of industrial property units in Malaysia increased at an annual average growth rate of 1.3% between 2000 and 2004. The existing stock of industrial property units increased by 1.0% to reach 84,678 units in 2004;
 - Total commercial complex space in Malaysia increased at an annual average growth rate of 6.2% between 2000 and 2004. The existing stock of commercial complex space increased by 4.6% to reach 7.1 million square meters in 2004;
 - The number of shop-house and shop-office units in Malaysia increased at an annual average growth rate of 4.2% between 2000 and 2004. The existing stock of shop-house and shop-office units increased by 3.4% to reach 291,723 units in 2004;
 - Total purpose-built office space in Malaysia increased at an average annual growth rate of 2.8% between 2000 and 2004. The existing stock of purpose-built office space increased by 2.0% to reach 13.5 million square meters in 2004.

(Source: Ministry of Finance Malaysia)

- As the export market accounted for 99.8% of IQGHB Group's revenue for the financial year ended 31 March 2005, the recent economic performance of IQGHB Group's five most important export markets in terms of revenue generated during the financial year ended 31 March 2005 are as follows:
 - Real GDP of the United Kingdom grew at an average annual rate of 2.3% between 2000 and 2004. Real GDP increased by 3.1% in 2004, while Real GDP growth is projected at 2.6% for 2005;



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- Real GDP of Japan grew at an average annual rate of 1.0% between 2000 and 2004. Real GDP growth in Japan was 2.6% in 2004, while Real GDP growth is projected at 0.8% in 2005;
- Real GDP of France grew at an average annual rate of 1.5% between 2000 and 2004. Real GDP growth in France was 2.3% in 2004, while Real GDP growth is projected at 2.0% in 2005;
- Real GDP of the United States increased by an average annual rate of 2.5% between 2000 and 2004. Real GDP growth in the United States was 4.4% in 2004, while Real GDP growth is projected at 3.6% in 2005;
- Real GDP of Belgium increased by an average annual rate of 1.4% between 2000 and 2004. Real GDP growth in Belgium was 2.7% in 2004, while Real GDP growth is projected at 2.1% in 2005.

(Source: International Monetary Fund)

8. Competitive Nature and Intensity

Local Competitive Conditions

- Operators in the Manufacture of Sensor Lighting and Motion Sensors face **normal** competitive conditions.
- As with most free enterprise environments, competition is based on a number of factors, including:
 - Quality products and services
 - Cost competitiveness
 - Prompt delivery schedules
 - Manufacturing capabilities

Global Competitive Conditions

- A large proportion of manufacturers of PIR products are in Taiwan and China.
- China's lower cost of production could create price pressure for PIR product manufacturers.
- However, a major competitive consideration is that PIR products are technologically sophisticated. Thus, there are significant areas of differentiation as follows:
 - Functionality (for example, additional dusk timer);
 - Innovations (for example, placing PIR sensor away from the appliance and using RF for signal transmission);
 - Quality (for example, better handling of nuisance factors).



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- The ability to create tangible product differentiations would effectively mitigate the issue of low pricing.
- Demand for PIR products mainly come from more affluent countries like US, Europe and Japan.
- In addition, PIR products are not mass consumer goods and are commonly sold through hardware, DIY (Do-It-Yourself) and electrical appliances stores. Many of these specialised retail stores are large chain stores.
- One of the critical success factors is marketing to penetrate as many of these specialised retail stores as possible.
- Thus, competition is focused on obtaining shelf space on specialised retail stores in affluent countries.

9. Players in the Industry

- There are two companies engaged in the manufacture of Sensor Lighting and Motion Sensors currently operating in Malaysia. They are as follows:
 - IQGHB Group;
 - RL Manufacturing Sdn Bhd (a subsidiary of Cooper Industries, Inc.).

(Source: Primary market research conducted by Vital Factor Consulting Sdn Bhd)

- As IQGHB Group is primarily export-oriented, local competitive conditions do not have a major impact on its business.
- Some of the manufacturers of Sensor Lighting and Motion Sensors include:
 - Cooper Industries, Inc./Regent Lighting (US)
 - Desa International Inc./Heath Zenith (US)
 - Protection Technologies Inc. (US)
 - Matsushita Electric Works (Japan)
 - Clipsal Integrated Systems Pty Ltd (Australia)
 - Steinel Vertriebs GmbH & Co. (Germany)
 - Ansen Electronics Company (Hong Kong)
 - Everspring Industry Co. Ltd (Taiwan)
 - Aurum Electronics Corporation (Taiwan)
 - Aurex Industries Inc. (Taiwan)
 - Nuzon Technology Inc. (Taiwan)
 - Wellmike Enterprise (Taiwan)
 - Class Technology Co. Ltd (Taiwan)
 - Huaning International Technical and Trading Corporation (China)
 - Colite Enterprises Co. Ltd (China)
 - Cixi Maste Electronic Technology Co. Ltd (China)



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- CSI Lighting Company (China)
- Aucan Industrial Development Corporation (China).

(Source: Primary market research undertaken by Vital Factor Consulting Sdn Bhd)

10. Industry Outlook and Lifecycle

- The outlook of the Consumer Electrical Products Industry is **favourable**.
- The Consumer Electrical Products Industry is forecasted to grow by approximately 5% per annum for the next five years.
- The following factors and observations in local production, imports and export performances provide support for the growth forecast.

Local Production

- Between 2000 and 2004, the Electrical Products production index declined at an average annual rate of 6.1%. In 2004, the production index of Electrical Products decreased by 9.4% to 133.3 (*Source: Bank Negara Malaysia*);

Exports

- Between 2000 and 2004, the export value of "Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms), other than those of heading No. 85.12 or 85.30, Other apparatus: Visual signalling" increased at an average annual rate of 28.5%. (*Source: Department of Statistics*);
- In 2004, exports of Electrical Products (including Consumer Electrical products) continue to be a major export earner, increasing at an annual rate of 28.4% to RM17.2 billion (*Source: Malaysian Industrial Development Authority*);
- In 2004, the export value of the Electric Consumer Products Industry increased at an annual rate of 52.9% to RM5.2 billion. Exports of the Electrical Consumer Products Industry accounted for 30.2% of the total Electrical Products Industry's exports for that year. (*Source: Malaysian Industrial Development Authority*).



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Imports

- Between 2000 and 2004, the import value of “Electric sound or visual signalling apparatus (for example, bells, sirens, indicator panels, burglar or fire alarms), other than those of heading No. 85.12 or 85.30, Other apparatus: Visual signalling” declined at an average annual rate of 17.7%. In 2004, the import value of Electrical Visual Signalling Apparatus declined by 82.9% to reach RM21.1 million (*Source: Department of Statistics*).
- In 2004, imports of Electrical Products (including Consumer Electrical products) amounted to RM15.2 billion (*Source: Malaysian Industrial Development Authority*).

11. Areas of Growth and Opportunities

Creation of Original Design and Brand Manufacturing

- In line with the Malaysia Government’s intention to nurture the development of locally manufactured brands, there are opportunities to be an Original Design and Brand Manufacturer of Consumer Electrical Products including Sensor Lighting.
- The creation of original brands will enable manufacturers to reduce dependencies on brand owners. More importantly, this strategy will help manufacturers to command premium pricing to increase their profit margins.
- IQGHB Group has begun brand development though the branding of a proportion of the Group’s products with the “IQ-group” brand.

New Export Markets

- Generally, the Malaysian market is too small to absorb most of the outputs from manufacturers. As such, exports are inevitable for manufacturers to expand.
- Operators that can serve various markets will have increased areas of opportunities for growth as well as diversify risks of dependency on any one single market.

Product Innovation

- There are significant opportunities for product innovation. This is because of the wide array of technologies that may be used and integrated with a variety of devices to address new markets.



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- Some of the available technologies include:
 - PIR motion sensors;
 - Radio frequency transmitters/receivers
 - Microwave transmitters/receivers
 - Sonic detectors
 - Vibration detectors
 - Laser.

- Some of the innovative products that utilise a number of technologies include, among many others, the following:
 - Sensor lights with alarm or door chime;
 - Intelligent Home Security System
 - Remote Monitoring System.

12. Threats and Risk Analysis

Competition from Imports

- According to Malaysian Industrial Development Authority, Malaysia is a net importer of electrical products. However, Malaysia is a net exporter of Consumer Electrical Products. In 2003, import value of Consumer Electrical Products was RM896 million, while export value was RM3.4 billion. Net exports totalled approximately RM2.5 billion (Source: Malaysian Industrial Development Authority).

- Some of the major import countries of Electrical visual signalling apparatus in 2004 were Japan, the United States, China, Brazil, and Taiwan (Source: Department of Statistics)

Mitigating Factors

- Malaysia's position as a net exporter of Consumer Electrical Products in 2003 indicates that local manufacturers are currently competitive on a global basis. In addition, the Government has identified the Consumer Electronic Products industry as one of the areas of growth and development.

- As such, electrical products that incorporate electronics would have significantly higher value adding.

- In addition, export value of Consumer Electrical Products increased from RM3.4 billion in 2003 to RM5.2 billion in 2004. This suggests that the global competitiveness of Malaysian exporters did not decrease.



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- In recognition of the growth opportunities, various incentives have been given to manufacturers of Consumer Electronic Products or Parts, including PIR Detectors and Motion Sensor Light Controllers including:
 - Pioneer Status
 - Investment Tax Allowance
 - Reinvestment Allowance

In addition to the Government incentives, operators that are able to provide value-adding, undertake research and development, and customise products to meet the requirements of customers would be in a stronger position to sustain business growth and minimise competitive threats.

- IQGHB Group was granted full Pioneer Status for the manufacture Passive Infrared Detectors and Motion Sensor Light Controllers in 1989. The Group's status has since expired.

Downturn in the Local and Global Economies

- In 2003, the war in Iraq and the outbreak of the Severe Acute Respiratory Syndrome (SARS) have aggravated the global economic situation. The economy of the world and in particular, the United States has been increasingly volatile.
- Inadvertently, the volatile global economy will also have some impact on local economy. Hence, any downturn in the local and global economies will affect the demand for Consumer Electrical Products.

Mitigating Factor

- The Malaysian Government's pro-active policies in mitigating the negative impact of a global economic downturn through stimulus packages to boost domestic spending and demand have been successful in countering a slowdown in the local economy.

Foreign Exchange Risk

- Many of the raw materials for the Lighting Industry in general and the sensor Lighting sector in particular rely on imports. In addition, many of the manufacturer products are exported.
- On 21 July 2005, Bank Negara Malaysia announced that with immediate effect the exchange rate of the Ringgit will be allowed to operate on a managed float, with its value determined by economic fundamentals (*Source: Bank Negara Malaysia*).
- As such, fluctuations in foreign exchange rates will have an impact on the prices of imported raw materials as well as export earnings.



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Mitigating Factors

- Bank Negara Malaysia will monitor the exchange rate against trade-weighted index of Malaysia's major trading partners. Promoting stability of the exchange rate continues to be a primary objective of policy (*Source: Bank Negara Malaysia*).
- IQGHB Group places a proportion of its export proceeds in multi-currency bank accounts to facilitate payments in the corresponding foreign currency.

Implementation of Asean Free Trade Area (AFTA)

- The reduction of import duties to 0% to 5% with the implementation of AFTA through Common Effective Preferential Tariff (CEPT) would make imports very competitive against locally manufactured products within the Lighting Industry including the Sensor Lighting Sector.
- CEPT is the mechanism by which tariffs on goods traded within the Asean region, which meet a 40% Asean content requirement has been subjected to a reduction of the above-mentioned range of tariff since 2003 (2006 for Vietnam, 2008 for Laos and Myanmar).
- AFTA will have an impact on local manufacturers as imports compete at the same level with zero or minimal import duties.

Mitigating Factors

- AFTA has minimum impact on IQGHB Group as almost all its products are exported.
- The following mitigating factors apply to manufacturers that focus primarily on the local market.
- New entrants into the Malaysian market upon the implementation of AFTA need to invest significant effort and time to develop and market their products to gain acceptance from local consumers. This provides some advantages to existing local players at least in the short to medium term.
- Local players with a strong market reputation, established track record, product development capabilities, large and diverse customer base and consistent product quality are in a better position to face the increased competitive pressure from potentially new players in the market.

Availability of Raw Materials

- Manufacturers are dependent on the availability of raw materials in the production of Consumer Electrical Products such as Sensor Lighting products. Any interruptions in supply of these raw materials may impact on the operations of manufacturers.



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- The major raw materials used in the manufacturing of Sensor Lighting include electronic components:
 - motion detectors
 - capacitors
 - resistors
 - printed circuit boards
 - halogen lamps/tubes
 - integrated circuits.
- Although Malaysia has an active electronics manufacturing industry, some of these raw materials, in particular specialised electronic components may not be readily available in Malaysia. Therefore some of the electronic components such as sensor components and Application Specific Integrated Circuits (ASIC) may have to be imported.

Mitigating Factors

- As electronic components including components such as motion detectors, capacitors, resistors, printed circuit boards, halogen lamps/tubes, and integrated circuits can be sourced from numerous countries overseas, the probability of shortages in these types of materials are minimised.
- Malaysia also produces a significant amount of semiconductors. The ex-factory sales value for the manufacture of Semiconductors increased by 9.6% in 2004 to reach RM110.0 billion. Between 2000 and 2004, the ex-factory sales value for the manufacture of Semiconductors declined at an annual rate of 0.9% (Source: Department of Statistics).

13. Threat of Substitutes

- Substitutes to PIR Motion Sensor technology-enabled lighting equipment such as PIR Security Lighting and PIR Decorative Outdoor Lighting include:
 - General Lighting;
 - Timer Controlled Lighting;
 - Lighting utilising alternative detection technology.

General Lighting

- General Lighting refers to light fixtures that are manually operated through on/off switches.
- Currently the bulk of lighting for commercial and industrial applications, public amenities and households are general lighting. These are popular as that they are cost-effective, easy to install, widely available and require very little maintenance.



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- General Lighting is not a substitute for Sensor Lighting per se, but rather the default lighting for all lighting applications.
- However, the advantages of PIR Sensor Lighting over General Lighting are as follows:
 - convenience to users;
 - provides security;
 - offers operating cost-savings where illumination is provided only when it is required.

Timer Controlled Lighting

- Timer controlled lighting refers to light fixtures which rely on the action of a timing device to control the fixture's illumination function.
- Timer controlled lighting can be set so as to provide illumination at pre-determined periods, for example during the hours of darkness.
- Although Timer controlled lighting may substitute for PIR Sensor Lighting, it loses out significantly in terms of functionality.

Alternative Detection Technology

- Motion sensors may employ a number of alternative detection technologies, such as Audio detection, Microwave detectors and Infrared cameras.
- Audio detectors rely on the detection of sound to control lighting fixture function. Audio detectors are generally non-discriminatory, as a relatively loud noise originating from a relatively long distance away from the detector may also trigger lighting fixture illumination.
- Microwave detectors are active detectors, in that they rely on the reflection of signals generated by the detector for presence detection. Microwave detectors are generally more expensive than PIR Motion Sensors of the same capability, and as such are not as suited for wide use targeted at consumer users.
- Infrared camera detectors rely on recognition of infrared images captured by an infrared camera for their function. While these systems are effective, they are currently expensive and as such are not as suited for wide use targeted at consumer users.



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14. Output Share

- In 2004, the estimated output value for the Manufacture of Sensor Lighting in Malaysia, based on production output is approximately **RM95 million** (Source: Primary market research conducted by Vital Factor Consulting Sdn Bhd).
- In 2004, the market share of IQGHB Group for the Manufacture of Sensor Lighting in Malaysia based on output value is estimated at **76%**.

15. Output Ranking

- Based on the Group's estimated output share of 76% for the Manufacture of Sensor Lighting in Malaysia in 2004, IQGHB Group is ranked **First** among manufacturers of Sensor Lighting operating in Malaysia (Source: Primary market research conducted by Vital Factor Consulting Sdn Bhd).

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

11.0 DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



IQ Group Holdings Berhad (636944-U)
149 Jalan Sultan Azlan Shah
Taman Perindustrian Bayan Lepas
Fasa 1 (FTZ), Bayan Lepas
11900 Pulau Pinang, Malaysia
tel: 604-644 6677
fax: 604-644 9677
web: www.iq-group.com

Registered Office:
3rd Floor, Wisma Wang
251-A, Jalan Burma
10350 Penang

9 SEP 2005

The Shareholders
IQ Group Holdings Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of IQ Group Holdings Berhad ("IQGHB" or the "Company"), I report, after due inquiry that during the period from 31 March 2005 (being the date to which the last audited financial statements of the Company and its subsidiary companies have been made up) to the date hereof (being a date not earlier than fourteen (14) days before the issue of the Prospectus), that:-

- (a) the business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary companies which have materially affected the business and operations or the value of the assets of the Company or any of its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities by reason of any guarantee or indemnity given by the Company or any of its subsidiary companies;
- (e) there has been no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of, since the last audited financial statements of the Company and its subsidiary companies; and
- (f) there have been no material changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully,

For and on behalf of the Board of
IQ GROUP HOLDINGS BERHAD

Graham Arthur Clancy
Managing Director

12.0 FOREIGN EXPERTS' REPORTS

(Prepared for inclusion in this Prospectus)

GuangDong ZhongJian Development Law Firm
4/F Guancheng Administration Centre, 191,
DongchengWest R.D Dongguan Guangdong P.R.C,
TEL:+86-769-2322961 FAX:+86-769-2322929
22 Aug ,2005

Board of Directors
IQ Group Holdings Berhad
3rd Floor, Wisma Wang
251-A, Jalan Burma
10350 Penang
Malaysia.



Dear Sirs:

**RE:FOREIGN INVESTMENT AND THE REPATRIATION OF PROFITS UNDER
THE LAWS OF PEOPLE'S REPUBLIC OF CHINA AND LEGAL OWNERSHIP AND
ENFORCEABILITY OF MATERIAL AGREEMENT**

We have been instructed to provide our comments on the following information:

- (1) Chinese policies on foreign investments and repatriation of profits .
- (2) The ownership of title to the shares in Dongguan ZhongJia Electronic Co.,Ltd("IQC")in China and whether the ownership by IQ Group Holdings Berhad ("IQGHB") violates any law of general application in China.
- (3) Legal opinion from foreign due diligence solicitors to confirm that after conducting due enquiries, the enforceability of material agreements subsisting as at to-date which would have a material effect on the foreign subsidiaries should such agreements be terminated by the foreign counter-parties. Such agreements include long term supply contract, long term sales contract, joint venture agreements, distributorship/agency agreements, business alliance agreements, dealerships agreements, etc.

我们受托提供以下信息:

- (1) 中国对外商投资企业利润分配政策。
- (2) 确认(马来西亚)春迅集团有限公司简称"IQGHB"拥有东莞中嘉电子有限公司简称"IQC"的股权以及此所有权由 IQGHB 拥有是否违反中国的相关法律。
- (3) 确认 IQC 是否存在主要合约或协议将会终止, 如果终止将会产生怎样的影响。这些协议包括长期供应协议、长期销售协议、合资协议、分销/代理协议、生意合作协议、中间商协议等。

1.Foreign Investments and Repatriation of Profits Policies

In China, The profit of wholly foreign-owned enterprise after payment of income taxes according to the tax law of China shall be allocated for reserve funds, bonuses and welfare funds for staff and workers. The proportion of allocations for reserve funds

12.0 FOREIGN EXPERTS' REPORTS (cont'd)

shall be no less than 10% of the profit after tax until the accumulative amount allocation for reserve funds reach 50% of the the registered capital of IQC, and then no more allocation may be made.

The proportion of allocations for welfare funds and bonuses for staff and workers shall be decided by the board of directors . No profit shall be distributed unless the losses suffered by a wholly foreign-owned enterprise from the previous accounting years are recovered;the profit retained by the enterprise and carried over from the previous accounting years may be distributed together with the distributable profit of the current accounting years.

IQGHB may remit abroad of China its lawful profits.China practices a exchange control policy in the remittance of profits and dividends abroad. Currency exchange shall be approval by State Adinistration of Foreign Exchange for any payment, remittance or transfers of dividends from IQC.

在中国，外资企业的利润应按中国的税法规定，缴纳企业所得税。依据法律，税后的利润应当计提储备基金和职工福利及奖励基金，储备基金的计提比例不得低于税后利润的 10%，当储备基金的累计金额达到注册资本的 50%时，可不再提取；职工福利及奖励基金的计提比例由董事会决定。外资企业以前会计年度的亏损未弥补前，不得分配利润；以前会计年度未分配的利润，可与本会计年度可分配的利润一并分配。

IQGHB 可以汇出其合法利润。中国实施的是外汇管制政策。从 IQC 取得的股息的支付、汇出、转让应取得国家外汇管理局的同意批准。



2. Title of Shares

Based on the documents perused by us, we affirm that IQGHB("the shareholders") is the registered owners of the shares in IQC. The ownership by IQ Group Holdings Berhad("IQGHB") doesn't violates any law of general application in Chinese.

根据我们的文件，我们确认 IQGHB 是 IQC 的合法股东，IQGHB 持有 IQC 股权不违反中国的法律。

3. Enforceability of Sale and Purchase Agreement.

There is no such material agreements as at todote.

至今为止，IQC 没有主要协议。

Please do not hesitate to contact me if you need further clarifications on this matter.

Sincerely



12.0 FOREIGN EXPERTS' REPORTS (cont'd)

(Prepared for inclusion in this Prospectus)



McCombie & Co.
Business Solicitors

The Old Chapel
43 Westfield Road Leeds LS3 1NQ
Tel 0113 245 2600 Fax 0113 246 9240
DX No. 716927 Leeds 39

Board of Directors
IQ Group Holdings Berhad
3rd Floor Wisma Wang
251-A Jalan Burma
10350, Penang
Malaysia

Your ref:

Our ref: AYS.IQEU0001-1

Date: 22 August 2005

e-mail: alexstewart@mccombie.co.uk

Dear Sirs

Legal and Beneficial Ownership and Enforceability of Material Agreements and Foreign Investments and Repatriation of Profits under the Laws of the United Kingdom.

We have been instructed to provide our comments on the following information:

- (1) The legal and beneficial ownership of shares in IQ Europe Ltd ("IQE") held by IQ Group Holdings Berhad ("IQGHB") and whether the ownership violates any law applicable in the United Kingdom.
- (2) The enforceability of material agreements (including long term supply contracts, long term sales contracts, joint venture agreements, distributorship, agency agreements and business alliance agreements) subsisting as at the date of this letter which would have a material effect on IQE should such agreements be terminated otherwise than by IQE
- (3) Dividend Policies
- (4) Foreign investments and declaration of profits

(1) Legal and beneficial ownership of shares

Details of the shares in IQE transferred to IQGHB are as follows:

Transferor	Transferee	No. of Shares Transferred	Date of Transfer	Date of Authorisation (Board Resolution)
IQ Group Sdn. Bhd. (formerly known as Interquartz (Malaysia) Berhad)	IQ Group Holdings Berhad	150,000	26.04.2005	26.04.2005

Principal: Ian McCombie LLB (hons)
 Managing Director: Pauline McCombie LLM BSc (hons) PGCE (dist) Dip Law Man (dist) MCMI
 Assistant Solicitors: Azher Guyoom BA (hons) George Petrie LLB (hons) Rachael Simpson BA (hons) Leon Greenstone LLB (hons)
 Consultants: Gary Caplan BA (hons) Ken Dickinson LLB (hons)
 Commercial Paralegal: Alex Stewart LLB (hons)
 Regulated by the Law Society



www.mccombie.co.uk

12.0 FOREIGN EXPERTS' REPORTS (cont'd)

2

This information is supported by documents verifying the issuance and allotment of shares, copies of the relevant authorizations, statutory filings and transfer forms (or the Register of Transfers).

The allotment and issuance of the shares to the persons listed above were duly authorized and in order. The transfer of shares by the above named transferors to the above named transferees were duly authorized and in order. The persons listed above are the legal and beneficial owners of the number and class of shares as stated in the tables.

(2) Enforceability of material agreements

Based on the documentation supplied by IQE, we confirm that there are no material agreements or contracts subsisting as at the date of this letter which would have a material effect of IQE should such agreements be terminated otherwise than by IQE. In making this statement we have relied upon the information provided by IQE and therefore cannot be held responsible for any inaccuracy contained in this statement.

(3) Dividend Policies

IQGHB own 100% of the issued share capital in IQE and IQGHB, through its appointed directors of IQE, is able to determine the dividend policies of IQE.

Based on the information and documentation supplied to us by IQE we confirm the following:

- The adopted dividend policies can be changed at any time by the directors. Any proposed dividend policies are not legally binding until they are approved and authorised by the shareholders.
- Any dividends declared by the directors are subject to ratification and approval by the shareholders of IQE. Payment of such dividends can be legally enforced only after they have been properly approved and authorised by the shareholders.
- Dividends can be declared and paid only out of distributable reserves and can not be paid out of other company resources (such as share capital and non-distributable reserves).

(4) Foreign Investments and Declaration of Profits

Based on the information and documentation supplied to us by IQE, we confirm that the declaration of dividends or repatriation of profits by IQE is not subject to any current exchange approval in the UK and no exchange control approval is required for payment or remittance or transfers of dividends from IQE to IQGHB.

Yours faithfully



McCombie & Co

12.0 FOREIGN EXPERTS' REPORTS (cont'd)

(Prepared for inclusion in this Prospectus)



MIDOSUJI LEGAL PROFESSION CORPORATION
ATTORNEYS AT LAW

<OSAKA OFFICE>

OSAKA TOYOTA BUILDING SUITE 208
4-3-11 MINAMISEMBA, CHUO-KU, OSAKA, JAPAN

TEL: 81-6-6251-7266
FAX: 81-6-6245-5520

22 August, 2005

Board Of Directors

IQ Group Holdings Berhad

3rd Floor, Wisma Wang,

251-A, Jalan Burma,

10350 Penang,

Malaysia

BY FAX/POST

Re : LEGAL AND BENEFICIAL OWNERSHIP AND ENFORCEABILITY OF MATERIAL
AGREEMENT

Dear Sirs:

We have been instructed to provide our comments on the following information:

- (1) the ownership of title to the shares in IQ Japan Co., Ltd. ("IQJ") in Japan; and
- (2) the enforceability of the material agreements
- (3) the policies on foreign investment and repatriation of profits

1. Title of Shares

Based on the documents perused by us, including Share Subscription Form and Share Transfer Agreement received from IQJ, we are of the opinion that IQ Group Holdings Berhad is the registered owner of the shares in IQJ. Acquirement of the shares of Japanese companies by foreign investors corresponds to "foreign direct investment in Japan" and regulated by the Foreign Exchange and Foreign Trade Control Law. It is deregulated in most industries, and in principle, the submission of ex post facto notification to the Minister of Finance and the Minister(s) with authority over a particular industry is sufficient, which is also the case in the industry IQJ. The relevant report has already been submitted by IQJ. The ownership by IQ Group Holdings Berhad does not violate any law in Japan.



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ATTORNEYS AT LAW

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TEL: 81-6-6251-7266
FAX: 81-6-6245-5520

2. Enforceability of the Material Agreements

We have confirmed with Representative of IQJ that it has Sales Agreements with six (6) different companies respectively, and that none of the six agreements would have a material effect on IQJ should such agreements be terminated by the counter-parties.

To this effect, we conclude that there is no material agreement as at to date, which would have a material effect on IQJ should such agreements be terminated by the counter-party.

3. Policies on Foreign Investment and Repatriation of Profits

We understand that IQ Group Holdings Berhad (IQGHB), which is incorporated under the laws of Malaysia, is expected to list its shares on the Main Board of the Bursa Malaysia Securities Berhad. We have been requested by IQGHB to advise on the policies on foreign investments and repatriation of profits of Japan with respect to its Japan subsidiary, IQ Japan Co., Ltd.

Regarding the foreign investments in Japanese companies, generally there are no restrictions on foreign ownership of Japanese companies, with the exception of companies operating in certain sectors such as:

- (a) Agriculture
- (b) Forestry
- (c) Fisheries
- (d) Petroleum
- (e) Utilities
- (f) Aerospace
- (g) Defense
- (h) Telecommunications
- (i) Aviation
- (j) Maritime transport
- (k) Leather manufacturing

Under the Foreign Exchange and Foreign Trade Law, foreign companies seeking to invest in these sectors are required to notify the Ministry of Finance and other relevant ministries in advance. The Japanese government retains the right to restrict foreign investment in these sectors if it determines that it would seriously and adversely affect the smooth performance of the national economy.



MIDOSUJI LEGAL PROFESSION CORPORATION
ATTORNEYS AT LAW

<OSAKA OFFICE>

OSAKA TOYOTA BUILDING SUITE 208
4-3-11 MINAMISEMBA, CHUO-KU, OSAKA, JAPAN

TEL: 81-6-6251-7266
FAX: 81-6-6245-5520

Regarding the repatriation of profits, generally there are few foreign exchange controls in Japan. Accordingly, there are generally few restrictions on the repatriation of profits whether in the form of dividends or interest by a Japanese company to its holding company incorporated in Malaysia. In case the amount to be repatriated exceeds 30 million yen or its equivalent, ex post facto information reporting to the Bank of Japan is required.

The payments of dividends and interest are subject to withholding tax. Withholding tax rates are determined by the Malaysia-Japan tax treaty.

Yours faithfully,

Munekazu Kontani

Attorney at Law

Midosuji Legal Profession Corporation

12.0 FOREIGN EXPERTS' REPORTS *(cont'd)*

(Prepared for inclusion in this Prospectus)



Your Ref :

Our Ref: 53.002-LH

22 August 2005

The Board of Directors
IQ Group Holdings Berhad
3rd Floor, Wisma Wang
251-A, Jalan Burma
10350 Penang
Malaysia

Dear Sirs

IQ Group Limited

1. We are lawyers qualified to practice and practising in the British Virgin Islands and have been asked to advise in connection with IQ Group Limited (the "**Company**"), an International Business Company ("**IBC**") incorporated under the International Business Companies Act (Cap. 291) (the "**Act**").
2. For the purpose of this opinion, we have examined originals, facsimile or electronic copies or copies certified to our satisfaction of the following:
 - (a) the Memorandum and Articles of Association and Certificate of Incorporation of the Company provided by Caribbean Corporate Services Limited (the "**Registered Agent**") on 19 August 2005;
 - (b) the public records of the Company available for inspection at the British Virgin Islands Registry of Corporate Affairs (the "**Registry**") on 22 August 2005;
 - (c) the records of proceedings available for inspection at the High Court of Justice of the British Virgin Islands on 22 August 2005;
 - (d) a certificate of incumbency in respect of the Company dated 19 August 2005 issued by the Registered Agent; and
 - (e) an undated letter of confirmation from the sole director of the Company.

12.0 FOREIGN EXPERTS' REPORTS (cont'd)

3. For the purposes of this opinion we have assumed, without further inquiry:
 - (i) the genuineness of all signatures and seals, the conformity to originals of all documents purporting to be copies of the originals, the authenticity of the originals of such documents and the accuracy and completeness of all factual representations made in all documents we have inspected, including the confirmation of the director;
 - (ii) that the public records which we have examined are accurate, that the information disclosed by the search which we conducted is true and complete and that such information has not been altered. Further, we assume that the search did not fail to disclose any information which had been delivered for filing but which did not appear on the Company's file at the Registry at the date of our search; and
 - (iii) that the confirmation of the director is current as at the date of this opinion and has not been altered or rescinded.

4. It should be noted that a search conducted at the Registry is limited in respect of the information it produces. There is no requirement under the Act for an IBC to file at the Registry information regarding mortgages or charges created by it. In addition, a search may not determine conclusively whether or not an order has been made or a resolution has been passed for the winding up of a company or for the appointment of a receiver over a company or any of its assets. In fact, failure to file notice of the appointment of a receiver does not invalidate the receivership but merely gives rise to penalties on the part of the receiver.

5. Based upon and subject to the foregoing, we are of the opinion that as at the date hereof:
 - (a) The declaration of funds or repatriation of profits by the Company is not subject to any currency exchange control approval in the British Virgin Islands.
 - (b) No exchange control approval is required for any payment, remittance or transfers of dividends from the Company.
 - (c) All amounts payable by the Company as dividends or repatriation of profits may be made free and clear of, and without deduction for, or on account of, any taxes imposed, assessed or levied in the British Virgin Islands or any authority thereof or therein.
 - (d) The registered owner of the shares in the Company is IQ Group Holdings Berhad.
 - (e) To the best of our knowledge the ownership of shares in the Company by IQ Group Holdings Berhad does not contravene any laws in the British Virgin Islands.
 - (f) To the best of our knowledge and on the basis of the director's confirmation referred to in paragraph 2(e) above, the Company has not entered into any agreements to date which would have a material effect on the Company should such agreement be terminated by counterparties.

12.0 FOREIGN EXPERTS' REPORTS *(cont'd)*

6. This opinion is confined to and given on the basis of the laws of the British Virgin Islands as they are in force at the date of this opinion. We have made no investigation of and express no opinion on the laws of any other jurisdiction.

Yours faithfully

HUNTE & CO. LAW CHAMBERS

Hunte & Co. Law Chambers