

1. CORPORATE DIRECTORY

BOARD OF DIRECTORS

Name / Designation	Address	Occupation	Nationality
Dato' Yeong Kok Hee (Independent Non-Executive Chairman)	No.8, Jalan Indah 1/9 Taman Universiti Indah 43300 Seri Kembangan Selangor Darul Ehsan	Company Director	Malaysian
Wong Fook Choy (Executive Director / Chief Executive Officer)	No.16, Jalan 6/149L Bandar Baru Seri Petaling 57000 Kuala Lumpur	Company Director	Malaysian
Choy Swee Lan (Executive Director)	No.24, Pesiaran Rishah 8 Taman Rishah 30100 Ipoh Perak Darul Ridzuan	Company Director	Malaysian
Wong Fook Lin (Executive Director)	No.6, Jalan 6/149L Bandar Baru Seri Petaling 57000 Kuala Lumpur	Company Director	Malaysian
Kam Yee Lam (Executive Director)	No.14, Jalan Ng Song Teik Taman Pertama 30100 Ipoh Perak Darul Ridzuan	Chief Technology Officer	Malaysian
Khoo Ming Koong (Independent Non-Executive Director)	No.12, Lorong Mengkuang 41400 Klang Selangor Darul Ehsan	Chartered Accountant	Malaysian

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Yeong Kok Hee	Chairman	Independent Non-Executive Chairman
Wong Fook Lin	Member	Executive Director
Khoo Ming Koong	Member	Independent Non-Executive Director

- COMPANY SECRETARIES** : Ooi Seok Peng (MAICSA No.7007747)
No.71, Jalan Wawasan 3/11
Pusat Bandar Puchong
47100 Puchong
Selangor Darul Ehsan
Telephone No.: 03 – 7725 8332
Facsimile No.: 03 – 7725 8330
- Tan Yen Nee (MAICSA No. 7026045)
No.906, 8th Floor, Sri Mayang Apartment
Jalan SS25/41 Taman Mayang
47301 Petaling Jaya
Selangor Darul Ehsan
Telephone No.: 03 – 7725 8332
Facsimile No.: 03 – 7725 8330
- REGISTERED OFFICE** : No.12M, Jalan SS21/58
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan
Telephone No.: 03 – 7725 8332
Facsimile No.: 03 – 7725 8330
- HEAD OFFICE** Lots 37 & 39, Lengkok Rishah 2
Kawasan Perindustrian Silibin
30100 Ipoh
Perak Darul Ridzuan
Telephone No.: 05 – 528 3041
Facsimile No.: 05 – 528 3173
Email: office@esceramics.com.my
Website: www.esceramics.com.my
- REGISTRAR** : Epsilon Registration Services Sdn Bhd (629261-T)
312, 3rd Floor
Block C, Kelana Square
No.17, Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
Telephone No.: 03 – 7806 2116; 7803 1126
Facsimile No.: 03 – 7806 1261
- PRINCIPAL BANKER** : Southern Bank Berhad (5303-W)
Ground Floor, Plaza Teh Teng Seng
No.227, Jalan Kampar
30250 Ipoh
Perak Darul Ridzuan
Telephone No.: 05 – 255 5451
Facsimile No.: 05 – 253 0154
- AUDITORS AND REPORTING ACCOUNTANTS** : Lim Chen & Co (AF1476)
Chartered Accountants
No.109, 1st Floor
Block C, Damansara Intan
No.1, Jalan SS20/27
47400 Petaling Jaya
Selangor Darul Ehsan
Telephone No.: 03 – 7729 2381 / 85
Facsimile No.: 03 – 7729 2389

- SOLICITORS FOR THE LISTING** : Jeff Leong, Poon & Wong
A-11-3A, Level 11
Megan Avenue II
Jalan Yap Kwan Seng
50450 Kuala Lumpur
Telephone No.: 03 – 2166 3225
Facsimile No.: 03 – 2166 3227
- ADVISER, SPONSOR AND
MANAGING UNDERWRITER** : AmMerchant Bank Berhad (23742-V)
22nd Floor, Bangunan AmBank Group
No.55, Jalan Raja Chulan
50200 Kuala Lumpur
Telephone No.: 03 – 2078 2633 / 44 / 55
Facsimile No.: 03 – 2078 2842
- PLACEMENT AGENT** : PM Securities Sdn Bhd (66299-A)
14th Floor, MUI Plaza
Jalan P.Ramlee
50250 Kuala Lumpur
Telephone No.: 03 – 2715 1330
Facsimile No.: 03 – 2715 1323
- UNDERWRITERS** : AmMerchant Bank Berhad (23742-V)
22nd Floor, Bangunan AmBank Group
No.55, Jalan Raja Chulan
50200 Kuala Lumpur
Telephone No.: 03 – 2078 2633 / 44 / 55
Facsimile No.: 03 – 2078 2842
- AmSecurities Sdn Bhd (92977-U)
15th Floor, Bangunan AmBank Group
No.55, Jalan Raja Chulan
50200 Kuala Lumpur
Telephone No.: 03 – 2078 2788 / 99
Facsimile No.: 03 – 2078 3162
- ISSUING HOUSE** : Malaysian Issuing House Sdn Bhd (258345-X)
27th Floor, Menara Multi-Purpose
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
Telephone No.: 03 – 2693 2075
Facsimile No.: 03 – 2693 0858
- LISTING SOUGHT** : MESDAQ Market of the Bursa Securities

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2. PROSPECTUS SUMMARY

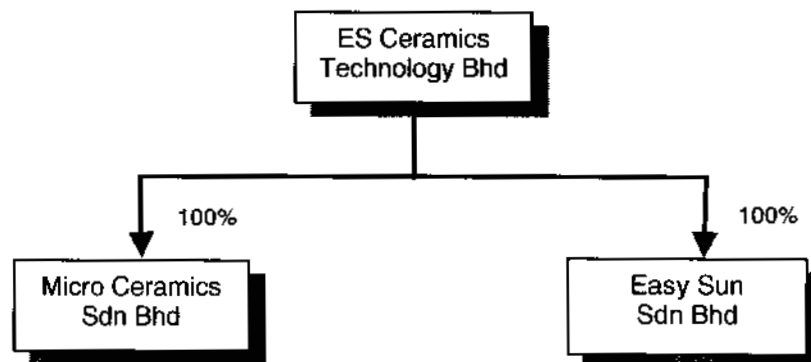
THE FOLLOWING PROSPECTUS SUMMARY IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT THE ES CERAMICS GROUP. INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER TO INVEST.

The following summary is qualified in its entirety by the more detailed information, including the Accountants' Report and Notes thereto, included elsewhere in this Prospectus. Prospective investors are cautioned that such statements are only predictions and that actual results or events when materialised may differ materially from those disclosed in this Prospectus. Therefore in evaluating such statements, prospective investors should carefully consider the various factors identified in this Prospectus, including the matters set forth under the heading "Risk Factors".

2.1 History, Principal Activities and Group Structure

ES Ceramics was incorporated in Malaysia on 4 September 2003 under the Act as a private limited company. The Company was subsequently converted into a public company on 27 September 2003 to facilitate the listing of ES Ceramics on the MESDAQ Market. ES Ceramics is principally an investment holding company with two (2) wholly owned subsidiary companies, MCSB and ESSB. ES Ceramics does not have any associated companies.

The current structure of the Group is as follows:-



The Group is principally involved in the design, development and processing of specialty advanced ceramic materials, and in the design, development and manufacture of specialty advanced ceramic products. Based on the Advanced Ceramics Industry Assessment Report prepared by SIRIM dated 19 November 2003, the Group is one (1) of the four (4) companies in Malaysia which formulates and produces advanced ceramic materials. In addition, the Group is one (1) of only two (2) glove former manufacturers in Malaysia with in house advanced ceramics formulation and production facilities.

Further information on the ES Ceramics and its subsidiary companies are disclosed in Section 5 of this Prospectus.

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2.2 Promoters, Directors, Substantial Shareholders, and Key Management and Technical Personnel

Based on the Register of Members as at 29 August 2005, the Promoters, Directors, Substantial Shareholders, and key management and technical personnel of ES Ceramics and their respective shareholdings in the Company after the Public Issue are as follows:-

Name	Designation	Before Public Issue		After Public Issue		After Full Exercise of ESOS ^(b)	
		Direct No. of Shares	Indirect % No. of Shares	Direct No. of Shares	Indirect % No. of Shares	Direct No. of Shares	Indirect % No. of Shares
Promoters							
Wong Fook Choy	Executive Director/ CEO	8,063,250	19.50	(a) 8,238,250	15.74	(c) 8,738,250	16.08
Choy Swee Lan	Executive Director	10,544,240	25.50	(a) 10,744,240	20.52	(c) 11,144,240	20.50
Wong Fook Lin	Executive Director	17,160,240	41.50	(a) 17,180,240	32.82	(c) 17,580,240	32.35
Kam Yee Lam	Executive Director/ Chief Technology Officer ("CTO")	1,860,750	4.50	(a) 1,910,750	3.65	(c) 2,310,750	4.25
Board of Directors							
Wong Fook Choy	Executive Director/ CEO	8,063,250	19.50	(a) 8,238,250	15.74	(c) 8,738,250	16.08
Choy Swee Lan	Executive Director	10,544,240	25.50	(a) 10,744,240	20.52	(c) 11,144,240	20.50
Wong Fook Lin	Executive Director	17,160,240	41.50	(a) 17,180,240	32.82	(c) 17,580,240	32.35
Kam Yee Lam	Executive Director/ CTO	1,860,750	4.50	(a) 1,910,750	3.65	(c) 2,310,750	4.25
Dato' Yeong Kok Hee	Independent Non- Executive Chairman	-	-	-	-	-	-
Khoo Ming Koong	Independent Non- Executive Director	-	-	-	-	-	-
Substantial Shareholders							
Wong Fook Choy	Executive Director/ CEO	8,063,250	19.50	(a) 8,238,250	15.74	(c) 8,738,250	16.08
Choy Swee Lan	Executive Director	10,544,240	25.50	(a) 10,744,240	20.52	(c) 11,144,240	20.50
Wong Fook Lin	Executive Director	17,160,240	41.50	(a) 17,180,240	32.82	(c) 17,580,240	32.35

Name	Designation	Before Public Issue		After Public Issue		After Full Exercise of ESOS ^(b)	
		Direct No. of Shares	% Indirect Shares	Direct No. of Shares	% Indirect Shares	Direct No. of Shares	% Indirect Shares
Key Management and Technical Personnel							
Wong Fook Choy	Executive Director/ CEO	8,063,250	19.50	(a) 8,238,250	15.74	(c) 8,738,250	16.08
Choy Swee Lan	Executive Director	10,544,240	25.50	(a) 10,744,240	20.52	(c) 11,144,240	20.50
Wong Fook Lin	Executive Director	17,160,240	41.50	(a) 17,180,240	32.82	(c) 17,580,240	32.35
Kam Yee Lam	Executive Director/ CTO	1,860,750	4.50	(a) 1,910,750	3.65	(c) 2,310,750	4.25
Thanabal s/o Veerasamy	Chief Operating Officer	-	-	(a) 190,000	0.36	(c) 690,000	1.27
Chuah Boon Leong	Human Resource Manager	-	-	(a) 30,000	0.06	(c) 210,000	0.39
Zulkifli bin Abdul Rhani	Business Development Manager	-	-	(a) 5,000	0.01	(c) 185,000	0.34
Jeyabharath s/o Murtee	Production Manager	-	-	(a) 40,000	0.08	(c) 220,000	0.40
Mohd Abas bin Nordin	Laboratory Manager	-	-	(a) 60,000	0.11	(c) 240,000	0.44
Hew Chun Hou	Accountant	-	-	(a) 40,000	0.08	(c) 160,000	0.29

Notes:-

- (a) Based on their respective entitlements for the pink form share allocation pursuant to the Public Issue.
 (b) The ESOS will be implemented in conjunction with the Company's listing on the MESDAQ Market.
 (c) Based on their respective indicative ESOS allocations as follows:-

	Indicative No. of ESOS Options
Wong Fook Choy	500,000
Choy Swee Lan	400,000
Wong Fook Lin	400,000
Kam Yee Lam	400,000
Thanabal s/o Veerasamy	500,000
Chuah Boon Leong	180,000
Zulkifli bin Abdul Rhani	180,000
Jeyabharath s/o Murtee	180,000
Mohd Abas bin Nordin	180,000
Hew Chun Hou	120,000

Detailed information on the Promoters, Directors, Substantial Shareholders, and key management and technical personnel of ES Ceramics is disclosed in Section 7 of this Prospectus.

2.3 Proforma Consolidated Income Statements

The summarised proforma consolidated financial results of ES Ceramics for the past five (5) financial years ended 31 May 2005 is set out in the table below. The proforma consolidated financial results of the Group are prepared for illustrative purposes only, assuming that the Group had been in existence throughout the financial years under review and should be read together with the notes and assumptions included in the Accountants' Report as set out in Section 12 of this Prospectus.

	-----Financial Year Ended 31 May -----				
	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)
Revenue	2,740	3,702	4,191	5,504	7,155
EBIDTA before R & D expense	175	870	1,648	2,109	3,627
R&D expense	(16)	(18)	(87)	(128)	(189)
EBIDTA	159	852	1,561	1,981	3,438
Interest expense	(3)	(117)	(166)	(151)	(141)
Depreciation and amortisation	(87)	(174)	(190)	(208)	(222)
Operating profit / PBT	69	561	1,205	1,622	3,075
Taxation	(11)	(108)	(148)	(126)	(243)
PAT	58	453	1,057	1,496	2,832
No. of Shares assumed in issue ('000) *	41,350	41,350	41,350	41,350	41,350
Gross EPS (sen) ^	0.17	1.36	2.91	3.92	7.44
Net EPS (sen) ^	0.14	1.10	2.56	3.62	6.85

Notes:-

- * Based on the issued and paid-up share capital of 41,350,000 Shares of ES Ceramics as at 31 May 2005.
- ^ The Gross and Net EPS were computed based on proforma PBT and PAT divided by the number of Shares in issue as at 31 May 2005.
- (a) The audited financial statements of the Group for all the financial years under review were reported on without any audit qualification.
- (b) There were no exceptional items, extraordinary items and minority interests in the financial years under review.
- (c) The Group's proforma consolidated financial results have been prepared based on the audited financial statements for each of the companies. MCSB was dormant since its date of incorporation, 29 September 1999 up to 31 December 2001. The audited financial statements for the financial period ended 31 December 2000 and the financial year ended 31 December 2001 have been adopted for consolidation without time apportionment or adjustments as it has no material overall effect on the proforma consolidated financial results taken as a whole.

2.4 Proforma Consolidated Balance Sheets

The Proforma Consolidated Balance Sheets of ES Ceramics as at 31 May 2005, based on the audited financial statements of ES Ceramics and its subsidiary companies as at 31 May 2005, and based on the assumption that the Public Issue and utilisation of proceeds from the Public Issue were completed on 31 May 2005, is set out below.

	The Company as at 31.05.2005 (RM'000)	Proforma I After Public Issue (RM'000)	Proforma II After Proforma I and ESOS (RM'000)
PROPERTY, PLANT AND EQUIPMENT	4,473	4,473	4,473
CURRENT ASSETS			
Inventories	2,192	2,192	2,192
Trade receivables	3,009	3,009	3,009
Other receivables, deposits and prepayments	513	513	513
Cash and bank balances	235	5,085	6,185
Tax recoverable	18	18	18
	<u>5,967</u>	<u>10,817</u>	<u>11,917</u>
CURRENT LIABILITIES			
Trade payables	334	334	334
Other payables and accruals	222	222	222
Hire purchase payables	16	16	16
Bank borrowings	1,049	1,049	1,049
Taxation	106	106	106
	<u>1,727</u>	<u>1,727</u>	<u>1,727</u>
NET CURRENT ASSETS	4,240	9,090	10,190
	<u>8,713</u>	<u>13,563</u>	<u>14,663</u>
REPRESENTED BY:			
SHARE CAPITAL	4,135	5,235	5,435
SHARE PREMIUM	-	3,750	4,650
RETAINED PROFITS	3,898	3,898	3,898
SHAREHOLDERS' FUNDS	<u>8,033</u>	<u>12,883</u>	<u>13,983</u>
LONG TERM LIABILITIES			
Hire purchase payables	12	12	12
Bank borrowings	415	415	415
Deferred taxation	253	253	253
	<u>8,713</u>	<u>13,563</u>	<u>14,663</u>
No. of issued and paid-up share capital ('000)	41,350	52,350	54,350
NTA per Share (RM)	0.19	0.25	0.26

Notes:-

- (a) Proforma I is after the issue of 11,000,000 new Shares at an issue price of RM0.55 per Share, and has not been adjusted to reflect the utilisation of proceeds raised from the Public Issue except for the estimated listing expenses. The estimated listing expenses of RM1.2 million have been set-off against the share premium account. The details of the utilisation of the total gross proceeds arising from the Public Issue of RM6.05 million are set out below:-

	RM'000
Repayment of bank borrowings	1,520 #
R & D	1,000 #
Purchase of plant and machinery for production	600 #
Working capital	1,730 #
Estimated listing expenses	1,200
Total	<u>6,050</u>

Note:-

Included in cash and bank balances under current assets, pending utilisation.

- (b) *Proforma II incorporates the adjustments in Proforma I and assumed that the ESOS is fully exercised at an exercise price equivalent to the Issue Price of RM0.55 per Share.*

The Proforma Consolidated Balance Sheets of ES Ceramics as at 31 May 2005 together with the Reporting Accountants' Letter thereon are set out in Section 13 of this Prospectus.

2.5 Risk Factors

Prospective investors, prior to making an investment in the Company, should carefully consider the following risk factors inherent in and affecting the business of the Company and its subsidiary companies and this offering. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Section 4 of this Prospectus as listed below, and also those discussed throughout this Prospectus:-

- No prior market for ES Ceramics' shares and possible volatility of share price
- Dependence on directors and key personnel
- Business risk
- Competition
- Economic, political and regulatory conditions
- Gearing and debt servicing capabilities
- Dependency on labour
- Trade receivables collection and payment to suppliers
- Dependence on customers
- Machinery and technology
- Threat of substitutes
- Foreign exchange risks
- Management of growth
- Need for future capital injection
- Acquisitions and joint ventures
- Breakout of fire, energy crisis and other emergency crisis
- Ownership and control of the Company
- Environmental concerns
- Insurance coverage on the Group's assets and operations
- Disclosure regarding forward-looking statements
- Uncertainty in the proposed 5-Year Business Development Plan
- New products
- Government control or regulation
- Dependence on certain suppliers
- Litigation risks
- Absence of long-term contractual agreements with customers
- Dependency on the glove industry
- Energy cost
- Failure or delay in the listing of ES Ceramics.

If you are unsure about any of the information contained in the section on "Risk Factors", you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

2.6 Principal Statistics Relating to the Public Issue

The following is the summary of the principal statistics relating to the Public Issue.

Authorised Share Capital:	RM
100,000,000 ordinary shares of RM0.10 each	10,000,000
Issued and Fully Paid-up Share Capital:	
41,350,000 ordinary shares of RM0.10 each	4,135,000
To be Issued Pursuant to the Public Issue:	
11,000,000 ordinary shares of RM0.10 each	1,100,000
Enlarged Issued and Paid-up Share Capital Upon Listing	
52,350,000 ordinary shares of RM0.10 each	5,235,000
To Be Issued Pursuant to Full Exercise of ESOS Options	
2,000,000 ordinary shares of RM0.10 each	200,000
Enlarged Issued and Paid-up Share Capital	
54,350,000 ordinary shares of RM0.10 each	5,435,000
Issue Price per Share	RM0.55
Market Capitalisation Upon Listing based on the Issue Price of RM0.55 per ordinary share of RM0.10 each	RM28,792,500

The Public Issue shall be by way of private placement/public offering. There is only one (1) class of shares in the Company, namely ordinary shares of RM0.10 each. The Public Issue Shares shall rank pari passu in all respects with the existing Shares, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of the allotment thereof.

Proforma NTA based on the Proforma Consolidated Balance Sheet as at 31 May 2005

Proforma Consolidated NTA upon listing (RM'000)	12,883
Proforma Consolidated NTA per Share upon listing (RM)	0.25

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2.7 Proceeds of the Public Issue and Proposed Utilisation

Based on an Issue Price of RM0.55 per Share, the Company expects the gross proceeds of the Public Issue of RM6.05 million to accrue to the Company. This amount is proposed to be utilised as follows:-

	RM'000	Indicative timeframe for utilisation of proceeds
Repayment of bank borrowings*	1,520	2 years from the listing date
R & D	1,000	2 years from the listing date
Purchase of plant and machinery for production	600	2 years from the listing date
Working capital	1,730	2 years from the listing date
Estimated listing expenses*	1,200	Upon listing
Total	6,050	

Note:-

* Any variation in the actual repayment of bank borrowings and actual listing expenses from their respective estimated amount will be adjusted to working capital.

Further details are disclosed in Section 3.7 of this Prospectus.

2.8 Working Capital, Material Litigations, Borrowings, Material Capital Commitments and Contingent Liabilities

Working Capital

The Directors of ES Ceramics are of the opinion that after taking into account the Group's cash flow position, banking facilities available and gross proceeds from the Public Issue, the Group will have sufficient working capital for a period of twelve (12) months from the date of the Prospectus.

Material Litigations

As at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, the Group is not engaged in any litigation, claims or arbitration, either as a plaintiff or defendant, which may materially affect the financial position or business of the Group, and the Directors of ES Ceramics do not know of any proceedings pending or threatened or any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the Group.

Borrowings

As at 29 August 2005, being the latest practical date prior to the issuance of this Prospectus, the Group's total interest bearing bank borrowings amounted to approximately RM1.5 million comprising banker's acceptance, term loans and hire purchase as follows:-

	RM'000
Banker's acceptance	994
Term loans:-	
- Short-term	104
- Long-term	399
Hire Purchase:-	
- Short-term	15
- Long-term	7
	1,519

Save as disclosed above, the Group does not have any other capital outstanding or loan capital created but unissued or mortgages or charges outstanding on that date.

The Group has no foreign currency borrowings.

Material Capital Commitments

Save as disclosed below, as at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, there are no material capital commitments for capital expenditure incurred or known to be incurred by the Group which may materially affect the financial position or business of the Group:-

Approved and contracted for

(RM'000)

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Contingent Liabilities

As at 29 August 2005, being the latest practicable date prior to the issuance of this Prospectus, there are no contingent liabilities, which upon becoming enforceable, may materially affect the financial position and business of the Group.

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3. INTRODUCTION AND DETAILS OF THE PUBLIC ISSUE

3.1 Introduction

This Prospectus is dated 9 September 2005.

A copy of this Prospectus has been registered with the SC and lodged with the Registrar of Companies, who takes no responsibility for its contents.

Approvals have been obtained from the SC on 25 January 2005, 12 April 2005 and 10 June 2005, and Bursa Securities on 7 February 2005 for the listing of ES Ceramics. Approval has also been obtained from Bursa Securities for the admission of ES Ceramics to the Official List of the MESDAQ Market, and for the listing of and quotation for the entire issued and paid-up share capital of ES Ceramics including the Public Issue Shares on the MESDAQ Market. These Shares will be admitted to the Official List on the MESDAQ Market and official quotation will commence upon receipt of confirmation from Bursa Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

The approvals obtained from the SC vide its letters dated 25 January 2005, 12 April 2005 and 10 June 2005, and Bursa Securities vide its letter dated 7 February 2005 shall not be taken to indicate that the SC and Bursa Securities recommend the Public Issue and investors should rely on their own evaluation to assess the merits and risks of the Public Issue.

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

An applicant for the Issue Shares must have a CDS account. In the case of an application by way of an Application Form, an applicant for the Public Issue Shares should state his/her CDS account number in the space provided in the Application Form. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS account can make an Electronic Share Application and the applicant shall furnish his/her CDS account number to the Participating Financial Institution by way of keying his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her Electronic Share Application requires him/her to do so. A corporation or institution cannot apply for the Public Issue Shares by way of Electronic Share Application.

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

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by ES Ceramics. Neither the delivery of this Prospectus or any offer made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Group since the date hereof.

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

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

3.2 Purpose of the Public Issue

The purposes of the Public Issue are as follows:-

- (i) To raise funds for the Group's continued operation and expansion, details of which are elaborated in Section 3.7 of this Prospectus;
- (ii) To enable the Company to have access to the capital market for its future expansion and growth;
- (iii) To provide an opportunity for investors, eligible Directors and employees and the Malaysian public to participate in the equity growth of the Group; and
- (iv) To obtain the listing of and quotation for the entire issued and paid-up capital of ES Ceramics on the MESDAQ Market, which is expected to enhance the business, profile and future prospects of the Group.

3.3 Critical Dates for the Public Issue

The tentative timetable for the Public Issue is set out below:-

Event	Date
Date of this Prospectus / Opening date of the Public Issue Shares	9 September 2005
Closing date of the Public Issue Shares	16 September 2005
Tentative balloting date	20 September 2005
Tentative date of the despatch of Notices of Allotment	27 September 2005
Tentative listing date	28 September 2005

3.4 Particulars of the Public Issue

	RM
<i>Issued and Fully Paid-up Share Capital:</i>	
41,350,000 ordinary shares of RM0.10 each	4,135,000
<i>To be Issued Pursuant to the Public Issue:</i>	
11,000,000 ordinary shares of RM0.10 each	1,100,000
<i>Enlarged Issued and Paid-up Share Capital Upon Listing:</i>	
52,350,000 ordinary shares of RM0.10 each	5,235,000
<i>To Be Issued Pursuant To Full Exercise of ESOS Options:</i>	
2,000,000 ordinary shares of RM0.10 each	200,000
<i>Enlarged Issued and Paid-up Share Capital Upon Full Exercise of ESOS Options:</i>	
54,350,000 ordinary shares of RM0.10 each	5,435,000

There is only one (1) class of shares in the Company, namely ordinary shares of RM0.10 each. The Public Issue Shares shall rank *pari passu* in all respects with the existing Shares, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of allotment thereof.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of the Shares shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions, and the whole of any surplus in the event of the liquidation of the Company, such surplus shall be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with its Articles of Association and the provisions of the Act.

Each shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and, on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one (1) vote, and on poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each Share held. A proxy may but need not be a member of the Company.

The Public Issue of a total of 11,000,000 Shares at an Issue Price of RM0.55 per Share shall be subject to the terms and conditions of this Prospectus and, upon acceptance, will be allocated in the following manner:-

- (i) 1,000,000 Shares to be made available for application by the Malaysian public;
- (ii) 1,000,000 Shares to be made available for application by eligible directors and employees of the Group as follows:-
 - (a) 445,000 Shares have been reserved for the following directors:-

Name of Directors	No. of Shares
Wong Fook Choy	175,000
Choy Swee Lan	200,000
Kam Yee Lam	50,000
Wong Fook Lin	20,000
Total	445,000

- (b) 555,000 Shares have been reserved for the employees of the Group based on the following criteria as at the cut-off date of 31 March 2005:-
 - Designation;
 - Length of services; and
 - Job performance.

The above criteria of allocation have been approved by the Board on 14 April 2005.

The total number of persons eligible for the pink forms allocation is 28.

- (iii) 9,000,000 Shares to be made available for application by selected investors under private placement.

The Public Issue Shares in respect of paragraphs (i) and (ii) have been fully underwritten by the Underwriters in compliance with the Listing Requirements. The Placement Agent has received confirmations from the respective exempt investors as defined in Schedules 2 and 3 of the Securities Commission Act 1993 to subscribe for the 9,000,000 Shares available for application under private placement.

In the event of an under-subscription in paragraph (i) above, all Shares not subscribed for may be made available for application under the private placement, and vice versa. Any Shares which are made available for application by the eligible directors and employees of the Group which are not subscribed for, will be made available for application by the Malaysian public and/or the exempt investors. Any further Shares not subscribed for will be made available for subscription by the Underwriters.

The Public Issue is for a total of 11,000,000 Shares at RM0.55 per Share. There is no minimum subscription rate in respect of the Public Issue Shares.

3.5 Pricing of the Public Issue

Prior to the offering, there has been no public market for the Shares. The Issue Price of RM0.55 per Share was agreed between the Company and the Managing Underwriter. Among the factors considered in determining the Issue Price, in addition to prevailing market conditions were the Group's estimates of its business growth potential and revenue prospects, and an assessment of the Group's management.

3.6 Underwriting

The Underwriters mentioned herein have agreed to underwrite 2,000,000 of the Public Issue Shares to be made available for application by the Malaysian public and application by eligible Directors and employees of the Group.

The following are some of the salient clauses of the Underwriting Agreement dated 22 August 2005:-

(Note: Unless stated, all capitalised terms shall bear the same meanings as prescribed in the Underwriting Agreement).

Clause 3.1

Unless waived by the Managing Underwriter and the Underwriters (in which case any condition precedent or any part thereof waived shall be deemed to have been satisfied), the obligations of the Managing Underwriter and the Underwriters under this Agreement are conditional upon:-

- 3.1.1 this Agreement having been duly executed by all the parties hereto and duly stamped;
- 3.1.2 the issue of the Issue Shares having been approved by the Securities Commission and or any other relevant authority and the shareholders of the Company in General Meeting;
- 3.1.3 there has not been on or prior to the Closing Date, in the reasonable opinion of the Underwriters, any material adverse change or any development reasonably likely to result in any material adverse change, in the condition (financial or otherwise) of the Company or its Subsidiaries, which is material in the context of the Public Issue from that set forth in the Prospectus or the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which is or will be material in the reasonable opinion of the Underwriters, which makes any of the representations and warranties contained in Clause 4 untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting, or the occurrence of any breach of the undertakings contained in Clause 4;

- 3.1.4 there has not been, on or prior to the Closing Date, in the reasonable opinion of the Underwriters any adverse change in national or international monetary, political, financial or economic conditions or exchange control or currency exchange rates (including but not limited to conditions on the stock market in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) and/or national disorder, outbreak of war, Act of God or the declaration of a state of national emergency or the occurrence of any combination of any of the foregoing that would prejudice materially the success of the Public Issue and the listing of and quotation for the Issue Shares;
- 3.1.5 the delivery to the Managing Underwriter:-
- 3.1.5.1 prior to the date of the registration of the Prospectus, a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors and the shareholders in general meeting approving this Agreement, the Prospectus, the Public Issue and authorising the execution of this Agreement and the issuance of the Prospectus; and
- 3.1.5.2 a certificate, in the form or substantially in the form contained in the **SECOND SCHEDULE**, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 3.1.3.
- 3.1.6 the delivery to the Managing Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the board of directors of the Company as the Underwriters or the Managing Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of this Agreement that will adversely affect the performance or financial position of the Company or its Subsidiaries;
- 3.1.7 the Managing Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 13;
- 3.1.8 the Public Issue not being prohibited by any statute, order, rule, regulation or directive promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia;
- 3.1.9 the Company having complied and that the Public Issue is in compliance with the policies, guidelines and requirements of Bursa Securities and/or the SC and all revisions, amendments and/or supplements thereto;
- 3.1.10 the acceptance for registration by the SC of the Prospectus and such other documents as may be required in accordance with the SC Act in relation to the Public Issue and the lodgement of the Prospectus with the ROC on or before their release under the Public Issue; and
- 3.1.11 Bursa Securities agreed and approved in principle on or prior to the Closing Date to the listing of and quotation of the entire enlarged issued and paid-up share capital of the Company on the MESDAQ Market and the SC (as the case may be) having approved the Prospectus and if such approvals shall be conditional, all conditions thereto being in terms acceptable to the Underwriters and the Underwriters being reasonably satisfied that such listing and quotation shall be granted 3 clear Market Days after the Issue Shares have been issued and despatched to entitled holders and after the receipt of all relevant documents pertaining to the listing and quotation of the entire enlarged issued and paid-up share capital of the Company by Bursa Securities and the Prospectus being in the form and substance satisfactory to the Underwriters.

Clause 3.2

If any of the conditions set out in Clause 3.1 is not satisfied by the Closing Date, the Managing Underwriter or the Underwriter shall thereupon be entitled to terminate this Agreement pursuant to Clause 9 PROVIDED THAT the Managing Underwriter or the Underwriter may at its discretion with respect to its respective obligations waive compliance with any of the provisions of Clause 3.1.

Clause 6.3

Any Underwriting Commission payable to the Underwriters shall remain payable to the Underwriters notwithstanding that this Agreement shall be terminated or the obligations of the Underwriters shall be cancelled or terminated or withdrawn for any reasons whatsoever unless such termination or cancellation or withdrawal is due to the default of the Underwriters and in which event, the Underwriters shall not be entitled to its Underwriting Commission.

Clause 9.1

Notwithstanding anything herein contained, the Managing Underwriter and/or the Underwriter, acting through the Managing Underwriter may by notice in writing to the Company given at any time before the Closing Date, terminate and cancel and withdraw its commitment to underwrite the Underwritten Shares if:-

- 9.1.1 any of the conditions precedent in Clause 3 are not satisfied by the Closing Date; or
- 9.1.2 there is any breach by the Company of any of the representations, warranties or undertakings contained in Clause 4, which is not capable of remedy or, if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company to the satisfaction of the Underwriters, or by the Closing Date, whichever is earlier; or
- 9.1.3 there is withholding of information of a material nature from the Underwriters, which is required to be disclosed pursuant to this Agreement, and if capable of remedy, is not remedied within such number of days as stipulated within the notice after notice of such breach shall be given to the Company, which, in the opinion of the Managing Underwriter and/or Underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Issue Shares; or
- 9.1.4 there shall have occurred, happened or come into effect any Government requisition or other occurrence of any nature whatsoever or any material and adverse change to the business or financial condition of the Company or the Group; or
- 9.1.5 there shall have occurred, happened or come into effect any of the following circumstances:-
 - (a) any material change, or any development involving a prospective change, in national or international monetary, financial, economic or political conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange controls or the occurrence of any combination of any of the foregoing; or
 - (b) any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of events beyond the reasonable control of the Managing Underwriter and/or the Underwriter (including without limitation national disorder, outbreak of war, the declaration of a state of national emergency, acts of government, acts of God, acts of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents);

which, in the reasonable opinion of the Managing Underwriter (whose opinion is final and binding), would have or can reasonably be expected to have, a material adverse effect on and/or materially prejudice the business or the operations of the Company or the Group, the success of the Public Issue, or the distribution or sale of the Issue Shares, or which has or is likely to have the effect of making any material part of this Agreement incapable of performance in accordance with its terms; or

- 9.1.6 there is imposition of any moratorium, suspension or material restriction on trading in securities generally in Bursa Securities due to exceptional financial circumstances or otherwise; or
- 9.1.7 there is failure on the part of the Company to perform any of its obligations herein contained.

Clause 9.2

In the event that this Agreement is terminated pursuant to Clause 9.1.5, the Underwriters and the Company may confer with a view to deferring the Public Issue by amending its terms or terms of this Agreement and enter into a new underwriting agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to enter into a fresh agreement.

Clause 9.3

Upon such notice(s) being given under Clause 9.1, the Managing Underwriter and/or the Underwriter shall be released and discharged of its obligations without prejudice to its rights whereby this Agreement shall be of no further force or effect and no Party shall be under any liability to any other in respect of this Agreement, except that the Company shall remain liable in respect of its obligations and liabilities under Clause 4 and under Clause 13 for the payment of the costs and expenses already incurred prior to or in connection with such termination and under Clause 13 for the payment of any taxes, duties or levies and for any antecedent breach.

3.7 Utilisation of Proceeds

The Company expects the gross proceeds of the Public Issue to amount to RM6.05 million. The proceeds shall accrue to the Company and the Company shall bear all expenses relating to the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market.

The proceeds from the Public Issue of RM6.05 million are proposed to be utilised for the following:-

Purpose	Notes	RM'000	Indicative timeframe for utilisation of proceeds
Repayment of bank borrowings*	(i)	1,520	2 years from the listing date
R & D	(ii)	1,000	2 years from the listing date
Purchase of plant and machinery for production	(iii)	600	2 years from the listing date
Working capital	(iv)	1,730	2 years from the listing date
Estimated listing expenses*	(v)	1,200	Upon listing
TOTAL		6,050	

Notes:-

- * Any variation in the actual repayment of bank borrowings and actual listing expenses from their estimated amount will be adjusted to working capital.
- (i) ES Ceramics proposes to set aside a total of RM1.52 million of the proceeds for the repayment of the Group's bank borrowings. The Group will, upon receipt of the listing proceeds, repay the outstanding bank borrowings in the most appropriate way to maximise interest cost savings. As at 29 August 2005, the total borrowings of the Group were approximately RM1.5 million comprising the following:-

Lender	Type of Facility	Amount Outstanding as at 29.08.2005 (RM'000)
Southern Bank Berhad (" SBB ")	Term Loan	503
SBB	Letter of Credit / Trust Receipts/ Banker's Acceptance	994
Public Bank Bhd / Malayan Banking Berhad	Hire Purchase	22
		1,519[^]

Note:

[^] As the Group is currently servicing/repaying its loan, the amount of bank borrowings outstanding upon listing may be lower. Any excess funds pursuant to the settlement of the bank borrowings will be adjusted to working capital.

The repayment of RM1.5 million of these borrowings is expected to result in an interest savings of approximately RM0.1 million per annum to the Group, based on the average interest rate of 8% p.a.

- (ii) Approximately RM1.0 million of the proceeds will be utilised to enhance the Group's R & D activities of which RM0.2 million will be utilised for the purchase of specialist equipment such as electronics dilatometer and vibrator sieve shaker.
- (iii) Approximately RM0.60 million will be utilised by the Group for the purchase of machinery and equipment to automate certain production processes.
- (iv) This will be utilised to fund the Group's daily working capital expenses, which may include the purchase of raw materials, funding of creditors' payments and sales to customers, and other operational expenses. The Group would also utilise part of the working capital to increase its staff force and for its sales and marketing expenses. In addition, part of the working capital will be utilised for the Group's proposed sale of advanced ceramic materials to local and export markets as well as the proposed enhancement of the Group's sales and marketing efforts and for the installation of production facilities for the production of hand formers to produce surgical gloves.
- (v) Details of the estimated listing expenses are set out in Section 3.8 of this Prospectus.

3.8 Brokerage, Underwriting and Listing Expenses

Brokerage is payable in respect of the Public Issue Shares by the Company at the rate of 1.0% of the issue price of RM0.55 per Share in respect of successful application which bear the stamp of AmMerchant Bank, member companies of Bursa Securities, members of the Association of Banks in Malaysia or members of the Association of Merchant Banks in Malaysia.

In respect of the Public Issue Shares which are underwritten, as disclosed in Section 3.6 of this Prospectus, the Company will pay an underwriting commission of 1.75% of the Issue Price to the Underwriters.

Listing expenses are estimated at RM1.20 million, with the following estimated breakdown:-

	RM'000
Professional fees	545
Fees of the authorities	41
Underwriting commission and brokerage fees	171
Printing and advertising fees	200
Miscellaneous	243
Total	1,200

3.9 Future Financial Information

No future financial information is included in this Prospectus as it is difficult to forecast due to the uncertain nature and inherent risks of the business of the ES Ceramics Group.

4. RISK FACTORS

If you are unsure about any of the information contained in this section on "Risk Factors", you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the Shares offered by this Prospectus. The discussions in this Prospectus contain certain forward-looking statements that involve risks and uncertainties. Prospective investors are cautioned that such statements are only predictions and that actual results or events when materialised may differ materially from those disclosed in this Prospectus.

4.1 No Prior Market for ES Ceramics' Shares and Possible Volatility of Share Price

There has been no prior market for the Company's shares prior to this Public Issue and the Issue Price of the Public Issue was agreed upon by the Company and the Managing Underwriter. The Issue Price was determined based on several factors and may not be an indication of the market price of the Shares after the Public Issue. Please refer to Section 3.5 of this Prospectus, for the factors considered in arriving at the Issue Price.

Following the Public Issue, there can be no assurance that an active public market in the Shares will be developed or be maintained or that the market price of the Shares will not decline below the Issue Price. However, the Board believes that a variety of factors may lead to fluctuations in the price of the Shares in the immediate future, such as fluctuations in the Group's operating results and sales levels, the general industry conditions or the worldwide economy and announcements of new products or product enhancements by the Group or its competitors.

4.2 Dependence on Directors and Key Personnel

Similar to any other businesses, the Board believes that the success of the Group significantly depends on the efforts and abilities of the Group's directors and key management and technical personnel. Therefore, the loss of services from its directors and its key management and technical personnel may have a material adverse effect on the Group's competitiveness in the market.

Realising the importance of its directors and key management and technical personnel, the Group has in place human resource policies to retain these individuals, as well as attract new skilled personnel. Furthermore, most of these individuals have been with the Group since its incorporation. The Board also believes in creating a conducive working environment for its employees. The Group also enjoys a cordial relationship with its employees, who do not belong to any trade union. In addition, the Group will be implementing an ESOS in conjunction with its listing on the MESDAQ Market.

4.3 Business Risk

The Group, like any other businesses, is exposed to general business risks as well as risks inherent in the manufacturing industry and those which are specific to the advanced ceramics manufacturing industry. These risks faced by the Group may include constraints in raw material and labour supply, increase in labour, raw material and operating costs, introduction of new technologies, business and credit conditions, adverse changes in the general economic conditions and unfavourable changes in Government policies.

Although the Group seeks to limit these risks through, inter-alia, efficient cost control, increasing product range, stringent credit control procedures and increase in automation of production line to reduce reliance on manual labour, no assurance can be given that a change in any of these factors will not have a material effect on the Group's business.

4.4 Competition

The manufacturing industry, specifically in the manufacturing of hand formers, is competitive. The industry's participants are differentiated based on the quality and types of products, the suitability of the products to the user's manufacturing processes, cost competitiveness, timeliness of the delivery of orders made, manufacturing capabilities and the strength of its financial resources.

The ceramic hand former industry in Malaysia dominates the global hand former manufacturer market and as such, the Group faces competition mainly from the local hand former manufacturers. In order to compete effectively in the market, the Group strives to distinguish its products from its competitors. New features to the existing products are developed to further increase the quality of the products and the suitability of the products to the manufacturing processes of its customers.

The Group has invested in R & D activities to improve its formulation, products and production processes. The Group believes that with its R & D efforts, the Group would be able to stay competitive in the industry via the achievement of higher efficiency, improvements in product features, and reduction in production costs and wastages. Nevertheless, there can be no assurance that the Group will be able to maintain its competitiveness in the future.

4.5 Economic, Political and Regulatory Conditions

Any adverse change in the economic, political and regulatory conditions in Malaysia as well as in countries in which the Group sources its raw materials and markets its advanced ceramic products, may have a material adverse effect on the business prospects, operations and profitability of the Group. These adverse changes may include but are not limited to changes in political leadership, unfavourable changes in government's policies, the introduction of new regulations, foreign exchange fluctuations, possibilities of war, financial crisis, and changes in interest rates and methods of taxation.

MCSB, a subsidiary company of ES Ceramics, is currently enjoying pioneer status awarded by MITI. The pioneer status is valid from 1 September 2002 to 31 August 2007, subject to MCSB meeting the conditions contained in the MITI's certificate dated 13 January 2002. There can be no assurance that MCSB will be able to maintain its pioneer status or that it would continue to benefit from its pioneer status in future as a result of any adverse developments in political, economic, regulatory and environmental conditions in Malaysia.

4.6 Gearing and Debt Servicing Capabilities

As at 29 August 2005, the Group has borrowings amounting to approximately RM1.5 million. Based on the Group's shareholders' funds as at 31 May 2005, the current gearing position is 0.19 times. The Group's borrowings were mainly to finance its capital expenditures such as its production facilities, R & D activities and the purchase of machinery and equipment for its production process. The Group has taken measures to progressively reduce its gearing position, such as to utilise other credit facilities with lower interest charges, reduce debtors turnover days and refinance certain loans taken up by the Group.

The Board of ES Ceramics is of the view that the Group is able to generate sufficient and consistent cash flow from its operations to facilitate the repayment of principal and the payment of interest in respect of the Group's borrowings.

4.7 Dependency on Labour

The Group's operations are semi-automated and as such, the Group is reliant on manual labour. The Group's source of manpower in its production line comprise of both local and foreign employees. The employment of the Group's foreign employees has been approved by the Ministry of Home Affairs. As at 29 August 2005, the Group has 81 foreign employees, who are mainly from Nepal, Sri Lanka and India, of which 77 are factory operators. The Group's foreign employees account for approximately 75% of the Group's total factory operators.

As a majority of the employees involved in the production line are foreign workers, the change in government policies as well as the inability of the Group to source for manual labour, may have a material adverse affect on the Group's operations and results. To mitigate this, the Group is increasing the employment of local employees for its production line to reduce the dependency on foreign labour. In addition, the Group also plans to automate certain production processes which currently involve manual labour as a step towards reducing the Group's dependency on manual labour.

4.8 Trade Receivables Collection and Payment to Suppliers

The Group's trade receivables' turnover is approximately 4.8 months for the financial year ended 31 May 2005. The ageing analysis of the Group's trade receivables as at 31 May 2005, is shown in the table below:-

	As at 31 May 2005			Total
	0 - 60 days	61 - 180 days	> 180 days	
Trade Receivables (RM'000)	1,501	1,137	371	3,009

Excluding trade receivables which are above 180 days overdue, the Group's trade debtors' turnover averages to approximately 4.4 months for the financial year ended 31 May 2005. In respect of the trade receivables which are more than 60 days but less than 180 days overdue, RM0.90 million had been collected between 1 June 2005 and 16 August 2005, and RM0.23 million is still outstanding. The Board is of the opinion that the RM0.23 million is collectible. The Reporting Accountants, Messrs Lim Chen & Co had vide their letter dated 16 August 2005 addressed to the board of directors of ES Ceramics opined that no provision for doubtful debts is required on the remaining outstanding balance of RM0.23 million.

In respect of the trade receivables which are more than 180 days overdue, the Group has made a provision of RM0.001 million and the remaining balance of RM0.37 million will be settled via arrangements which have been made with these customers to reduce its long outstanding balances and the customers have been settling the overdue amounts as agreed under the relevant arrangements in place therefore no provision for doubtful debts is necessary. The Reporting Accountants, Messrs Lim Chen & Co had vide their letter dated 16 August 2005 addressed to the board of directors of ES Ceramics opined that no provision for doubtful debts is required on the RM0.37 million outstanding balance of trade receivables which are more than 180 days outstanding as at 31 May 2005. The outstanding balance of RM0.37 million has reduced to RM0.22 million as at 29 August 2005.

Furthermore, the directors of ESSB, who are also the Promoters of ES Ceramics, have given their undertaking to ESSB and ES Ceramics and have entered into a debt guarantee agreement dated 26 April 2005 with ESSB and AmTrustee Berhad. On 4 May 2005, the directors of ESSB have collectively furnished the share certificates for 1.2 million ES Ceramics Shares, which are not Shares under Moratorium, to AmTrustee Berhad as stakeholder pursuant to the debt guarantee agreement. These share certificates will be deposited with Bursa Depository during the prescribed period. For further details on the debt guarantee agreement, please refer to Section 14.6(1)(v) of this Prospectus.

As a further step towards mitigating the risk of customers defaulting in payments, the Group is selective of its customers and implement checks on the credit worthiness of prospective customers prior to accepting purchase orders. Furthermore, the Group has loyal customers some of which have been purchasing the Group's products since the Group commenced operations.

The Group's creditors turnover is approximately 1.9 months for the financial year ended 31 May 2005. Due to the time lag between the Group's collections from its trade receivables and the payments to its creditors, the Group may require a substantial level of liquidity for its working capital. The liquidity level of the Group would be further strained if there is an increase in the trade receivables turnover days, which may result in the Group having to source for financing via the utilisation of its current credit facilities offered by the financial institutions.

Therefore, there can be no assurance that the risk of bad or doubtful debts or the increase in finance cost to the Group would not have a material adverse effect on the Group's results in future.

4.9 Dependence on Customers

Similar to most manufacturers, the Group is dependent on the recurrent orders from its customers. The Group currently supplies advanced ceramic hand formers to glove manufacturers in both the local and overseas markets, therefore, the Group has a wide customer base and is not reliant on any particular customer. Furthermore, the Group is increasing its customer base and markets, and has plans to supply advanced ceramic hand formers to China and Philippines.

Nevertheless, there can be no assurance that these companies will continue to source their products from the Group. The inability of the Group to maintain its current customers as well as to increase its customer base could have a material adverse effect on the Group's business, operating results and financial position. To mitigate this, the Group maintains close business relationship with its customers and is committed to providing its customers with value added services and quality products. In addition, the Group has been increasing its customer base via its marketing efforts, while maintaining its current customer base.

4.10 Machinery and Technology

The Group's production process is semi-automated and as such, the breakdown of its production machinery may have a material adverse effect on the Group's operations. To mitigate the risk of machine breakdown and downtime, the Group has a maintenance personnel who performs routine maintenance service and tests on the Group's machineries. Furthermore, the Group also engages the services of an external maintenance provider who would perform routine maintenance on certain specific parts of the Group's machineries which require a higher degree of specialisation and skills to perform. In addition to this, the Group also has a backup for certain critical production machine parts in order to reduce machine downtime.

The technological changes in the advanced ceramic former industry are less rapid as compared to other industries. However, as the Group's production process is currently semi-automated, there may be new equipment and machinery invented to replace the processes which are currently performed manually, in addition to improvements to the machinery and equipment currently used by the Group. As such, these changes and advancements may affect the Group's operations and competitiveness in terms of productivity, efficiency and quality of the products.

4.11 Threat of Substitutes

There is no perfect substitute for advanced ceramics due to its unique characteristics. Although there are alternative materials such as metal and plastic, such materials have its limitations in terms of cost, productivity, resistance to chemical corrosion and thermal shock, and life span. As such, the Board is of the opinion that there are no close substitutes for advanced ceramic materials, especially in producing hand formers todate. Nevertheless, with the current advancement in global technology and innovations there can be no assurance that there will not be a substitute for advanced ceramics in the future.

4.12 Foreign Exchange Risks

ES Ceramics is exposed to foreign exchange risks as approximately 50% of the ingredients used to produce its advanced ceramic formulation are imported from overseas, such as France, Europe, Taiwan and Japan. The Group mainly procures its raw materials from France and Europe and the purchases are mainly quoted in Euro and USD. Apart from sourcing its raw material supplies from overseas, the Group also has sales to its overseas customers in Indonesia, Thailand and Sri Lanka which are quoted in USD. With the depegging of the Ringgit to USD, there is no assurance that the Group's results will not be materially affected by the fluctuations in foreign exchange rates.

4.13 Management of Growth

The Group plans to utilise a portion of its Public Issue proceeds for the expansion of its business. The anticipated expansion in business will likely place further demand on the Group's existing management and operations. The Group's future growth and profitability will partially depend on its ability to successfully manage its manufacturing activities, marketing activities, and implement management and operating systems which react efficiently and timely to short and long-term trends or changes in its business. As a mitigating factor, the Group has a team of experienced management personnel to support its expansion plans. However, there can be no assurance that the Group will be able to effectively manage any expansion of its business.

4.14 Need for Future Capital Injection

It is in the Board's opinion that the net proceeds of the Public Issue, together with the cash flows from its operations and other existing sources of liquidity will be sufficient to meet the Group's projected working capital and other cash requirements. Nevertheless, there is no assurance that future events may not cause the Group to seek additional capital sooner. In the event that additional capital is required, there can be no assurance that it will be available or, if available, that it will be on terms satisfactory to the Group. Furthermore, the issue of additional equity or other securities to non-shareholders will result in a dilution in the interests of the shareholders of the Company.

4.15 Acquisitions and Joint Ventures

The Group intends to acquire businesses, products or technologies, or enter into synergistic joint ventures which the Group believes will be in the interest of its shareholders, should appropriate opportunities present themselves. However, there can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions and joint ventures, or to integrate such acquisitions and joint ventures with its current business, or to benefit from such acquisitions and joint ventures. Acquisitions and joint ventures may cause the Group to seek additional capital which, may or may not be available on satisfactory terms. To mitigate this, the Board would ensure that feasibility studies on any investment plans of the Group are carried out and that the Board would carefully consider the investments with due care.