4. INFORMATION ON THE GROUP

4.1 BACKGROUND

4.1.1 Incorporation and Commencement of Business

Flonic was incorporated in Malaysia under the Companies Act, 1965 on 10 June 2004 as a private limited company under the name of Flonic Hi-Tec Sdn Bhd. Subsequently, on 22 July 2004 it was converted to a public limited company and since assumed its present name. The principal activity of Flonic is an investment holding company while its subsidiaries are mainly involved in the design, manufacture and distribution of Precision Cleaning Systems.

The Group commenced its business in 1985 when FSB, previously known as Rightway Industrial Supplies Sdn Bhd, was initially involved in the distribution of industrial cleaning chemicals, before diversifying into the distribution of high-pressure industrial cleaning systems in 1986 in Subang Jaya, Selangor. In 1989, FSB ceased distributing industrial chemicals and expanded into the distribution of Ultrasonic Cleaning Systems. The Group also started manufacturing Ultrasonic Cleaning Systems in small scale in 1989. Over the years, Flonic Group steadily expanded its design and manufacturing capabilities, and successfully manufactured Precision Cleaning Systems of increasing capabilities, functionalities and complexity. The Group was able to incorporate semi-automated and fully-automated systems into its Precision Cleaning Systems, as well as increasing the range of Precision Cleaning technologies that the Group offered to its customers.

In 1997, Flonic Group moved to a larger manufacturing plant located in Port Klang, Selangor. The Group then expanded its manufacturing activities as well as Research and Development (R&D) capabilities. An R&D laboratory was set up at its new plant in 1998, and a Class 10 Clean Room R&D laboratory was installed in the same facility in 2001. In 2004, the Group relocated its manufacturing facilities to a larger manufacturing plant in Port Klang, which shall include a demonstration room and two clean rooms for R&D and system assembly.

The Group began designing and manufacturing Precision Ultrasonic Cleaning Systems in 2000, following the arrival of Mr Looa to the Group. The first Precision Cleaning System designed and manufactured by the Group was a 9-tank multi-arm automatic ultrasonic precision cleaning system, with integrated vacuum cleaning and drying system for a MNC in Thailand. Precision Ultrasonic Cleaning Systems are a material improvement over Ultrasonic Cleaning Systems previously manufactured and distributed by the Group in that they are able to achieve higher levels of cleanliness and are able to clean more delicate Objects. In 2002, the Group incorporated FPS which is involved in marketing and distributing Precision Cleaning Systems and Ultrasonic Cleaning Systems manufactured by the Group.

In line with the Malaysian Government's intention to nurture the development of Machinery and Equipment manufacturing industry, FSB obtained approval in principle for Pioneer Status from MIDA for the manufacturing of Ultrasonic Cleaning machines on 2 July 1997. The Pioneer Status was granted by the MITI on 22 November 2000 for a period of five years which came into effect from 1 April 1999 to 31 March 2004. On 2 June 2003, USB has obtained approval for Pioneer Status from MIDA to manufacture Ultrasonic Cleaning Machines. The Pioneer Status is valid for a period of five years. With the commencement of USB's operations in 2004, the pioneer status is valid until 2009.

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

Ultrasonic Cleaning Systems and other Precision Cleaning Systems designed and manufactured by the Flonic Group since the Group's inception under its own brand name "Flonic™" are in use in a large number of manufacturers operating both in Malaysia and other countries, including the Philippines, the United States, China, Singapore, Thailand, Vietnam, the United Kingdom, Canada, Belgium, France, Sri Lanka, Indonesia and Taiwan.

Flonic Group supplies precision cleaning systems to a range of manufacturers operating in Malaysia, including MNC and other manufacturers located in Free Trade Zones in Selangor and Penang. As such, many of Flonic Group's Precision Cleaning Systems are utilised by companies in Malaysia that primarily export their products and services. Flonic Group is currently focused on the design and manufacture of Precision Cleaning Systems, including Precision Ultrasonic Cleaning Systems that are a material improvement over industrial cleaning systems in terms of achievable cleanliness levels.

4.1.2 Share Capital And Changes In Share Capital

The present authorised share capital of Flonic is RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each. The issued and paid up share capital of Flonic is RM5,180,000 comprising 51,800,000 ordinary shares of RM0.10 each.

Details of the changes in the issued and paid-up share capital of the Company since its incorporation are as follows: -

Date of Allotment	No. Of Ordinary Shares Allotted	Par Value (RM)	Consideration	Total Issued And Paid-up Share Capital (RM)
10.6.2004	2	1.00	Cash	2
6.7.2005	4,075,058	1.00	Acquisitions	4,075,060
10.10.2005	1,104,940	1.00	Rights issue	5,180,000
10.10.2005	51,800,000	0.10	Sub-division	5,180,000

4.1.3 Listing Scheme

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of Flonic on the MESDAQ Market of Bursa Securities, the Company undertook a listing scheme which involved the following: -

(i) Acquisitions

Flonic acquired the entire issued and paid-up share capital of FSB, FPS, FE and USB for a total purchase consideration of RM4,075,058 satisfied by the issuance of 4,075,058 new ordinary shares of RM1.00 each in Flonic to the shareholders of FSB, FPS, FE and USB. Yen Yoon Fah, Heng Hock Meng and Looa Hong Hooi were the shareholders of FSB, FB and FE, whilst Looa Hong Hooi and Lee Kwai Ling were the shareholders of USB.

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

The Acquisitions of the entire issued and paid up share capital of FSB, FPS, FE and USB was satisfied through the issuance of new 4,075,058 ordinary shares of RM1.00 each in Flonic as follows: -

Company Acquired	No of shares acquired	% equity interest acquired	Audited NTA @ 31.1.2004 (RM)	Purchase Consideration (RM)	No. of new ordinary shares of RM1.00 each in Flonic
FSB	1,500,000	100	4,063,422	4,063,420	4,063,420
FPS	3	100	11,633	11,633	11,633
FE	3	100	(5,518)	3	3
USB	2	100	(3,987)	2	2
Total	**1,500,008**			**4,075,058**	**4,075,058**

The purchase consideration for the acquisitions of FSB and FPS was arrived at on a willing buyer and willing seller basis and after considering the audited NTA of FSB and FPS as at 31 January 2004 of RM4,063,422 and RM11,633 respectively. The purchase consideration for the acquisitions of FE and USB was based on the paid up share capital of the respective companies.

Upon completion of the Acquisitions, the issued and paid up capital of Flonic increased from RM2 to RM4,075,060 comprising 4,075,060 ordinary shares of RM1.00 each. The new shareholdings structure of Flonic upon completion of the Acquisitions were as follows: -

Name	No of new Flonic share issued upon Acquisition				
	FSB	FPS	FE	USB	Total no. of shares
Yen Yoon Fah	2,038,369	3,878	1	1	2,042,250*
Looa Hong Hooi	666,141	3,877	1	1	670,020
Heng Hock Meng	1,358,910	3,878	1	-	1,362,790*
Total	**4,063,420**	**11,633**	**3**	**2**	**4,075,060**

Note:
* Including 1 subscriber share to be acquired from the existing shareholders of Flonic.

Subsequently, Novatige, the investment holding company, acquired 3,150,082 shares in Flonic from Yen Yoon Fah, Heng Hock Meng and Looa Hong Hooi. The acquisition was satisfied via the issuance of 787,520 new ordinary shares of RM1.00 each in Novatige to the respective shareholders on the basis of 1 new ordinary share in Novatige for every 4 existing ordinary shares in Flonic at a consideration of RM4.00 per Novatige share as follows: -

Name	No of Flonic shares to be acquired	Purchase Consideration (RM)	No. of new ordinary shares of RM1.00 each in Novatige issued
Yen Yoon Fah	1,578,690	1,578,690	394,672
Looa Hong Hooi	517,935	517,935	129,484
Heng Hock Meng	1,053,457	1,053,457	263,364
Total	**3,150,082**	**3,150,082**	**787,520**

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

The shares rank pari passu in all respects with the other existing issued ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the Acquisitions.

The Acquisitions was completed on 6 July 2005.

Rationale for adopting merger accounting method

The Acquisitions were made based on merger accounting method as both of the management and shareholders of the combining parties, namely, Flonic, FSB, FPS, USB and FE consist solely of the same team or persons. The combining parties merged to form a Group in order to achieve economies of scale. The respective interest of the existing shareholders therefore does not change significantly.

The merger method of accounting was adopted as it would reflect more appropriately the Group as a business combination, which is the underlying nature of the combining parties. The substance of Flonic's reorganisation is that there has been a continuity of the businesses insofar as the shareholders are concerned as set out under MASB 21. Accordingly, the merger method is considered the most appropriate to account for such internal group reorganisation.

(ii) Renounceable Rights Issue

Flonic undertook a Renounceable Rights Issue, which entailed the issuance of 1,104,940 new ordinary shares of RM1.00 each in Flonic at par on a proportionate basis of approximately 0.271 new ordinary share for every 1 existing ordinary share held in Flonic after the Acquisitions as follows: -

Name	Existing Shareholders	Renounceable Rights Issue	Total	
	No of shares	No of shares	No of shares	%
Novatige	3,150,082	854,135	4,004,217	77.3
Yen Yoon Fah	463,560	125,693	589,253	11.4
Looa Hong Hooi	152,085	41,237	193,322	7.6
Heng Hock Meng	309,333	83,875	393,208	3.7
Total	**4,075,060**	**1,104,940**	**5,180,000**	**100.0**

Novatige renounced its entire entitlements for 854,135 Rights Issue shares to its new shareholders on a proportionate basis, who are also the directors, as follows: -

Name	Before Renounceable Rights Issue	Renounceable Rights Issue	After Renounceable Rights Issue	
	No of shares	No of shares	No of shares	%
Novatige	4,004,217	(854,135)	3,150,082	60.9
Yen Yoon Fah	589,253	428,057	1,017,310	19.6
Looa Hong Hooi	193,322	140,437	333,759	6.4
Heng Hock Meng	393,208	285,641	678,849	13.1
Total	**5,180,000**	**-**	**5,180,000**	**100.0**

All the 1,104,940 new ordinary shares of RM1.00 each issued pursuant to the Renounceable Rights Issue, rank pari passu in all respects with the existing ordinary shares of the Company, except that they will not be entitled to any dividends, rights, allotment or other distributions declared, made or paid prior to the date of allotment.

Upon completion of the Renounceable Rights Issue, the issued and paid up capital of Flonic increased from RM4,075,060 to RM5,180,000 comprising 5,180,000 ordinary shares of RM1.00 each in Flonic. The Renounceable Rights Issue was completed on 10 October 2005.

(iii) Sub-division

The par value of RM1.00 per ordinary share of Flonic was sub-divided into ten (10) ordinary shares of RM0.10 each. Consequently, the number of issued and paid up share capital of Flonic increased from 5,180,000 ordinary shares of RM1.00 each to 51,800,000 ordinary shares of RM0.10 each. The Sub-division was completed on 10 October 2005.

(iv) Public Issue

The Public Issue of 18,200,000 new ordinary shares at an Issue Price of RM0.60 per share are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner: -

(a) Malaysian Public

2,000,000 Public Issue Shares will be made available for application by individuals, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

(b) Eligible Employees, Directors and/or Business Associates of the Group

3,500,000 Public Issue Shares will be reserved for the eligible employees and Directors of the Group and/or the business associates (which include the suppliers, sales agents and customers) of the Group.

The shares have been allocated to 40 eligible employees and Directors of the Group based on the following criteria as approved by the Company's Board of Directors: -

(a) At least eighteen (18) years old;
(b) Job position; and
(c) Length of service.

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

Details of the Directors' pink form allocation are as follows: -

Name of Directors	Designation	Pink Form Allocation
Yen Yoon Fah	Executive Chairman	-
Looa Hong Hooi	Managing Director	-
Heng Hock Meng	Executive Director	-
Chin Soon Nyen	Independent Non-Executive Director	100,000
Tong Siew Choo	Independent Non-Executive Director	100,000
Total		**200,000**

(c) Placees

12,700,000 Public Issue Shares are reserved for private placement to selected investors.

In summary, the Public Issue Shares will be allocated and allotted in the following manner: -

	Public Issue Shares
Malaysian public	2,000,000
Eligible Employees, Directors and/or Business Associates of the Group	3,500,000
Private Placement	12,700,000
Total	**18,200,000**

All the Public Issue Shares available for application by the Malaysian public and the eligible employees, Directors and/or business associates of the Group have been fully underwritten. The Public Issue Shares available for application by selected investors are not underwritten. The Placement Agent have received irrevocable undertakings from the selected investors to take up the Public Issue Shares available for application under the private placement.

Any Public Issue Shares which are not taken up by eligible employees, Directors and/or the business associates of the Group will be made available for application by Malaysian Public via balloting and/or selected investors via private placement.

Any Public Issue Shares by Malaysian Public which are not taken up will be made available to selected investors via private placement if the private placement is oversubscribed and vice versa.

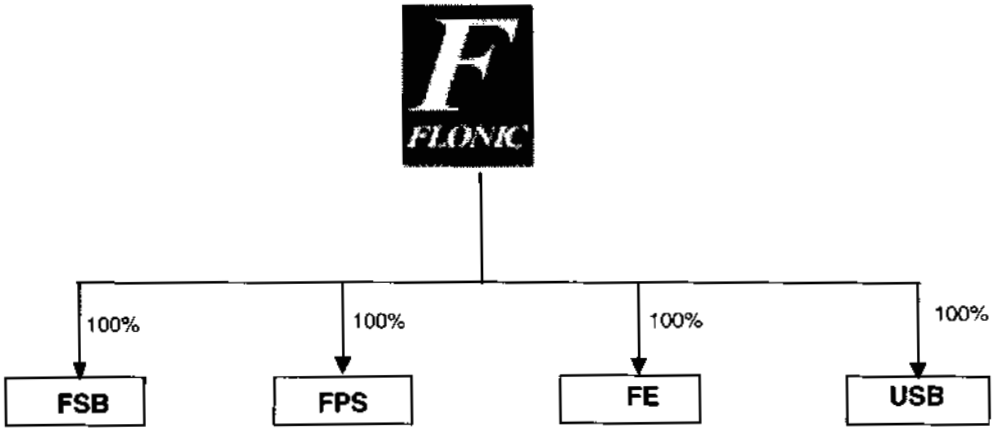
Any further Public Issue Shares not subscribed for will be made available for subscription by the underwriters in the proportion specified in the Underwriting Agreement dated 19 October 2005.

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

4.2 BUSINESS

4.2.1 Group Structure

An overview of the Group's structure is set out below: -



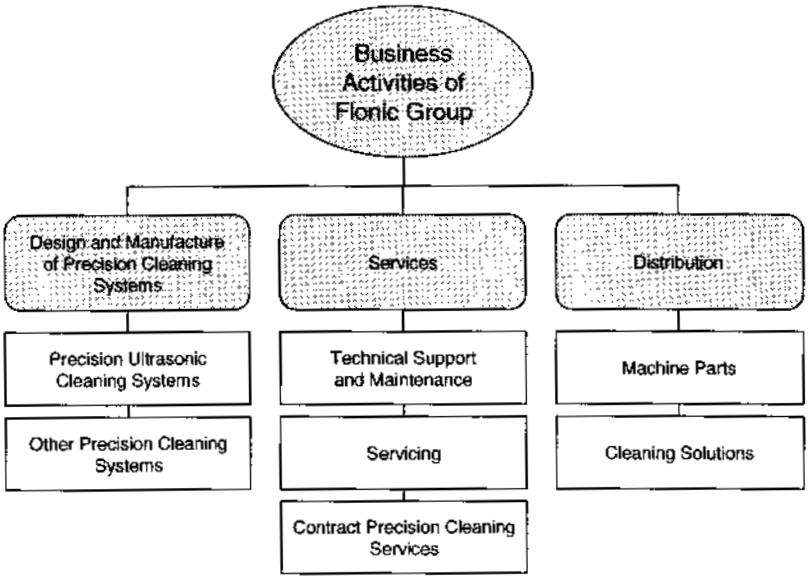
Details of the subsidiaries of the Company are summarised below: -

Corporation	Date/Place of Incorporation	Issued and Paid-up Share Capital (RM)	Effective Equity Interest (%)	Principal Activities
Subsidiaries of Flonic				
FSB	14 September 1984 / Malaysia	1,500,000	100	Design and distribution of precision cleaning systems
FPS	19 November 2002 / Malaysia	3	100	Marketing and distribution of precision cleaning systems
FE	3 December 2002 / Malaysia	3	100	Dormant
USB	5 March 2002 / Malaysia	2	100	Design and manufacture of precision cleaning systems

4.2.2 Types of Products and/or Services

Flonic Group is a designer, manufacturer and distributor of its own brand Precision Cleaning Systems known as Flonic™. The Group also provides complementary supporting activities such as maintenance and upgrading of other cleaning systems. The current business activities of Flonic Group are depicted in the figure below: -

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

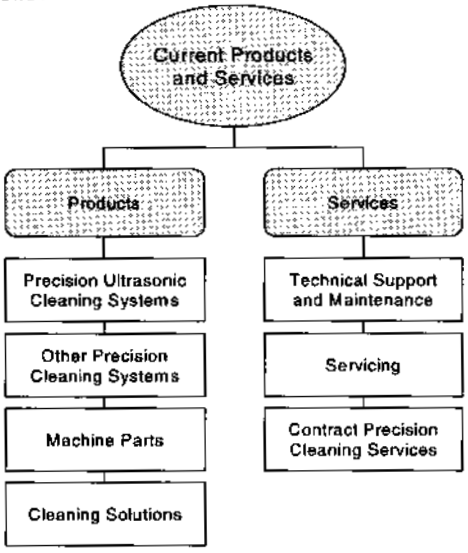


Flonic Group primarily designs, manufactures and distributes various types of Precision Cleaning Systems under Flonic™ brandname as follows: -

- Precision Ultrasonic Cleaning Systems; and
- Other Precision Cleaning Systems such as vapour cleaning systems, high-pressure cleaning systems etc.

The Group is able to design, manufacture and distribute Precision Cleaning Systems incorporating more than one precision cleaning technology, for example a Precision Cleaning System incorporating an ultrasonic cleaning system with a vapour cleaning system. To complement its design and manufacturing activities, Flonic Group also provides technical support and maintenance services for precision cleaning Systems manufactured by the Group as well as servicing of precision cleaning systems manufactured by other operators, and Contract Precision Cleaning Services.

Flonic Group's current range of products and services fall into two major categories as follows: -



Flonic Group Portfolio of Products and Services

4.2.2.1 Precision Ultrasonic Cleaning Systems

Flonic Group's Precision Ultrasonic Cleaning Systems are designed to clean contaminants from Objects. The Group designs and manufactures a wide variety of Precision Ultrasonic Cleaning Systems, which are usually customised according to customer requirements and specifications.

Contaminants that can be removed include the following:-

- substances that are soluble in the cleaning medium employed;
- unwanted metal particles;
- residual oil, lubricant, grease or other organic compounds;
- loose fibres; and
- other particles.

Precision Ultrasonic Cleaning Systems are be used to clean a large variety of Objects, including:

- integrated circuits;
- electronic sensors;
- hard-disk drive components;
- flat panel displays;
- picture tubes;
- medical instruments;
- wafer boats (devices used to store and transport semiconductor wafers under Clean Room conditions);
- optical lenses; and
- stamped and machined metal parts;

Precision Ultrasonic Cleaning Systems designed and manufactured by the Group utilise a variety of liquid mediums, including de-ionised water, detergents or solvents to aid in the cleaning process. Precision Ultrasonic Cleaning Systems may integrate ultrasonic cleaning technology with other precision cleaning technologies, such as Precision High-Pressure Water Jet Spray Cleaning or a High-Efficiency Liquid Flush and Replacement System to obtain the best possible result.

The system may also incorporate other pre or post-wash subsystems, including the following:

- pre-wash soak;
- post-wash rinsing; and
- post-wash drying.

Precision Ultrasonic Cleaning Systems may be manually operated, semi-automatic or fully automated.

4.2.2.2 Other Precision Cleaning Systems

(a) Vapour Cleaning Systems

Vapour Cleaning Systems are designed to remove residual oil, grease, lubricant, other organic compounds, and other particulate contaminants on an Object's surface. This is achieved through the application of an organic solvent vapour.

Vapour Cleaning Systems may be manually operated, semi-automatic or fully automated. If hazardous liquid is used, or if the liquid and liquid vapour is enclosed, the system is more likely to be semi-automatic or fully automated than manually operated.

Flonic also manufactures explosion proof vapour cleaning systems with many safety features such as explosion proof electrical devices, an oxygen free working chamber, electro-static free design, nitrogen purging system and automatic CO_2 fire fighting system.

(b) Low Emission Vapour Cleaning System

The functional principals of a Low Emission Vapour Cleaning System are identical to that of a Vapour Cleaning System. The Low Emission Vapour Cleaning System differs from a conventional Vapour Cleaning System primarily by the incorporation of sub-systems to minimise or prevent liquid vapour loss. These sub-systems may include one or more of the following:-

- A refrigeration system to create and maintain a layer of cold air at the highest portion of an enclosed area.
- Activated Carbon Solvent Recovery System may be installed; and
- The liquid and liquid vapour may be enclosed and isolated from the external environment.

(c) High-Pressure Precision Water Jet Cleaning Systems

Flonic Group has designed and manufactured High-Pressure Precision Water Jet Cleaning Systems in the past, and retains the capability to do so.

High-Pressure Precision Water Jet Cleaning Systems utilise precisely directed high-pressure water spray to remove contaminants from Object surfaces.

Contaminants that can be removed include the following:

- substances that are soluble in the cleaning medium employed;
- unwanted metal particles;
- residual oil, lubricant, grease or other organic compounds;
- loose fibres; and
- other particles.

High-Pressure Precision Water Jet Cleaning Systems generally utilises semi-automated or fully automated Object manipulation systems.

(d) Precision Vacuum Cleaning and Rinsing Systems

Flonic Group has successfully developed Precision Vacuum Cleaning and Rinsing Systems, which involves the cleaning and rinsing of Objects in a vacuum environment. This technology is used to increase the effectiveness of ultrasonic cleaning of Objects that have small blind holes, small diameter tubes, complicated shapes and/or overlapping surfaces.

The Group has applied for a trademark for its Precision Vacuum Cleaning System under the "VACLEAN™" name.

(e) Low Temperature Vacuum Drying Systems

Flonic Group has developed a Low Temperature Vacuum Drying System to dry Objects that require a high degree of dryness, and cannot be exposed to high temperatures.

The Group has applied for a trademark for its Low Temperature Vacuum Drying System under the "VACDRY™" name.

(f) Rigid and Stable Robotic Arm Material Handling Systems

Flonic Group has successfully developed various Rigid and Stable Robotic Arm Material Handling System that are superior to current designs in terms of rigidity and stability.

The Group has applied for a trademark for its Rigid and Stable Robotic Arm development under the "FLOBOTIC™" name.

(g) Double Stage Safety Protection Arm Systems

Flonic Group has successfully developed a Double Stage Safety Protection Arm System that incorporates a crash protection system that prevents horizontal and vertical movement crashes.

The Double Stage Safety Protection Arm System will stop robotic arm movement in the event that the arm comes into contact with an object that it is not programmed to touch, and will alert an operator to take the necessary corrective measures. This system can prevent damage resulting from improper robotic arm movement, and reduce downtime and maintenance costs.

Flonic Group has applied for a trademark to protect its Double Stage Safety Protection Arm System development under the "SAFEPRODE™" name.

(h) High-Efficiency Liquid Flush and Replacement System

Flonic Group has successfully developed a High-Efficiency Liquid Flush and Replacement System. This system reduces the formation of blind spots and replaces the entire liquid content in the cleaning or rinsing vessel, thereby removing substantial contaminant particles.

The Group plans to patent this new technology. The Group has also submitted applications to trademark the replacement system under the "JET-BLAST™" name, and to trademark the liquid flush system under the "EVEN-FLOW™" name.

(i) Activated Carbon Solvent Recovery System

The Activated Carbon Solvent Recovery System is used to recover used solvent vapour circulating in a closed vapour cleaning system.

Flonic plans to develop a flexible Solvent Recovery Systems that can be installed in a wide range of Precision Cleaning Systems, including Vapour Cleaning Systems and Precision Ultrasonic Cleaning Systems that utilise solvent as a cleaning medium. This system is useful in instances where solvent vapour released into the environment is undesirable, for example in a clean room or in areas where excessive solvent vapour release is not allowed by environmental regulations.

4.2.2.3 Supply of Parts, installation and structures for Precision Cleaning Systems

Flonic Group supplies Machine Parts to its customers. Parts supplied during the financial year ended 31 January 2005 include, among others, ultrasonic generators and transducers. The Group also upgrades customer Precision Cleaning Systems.

4.2.2.4 Distribution of Precision Cleaning Solutions

The Group supplies cleaning solutions primarily in the form of organic solvents and detergent for its Precision Ultrasonic Cleaning Systems. The Group plans to expand this business to ensure that customers maximise system performance and to create recurring revenue streams for the Group.

4.2.2.5 Supporting Services

Flonic Group provides complementary Supporting Services, including:-

- Technical Support and Maintenance; and
- Servicing of other manufacturers' cleaning machine.

The Group provides Technical Support and Maintenance services for Precision Cleaning Systems to its local and overseas customers. Flonic Group also services cleaning systems manufactured by other operators.

The Group also provides Contract Precision Cleaning Services to its customers. The Group leverages on its expertise in designing and manufacturing precision cleaning systems to perform precision cleaning of products that its customers are unable, or find uneconomical to undertake. This service will likely create a steady revenue stream from a potentially high value-added process.

4.2.3 Technology Used / To Be Used

Flonic Group's operational facilities are focused on engineering design and manufacturing of Ultrasonic Cleaning Systems and Other Precision Cleaning Systems. The following represents the major technologies that Flonic Group is either currently using, or will use as part of the Group's future plans:-

- Precision Ultrasonic Cleaning;
- Vapour Cleaning;
- High-Pressure Precision Water Jet Cleaning;
- High-Efficiency Air Knife Cleaning;
- High-Efficiency Liquid Flush and Replacement;
- Four-Side Overflow Filtering;
- Precision Vacuum Cleaning and Rinsing;
- Low Temperature Vacuum Drying;
- Rigid and Stable Robotic Arm;
- Double Stage Safety Protection Arm System;
- Laser Cleaning;
- Carbon Dioxide (CO_2) Snow Cleaning;
- Deionised Water Generation; and
- Megasonic Cleaning.

The following represents the major technologies that Flonic Group has used or is currently using:-

4.2.3.1 Precision Ultrasonic Cleaning

In general, Precision Ultrasonic Cleaning technology is a Precision Cleaning technology that removes contaminants from an Object placed in a liquid medium. The cleaning process is primarily based on inducing cavitation in the liquid medium through the generation of ultrasonic waves that are subsequently transmitted through the liquid medium. The Precision Ultrasonic Cleaning process may be employed to remove most types of physical contaminants from the object to be cleaned including grease, lubricants and other oil-based contaminants, unwanted metal particles, loose fibres, and other particles.

Ultrasonic waves are sound waves whose frequency is beyond the upper range of human hearing, or greater than 20 kilohertz (kHz). Cavitation refers to the formation of very small vacuum bubbles in a liquid medium through which ultrasonic waves are being passed, whose subsequent rapid collapse and implosion leads to the release of a relatively large amount of energy, and hence cleaning power, in a relatively small area. The release of energy from the implosion in close vicinity to the Object surface collides with and fragments or disintegrates the Contaminant, allowing the liquid medium to displace the contaminant at a very fast rate. The implosion also produces dynamic pressure waves that carry the fragments away from the Object surface, reducing the probability that the Contaminant will be subsequently re-deposited on the Object.

The liquid medium may be classified as one of three broad categories, i.e. water, solvent or detergent.

- Water includes deionised water, to which no other substance has been deliberately added;

- Solvents are generally organic compounds in a liquid state, and include halogenated hydrocarbons, alcohol, and other organic compounds; and

- Detergents are solutions of water and a detergent. Detergent molecules are basically surfactants, containing both a hydrocarbon portion, soluble in oil, and an ionic portion, soluble in water. Surfactants reduce the surface tension of the liquids in which they are dissolved.

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

In general cavitation frequency, vacuum bubble size, and energy released are dependent on the ultrasonic frequency utilised:

- the use of low frequencies generate relatively fewer vacuum bubbles, of larger average size and higher energy; and

- the use of higher frequencies generates relatively more vacuum bubbles, of smaller average size and lower energy.

The use of low or high ultrasonic frequencies is suitable for different applications:

- low frequencies produce more vigorous cleaning action, and are generally more appropriate for cleaning heavier and larger sized Objects; and

- higher frequencies produce milder cleaning action, and are generally more appropriate for cleaning smaller, more delicate Objects, and for the rinsing step. The generation of vacuum bubbles of smaller average size results in greater penetration and surface coverage, especially into recessed areas and small blind holes.

The high-frequency waves employed in Precision Ultrasonic Cleaning Systems are generated by two pieces of equipment working together, i.e. the ultrasonic generator and the ultrasonic transducer.

- an ultrasonic generator converts electrical energy from the line, which is typically alternating current at 50 Hz to 60 Hz, into electrical energy of the ultrasonic frequency, that is, alternating current at 20 kHz or more. The most advanced ultrasonic generators are able to adjust a variety of output parameters, example square wave output, achieving pulsing of ultrasonic energy, or modulating or "sweeping" the frequency of the generator output around the central operating frequency.

- an ultrasonic transducer is a piece of equipment that converts alternating electrical energy generated by an ultrasonic generator into vibratory mechanical energy. There are generally two types of ultrasonic transducers in use today, the Magnetostrictive transducer and the Piezoelectric transducer.

Ultrasonic transducers may be immersed directly in the liquid medium, or are firmly affixed to the wall or walls of the vessel holding the liquid medium. The vibration of the ultrasonic transducer causes the wall to which it is affixed to vibrate. These vibrations are then transmitted from the vessel wall into the liquid medium where they cause cavitation and consequently the ultrasonic cleaning effect. The most basic Precision Ultrasonic Cleaning System consists of the following components:-

- an ultrasonic generator;
- one or more ultrasonic transducers;
- a vessel to contain the liquid medium, to which the ultrasonic transducer or transducers are affixed; and
- some means by which the Object or Objects may be placed in and removed from the liquid medium.

4.2.3.2 Vapour Cleaning

Vapour Cleaning removes residual oil, grease, lubricant, other organic compounds, and other particulate contaminants that may adhere an Object surface through the application of a vapour. An organic solvent vapour is usually used, as water vapour is not an effective solvent or cleaning agent. The vapour is created by applying heat to a vessel containing the cleaning liquid. As the vapour comes into contact with the relatively colder object, the vapour will condense on the Object surface. Contaminants that are soluble in the liquid will dissolve, and will be carried away from the Object as the liquid is removed from the Object surface. Insoluble contaminants may be carried away from the Object as the liquid is removed from the Object surface.

Using a Vapour Cleaning System has the incidental benefit in that the Object is heated, which facilitates drying and reduces the probability that moisture from the atmosphere will be deposited on the Object through condensation after cleaning, reducing the probability of corrosion and the formation of watermarks.

4.2.3.3 High-Pressure Precision Water Jet Cleaning

High-Pressure Precision Water Jet Cleaning utilises precisely directed, high-pressure water spray to remove contaminants from Object surfaces. Contaminants that can be removed include the following:

- substances that are soluble in the medium employed;
- unwanted metal particles;
- residual oil, lubricant, grease or other organic compounds;
- loose fibres; and
- other particles.

The liquid spraying medium used is usually deionised water, although other liquids such as detergents or organic solvents may also be used. Some form of liquid recovery and recycling system will probably be necessary if detergents or organic solvents are used, to reduce operating costs and to avoid creating a large volume of waste.

High-Pressure Precision Water Jet Cleaning Systems are generally most effective at cleaning regularly shaped Objects without internal spaces and have relatively simple, planar surfaces. More complicated objects may require the use of controlled object handling systems to manipulate the Object and/or water-spraying nozzle. It may thus be more effective to use other industrial cleaning technologies to clean such objects. High-Pressure Precision Water Jet Cleaning Systems generally utilises semi-automated or fully automated Object manipulation systems. This is because the Object movement has to be precise so as to achieve the most effective cleaning action, and because high-pressure water is potentially hazardous and can cause operator injury.

4.2.3.4 High-Efficiency Air Knife Systems

A conventional air knife system utilises high-velocity airflow to achieve either Object cleaning through the removal of particles, and/or Object drying through the removal of moisture. The air utilised is filtered with a High-Efficiency Particulate Air (HEPA) filter to prevent particle deposition from the airflow itself.

However, conventional air knife systems are limited in that airflow velocity measured at different distances from the point of air flow origin is not constant, with airflow velocity showing significant variation from the desired range. This decreases system efficiency, as effective airflow is only generated over a limited area in front of the point of airflow origin, making it necessary to increase Object exposure time to effective airflow by either limiting Object movement, or utilising multiple airflow sources.

Through its internal R&D efforts, Flonic Group has developed a High-efficiency Air Knife System, with greatly improved airflow velocity characteristics. Airflow velocity measured at different distances from the point of airflow origin is more constant, and remains in the desired airflow velocity range over a much greater distance. This greatly improves system efficiency. The Group believes that this technology has many potential applications in Precision Cleaning and other industrial applications, and intends to submit an application to patent this technology.

4.2.3.5 High-Efficiency Liquid Flush and Replacement Systems

Flonic Group has successfully developed a High-Efficiency Liquid Flush and Replacement System. This system is able prevent the formation of blind spots and replace 100% of a cleaning or rinsing vessel's liquid content, thereby removing all contaminant particles.

Conventional liquid flush and replacement systems may be inefficient for the following reasons:-

- If the liquid is drained completely, particles or other contaminants may be deposition on the vessel walls and other surfaces as surface tension causes residual liquid to adhere to the vessel wall. The use of surfactants will reduce contaminant deposition. However, their use may not be compatible with the cleaning of certain Objects.

- If a liquid is flushed out of a vessel, eddies or blind spots that may be formed as the liquid is streamed into the vessel may trap particles and other contaminants, causing contaminant concentrations in the vessel to steadily increase as the flush cycle is repeated. Suspended particles will also tend to settle at the bottom of the tank. Ultimately, the liquid vessel will have to be drained completely.

In contrast, High-Efficiency Liquid Flush and Replacement System utilises a controlled stream of filtered liquid directed in the tank to create liquid flow and turbulence that eliminates the formation of contaminant-trapping eddies and blind spots. Suspended particles and other contaminants are distributed evenly throughout the tank, and are thus more effectively removed.

The controlled turbulence is coupled with a system that controls the flow of the liquid evenly and thoroughly sucks contaminated liquid into the filter system, without allowing any liquid and contaminant to remain the vessel. As filtered liquid is simultaneously added to the vessel, process efficiency is increased as no time is lost in re-filling the vessel. With the use of high efficiency filters, the contaminant level in the vessel can be kept below specified levels, reducing the need to frequently replace the liquid. This lowers operating cost and reduces system downtime.

The Group plans to patent this new technology. The Group has also submitted applications to trademark the replacement system under the "JET-BLAST™" name, and to trademark the liquid flush system under the "EVEN-FLOW™" name.

4.2.3.6 Four-Side Overflow Filtering

Four-Side Overflow Filtering refers to a contaminant removal method that is designed to efficiently remove contaminants that float on a liquid surface. Floating contaminants will be removed from a liquid vessel as a controlled stream of liquid is pumped into the vessel, causing the vessel to overflow.

While this contaminant removal method is simple in principle, there is difficulty in applying this method to liquids with high surface tension, such as water and deionised water. Surface tension will hinder liquid overflow, reducing the efficiency of the filtering system. A surfactant may be added to reduce the surface tension of the liquid, but the use of surfactants may not be compatible with certain cleaning applications. To solve this problem, a specially designed device is used to physically break the surface tension of the liquid, facilitating overflow and subsequent floating contaminant removal.

4.2.3.7 Precision Vacuum Cleaning and Rinsing

Precision Vacuum Cleaning and Rinsing involves the cleaning and rinsing of Objects in a vacuum environment. Precision Vacuum Cleaning and Rinsing is used to increase the effectiveness of ultrasonic cleaning of Objects that have small blind holes, small diameter tubes, complicated shapes and/or overlapping surfaces. The vacuum environment ensures that no air is trapped by the Object's small blind holes, small-diameter tubes, complicated shapes and/or overlapping surfaces. The presence of air in these spaces will act as an 'air shield' and exclude liquid penetration, and as a result cavitation, and therefore cleaning, cannot take place in these spaces.

4.2.3.8 Low Temperature Vacuum Drying

Low temperature vacuum drying is used to dry Objects that require a high degree of dryness, but cannot be exposed to high temperatures. Placing an Object in a vacuum environment will increase liquid evaporation rates. However, rapid evaporation of liquid may lead to freezing of residual liquid on the Object surface, as energy is needed for liquid evaporation. Thus, it is necessary to supply some heat to the Object to prevent this from occurring. Heat is supplied to the vacuum chamber by an infra-red heater, and an external strip heater.

4.2.3.9 Rigid and Stable Robotic Arm

A Rigid and Stable Robotic Arm is a material handling system that is superior to current designs in terms of rigidity and stability. The rigidity and stability of the new design reduces friction and consequently particle formation, which reduces the rate at which a precision cleaning system's liquid cleaning or rinsing agent is contaminated. The increased stability of the robotic arm also reduce vibration and knocking, dropping or crashing of the Object, which will in turn reduce product reject rates.

4.2.3.10 Double Stage Safety Protection Arm System

The Double Stage Safety Protection Arm System incorporates a system that passes a very low voltage current through the robotic arm. The system is able to detect if the robotic arm is in contact with a particular object based on differences in electrical conductivity.

However, this system does not work if the robotic arm comes into contact with an insulated object, as no circuit is completed. An additional sensor system is used to overcome this problem. The Double Stage Safety Protection Arm System will stop robotic arm movement in the event that the arm comes into contact with an object that it is not programmed to touch, and will alert an operator to take the necessary corrective measures.

This system can prevent damage resulting from improper robotic arm movement, and reduce downtime and maintenance costs.

The following represents the major technologies that Flonic Group may use as part of the Group's future plans:

4.2.3.11 Laser Cleaning

Laser is an acronym for "Light Amplification by Stimulated Emission of Radiation". Lasers are characterised by the emission of narrow, well-defined beams of light, which can be very intense. It is also possible to generate extremely short pulses of light, on the order of a femtosecond (10^{-15} seconds). A Laser System generally consists of three important components:

- an energy source (usually referred to as the "pump" or "pump source". A wide range of pump sources may be used, depending primarily on the gain medium used. The choice of pump source determines the manner in which energy is transmitted to the gain medium. Pump sources include electrical discharge, chemical reactions, and other light sources (normal light or another laser);

- a "gain medium" or "laser medium". The gain medium is the major determining factor of the wavelength of operation, and other properties, of the laser. A large number of materials and combinations of materials may be employed as gain mediums, examples of which include liquids such as dyes, gasses and mixtures of gasses, and solids such as crystals and glasses; and

- a mirror, or system or mirrors, forming an "optical resonator". The design and alignment of the optical resonator with respect to the medium is crucial in determining the exact operating wavelength and other attributes of the leaser system.

The first working laser was developed in 1960 in the United States, and since that time lasers have been applied to a wide range of applications. These include:-

- military applications (e.g. laser range-finders, laser guided munitions);
- medicine (e.g. surgery, laser corrective eye surgery, dentistry);
- manufacturing (e.g. material processing, high precision measurement and control, ultraviolet lithography in semiconductor manufacturing);
- communications (e.g. optical amplification for telecommunications over optical fibres);
- entertainment (e.g. laser light shows); and
- cleaning (e.g. industrial cleaning, conservation).

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

The most important cleaning parameter is the energy density, or "fluence" of the laser beam, which is defined as the energy per unit area incident on the surface (energy per pulse/ beam size at the surface) and is usually measured in joules per square centimetre (J/cm^2). As it is possible to exercise a high degree of control over laser pulse rate and energy output, and since the relative absorptive of Object and contaminants can be determined, it is possible to fine-tune the parameters applied to achieve the least disruptive cleaning mechanism. The cleaning mechanisms involved in Laser Cleaning are primarily dependent on the fluence applied and the relative energy absorption characteristics of the contaminant. The general mechanisms involved are described below:-

- if low fluence (generally <1 J/cm^2) is applied to a contaminant that strongly absorbs laser of that particular wavelength, the strong and rapid absorption of energy causes rapid heating and subsequent expansion of the contaminant. The expansion may be so rapid that the resultant forces generated are sufficient to eject the particle from the Object surface. This process is generally highly selective;

- applying slightly higher fluence might result in the contaminant being heated to a temperature sufficient to cause vapourisation; and

- at higher fluence (generally >1.5 J/cm^2, although this varies by contaminant) the removal mechanism may be more complex and involve the formation of a plasma just above the surface and the generation of a shock wave. This mechanism is generally less selective and can cause damage to the Object.

Laser Cleaning has several advantages over other industrial cleaning methods. These advantages include:

- **Selectivity:** Provided that cleaning is carried out within suitable parameters, it is possible to remove contaminants without causing any damage to the Object;

- **Non-contact cleaning:** Since energy is delivered in the form of light, there is no mechanical contact with the Object surface, eliminating the risk of mechanical or abrasive damage to the Object.

- **Vacuum cleaning:** Since light can be transmitted through a vacuum, cleaning can be carried out in a vacuum environment. It is therefore possible to clean Objects in a particle-free environment.

- **Medium-free cleaning:** In addition, since light can be transmitted without having to pass through a medium, cleaning can be carried out without the use of liquids, eliminating the potential for corrosion or contamination by liquid remnants.

- **Versatility:** Laser cleaning is very versatile as it is possible to exercise a large degree of control over laser output wavelength and fluence. It is therefore possible to apply Laser Cleaning techniques to removing a wide range of Object and Contaminant combinations.

Laser Cleaning has one disadvantage in that it may not be efficient to clean Objects that do not have relatively simple, planar surfaces. Complicated systems may need to be incorporated to position the laser precisely over the exact position of the Object to be cleaned. Objects that are not suitable for Laser Cleaning include complicated shapes or configurations, and it may be impossible to clean interior surfaces. Other Industrial Cleaning technologies, such as Ultrasonic Cleaning may be more suitable for cleaning such Objects.

4.2.3.12 Carbon Dioxide Snow Cleaning

A CO_2 Snow Cleaning System generally functions by blowing an Object surface with a high-velocity stream of air charged with solid CO_2. This industrial cleaning technology is relatively new. There are generally three mechanisms involved in CO_2 Snow Cleaning:

- As the solid CO_2 impacts on the Contaminant, kinetic energy is transferred from the solid CO_2 to the contaminant, and this may be sufficient to overcome the forces holding the Contaminant to the Object surface, thereby knocking the Contaminant from the Object surface. This is generally the primary mechanism involved in CO_2 Snow Cleaning.

- The Contaminant is violently cooled as it comes into contact with the CO_2 snow, creating a micro-thermal shock between the Contaminant and the Object. Cracking and delamination of the Contaminant may occur, which further augments the cleaning process.

- Solid CO_2 snow sublimates and expands rapidly as it comes into contact with air at ambient room temperature. If this rapid increase in volume occurs at the Contaminant – substrate interface, the expansion may generate sufficient force to remove the Contaminant from the Object.

Contaminant particles removed by CO_2 Snow Cleaning are generally carried away from the Object on a cushion of CO_2 gas. As the CO_2 gas harmlessly dissipates, these Contaminant particles generally constitute the only waste generated by this cleaning process. CO_2 Snow Cleaning has a number of advantages over other industrial cleaning technologies:

- CO_2 snow is non-abrasive and thus have very wide application;

- CO_2 Snow Cleaning does not leave any residue on the Object surface if sufficiently pure CO_2 is used;

- the CO_2 Snow Cleaning technique does not involve the use of liquids and therefore poses no risk of Object corrosion or remnant liquid contamination. The technique does not require rinsing and drying steps, potentially increasing throughput rates; and

- the highly selective and liquid-free characteristic of CO_2 Snow Cleaning means that the technique may be applied to a large range of Objects, and is very versatile.

There are two drawbacks associated with CO_2 Snow Cleaning:-

- CO_2 Snow Cleaning generally leads to cooling of the Object surface. Thus, the cleaning process should be carried out under conditions of low ambient humidity to avoid moisture condensation on the Object surface; and

- molecular contaminants and very small particles can lie under the cushion of gaseous CO_2 and may not be effectively removed.

4.2.3.13 Deionised Water Generation

Deionised (DI) Water is defined as water that has been treated so as to remove dissolved ionic impurities. The generally accepted means of measuring the purity of DI Water is to measure the resistivity defined in terms of Ohms per Centimetre (Ω/cm) at 25°C. The resistivity of a water sample is inversely proportional to the amount of dissolved ions it contains, and hence the higher the resistivity the purer the water.

DI Water is generated through an ion exchange process. Water is passed through two columns, the first of which is packed with positive ion-exchange resin beads (the cation exchange resin) and the second packed with negative ion-exchange resin beads (the anion exchange resin). As positively charged dissolved ions come into contact with ion exchange sites located on the cation resin surface, it drives off a positive Hydrogen (H+) ion and bonds to the resin, and in this way, is removed from the water. Similarly, when negatively charged dissolved ions come into contact with the ion exchange sites located on the anion resin surface, they drive off a negative Hydroxide (OH-) ion and bonds to the resin, and in this way, is removed from the water.

Ion-exchange resins will steadily lose their effectiveness as the H+ or OH- ions on the ion exchange sites are driven off. The Ion-exchange resins need to be periodically restored by chemical means to maintain their effectiveness. The performance of ion-exchange resins can be negatively affected by the presence of solid particles and dissolved organic compounds, and as such water is usually filtered or purified by reverse osmosis before being pumped through the ion exchange columns.

4.2.3.14 Megasonic Cleaning

Megasonic Cleaning technology is essentially the same as Ultrasonic Cleaning technology, in that cavitation is induced by transmitting high frequency sound waves through a liquid medium, except that the sound waves employed are of a much higher frequency, that is, in the Megasonic range.

Megasonic Cleaning utilises sound waves in the 700 kHz and 1.2 megahertz (mHz) range. Ultrasonic generators and piezoelectric transducers are used, as magnetorestrictive transducers are not able to vibrate at such high frequencies. The use of higher frequency sound waves results in the formation of larger quantity, smaller and less energetic cavitation bubbles compared to cavitation bubbles typically created by Ultrasonic Cleaning Systems. In general, Megasonic Cleaning has the following advantages over Ultrasonic Cleaning:-

- Smaller cavitation bubble size enables the cleaning of smaller particles, up to the sub-micron level;

- lower energy cavitation bubbles are more suitable for cleaning delicate Objects, as they are less likely to damage the Object's surface; and

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

Flonic Group plans to develop Megasonic Cleaning technology initially targeted at performing precision cleaning of Semiconductor Wafers. The Group also plans to develop Megasonic Cleaning technology for use in biotechnology applications.

4.2.4 Approvals, Major Licences and Permits Obtained

The major licences and permits obtained by the Group are as follows: -

Authority	Description	Major Conditions Imposed	Status of Compliance
Ministry of International Trade and Industry	Manufacturing License, to manufacture 'Ultrasonic Cleaning Machines' licensed from 25 September 2004 with no expiry date.	a. FSB is required to notify the MITI of any appointment and changes in the Board of Directors. b. FSB is required to notify MITI of any disposal of shares.	Pending notification.
Majlis Perbandaran Klang	Business and Advertisement License from 11 May 2005.	Nil	Nil

As with other business, the Group's operations are subject to the government rules and regulation. Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may impede on Flonic Group's performance and growth within a free enterprise environment.

4.2.5 Brand Names, Patents, Trade Marks, Licences, Technical Assistance Agreements, Franchises And Other Intellectual Property Rights

FSB has submitted the applications of "FLONIC™", "JET-BLAST™", "FLOBOTIC™", "SAFEPRODE™", "VACLEAN™", "EVEN-FLOW™" and "VACDRY™" to the trademarks registry in Malaysia under Class 7 of the Trade Mark Act 1976 to register these marks in order to prevent unauthorised usage of the marks. These marks are pending registration.

The status of the primary trademark applications mentioned above are as follows:-

Trademarks	Application Date	Description
FLONIC™	11 August 2004	the corporate logo and brand name
JET-BLAST™	26 August 2004	high-efficiency liquid flush and replacement system
FLOBOTIC™	26 August 2004	a rigid and stable robotic arm
SAFEPRODE™	26 August 2004	a double-stage safety protection arm system
VACLEAN™	26 August 2004	a vacuum cleaning system
EVEN-FLOW™	26 August 2004	a high efficiency liquid filtering and replacement system
VACDRY™	26 August 2004	a vacuum drying system

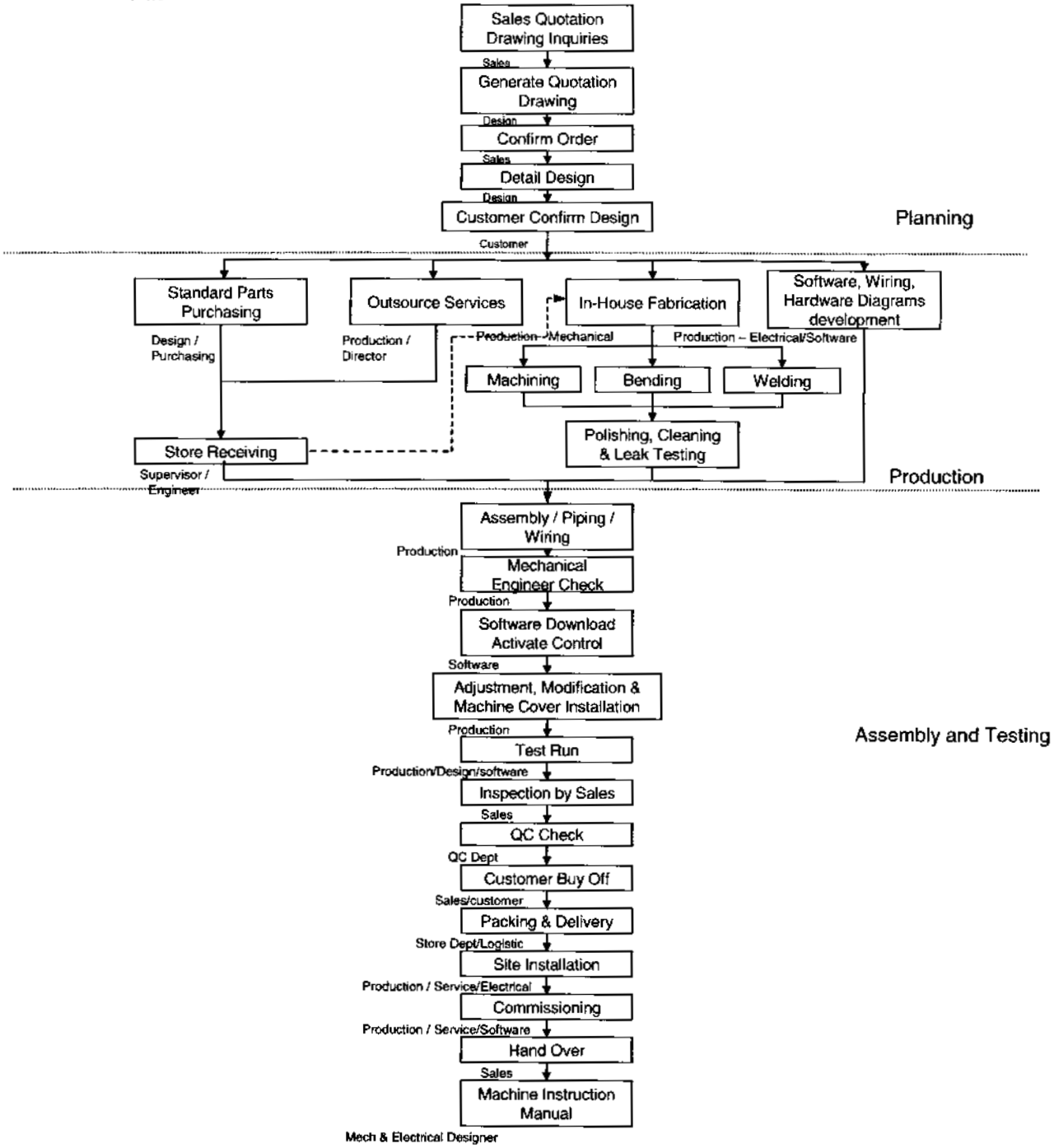
4.2.6 Dependency On Patents, Licences, Industrial, Commercial Or Financial Contracts And New Manufacturing Processes

The Board is of the opinion that the Group is not dependent on any patents, licenses, industrial, commercial or financial contracts and new manufacturing processes.

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

4.2.7 Operation Flow Chart

The project flow plan for the Design and Manufacture of Precision Cleaning Systems is as follows:



The Work Flow of Design and Manufacture of Precision Cleaning Systems is as follows:

i. Planning stage

The Sales team receives a sales quotation and drawing inquiries from a prospective customer. A quotation and a design drawing are generated and presented to the customer. When the order is confirmed, detailed engineering design work is undertaken. The customer will confirm the system design before fabrication work is carried out.

ii. Production

At this stage, purchasing of standard parts is undertaken. Services are outsourced as required. Generally, the Group does not rely on outsourcing. In-house fabrication consisting of metal machining, bending and welding is undertaken. These metal parts are washed, cleaned and leak tested before assembly and fitting. Software and hardware diagrams are prepared before the production process being carried out.

iii. Assembly and Testing

Once the preparation is done, the production stage will begin. During this stage all the quality and delivery requirements are monitored. Components and parts are then assembled and piping work and wiring are also undertaken. The system is then checked by a mechanical engineer. The control systems are installed after the software has been downloaded. After adjustments and modifications are made, the machine cover is installed. Subsequently, a test run is carried out to test for proper function and performance. Quality control checks are then carried out for cleaning and screw marking.

After the checking, the machine is disassembled for packing and delivered to customer's site. The machine is then reinstalled on the customer's site and commissioned. The machine as well as two copies of the machine's instruction manual is then handed over to the customer.

4.2.8 Estimated Market Coverage and Position

Market Coverage

Flonic Group has gained access to both the export and local markets.

Local Market

Based on the latest available financial data on revenue derived from Ultrasonic Cleaning Systems, Flonic is **ranked second** among companies involved in the Ultrasonic Cleaning Systems sector locally. However, Flonic ranked first among Malaysian-owned manufacturers of Ultrasonic Cleaning Systems sector. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

Flonic Group currently has penetrated the local market where sales to the local market contributed 32.3% of the Group's revenue for the 7 months period ended 31 August 2005. In addition, 11 of the Group's 20 largest customers for the financial year ended 31 January 2005 were located in Malaysia. Local customers included MNCs such as Canon, Texas Instrument, Matsushita Toshiba and Shin-Etsu.

Export Market

Flonic Group has also gained access to export markets. For the 7 months period ended 31 August 2005, exports accounted for 67.7% of total revenue, amounting to RM3.93 million. For the 7 months period ended 31 August 2005, Flonic Group exported its Precision Cleaning Systems to the following countries: -

- Philippines;
- China;
- Belgium;
- Sri Lanka;
- United States; and
- Singapore.

The ability to access overseas markets will provide the basis for future business growth and expansion. Flonic has established strong relationships with its overseas customers and local MNCs, which is an endorsement of the Group's capability to design and manufacture high quality Precision Cleaning Systems that are able to meet stringent quality requirements. Letters of commendation and appreciation from the customers is set out in Section 4.2.12 of the Prospectus.

4.2.9 New or Proposed Products/Services

Flonic Group is currently a Designer and Manufacturer of Precision Cleaning Systems. Flonic Group's business intention is to develop the following products and services:

- developing and commercialising new cleaning systems to enable it to be a one-stop Precision Cleaning System Solutions Provider;

- leveraging off existing manufacturing expertise to manufacture standardised Precision Cleaning Systems;

- supply complimentary systems to Precision Cleaning customers including Deionised Water Supply System; and

- diversify upstream to reduce supply dependencies and enter new markets by manufacturing ultrasonic generators.

New Cleaning Systems

Incorporating Laser Cleaning, CO_2 Snow Cleaning and Megasonic Cleaning technologies will also enable Flonic Group to meet future requirements that are expected to be more stringent as manufacturing, especially in the Electrical, Electronic and Semiconductor sectors, becomes increasingly sophisticated and miniaturised and it also integrating several Precision Cleaning technologies to design and manufacture Water Soluble Capsule Precision Cleaning Systems to perform precision cleaning of medical capsules.

Standardised Precision Cleaning Systems

Flonic Group intends to develop and manufacture standardised Precision Cleaning machines for Industrial users (for example, Printed Circuit Board manufacturers) and non-industrial users (for example jewellery, optical and watch retailers), with less stringent cleanliness requirements. This will allow the Group to tap into a potentially larger market.

Complementary Systems

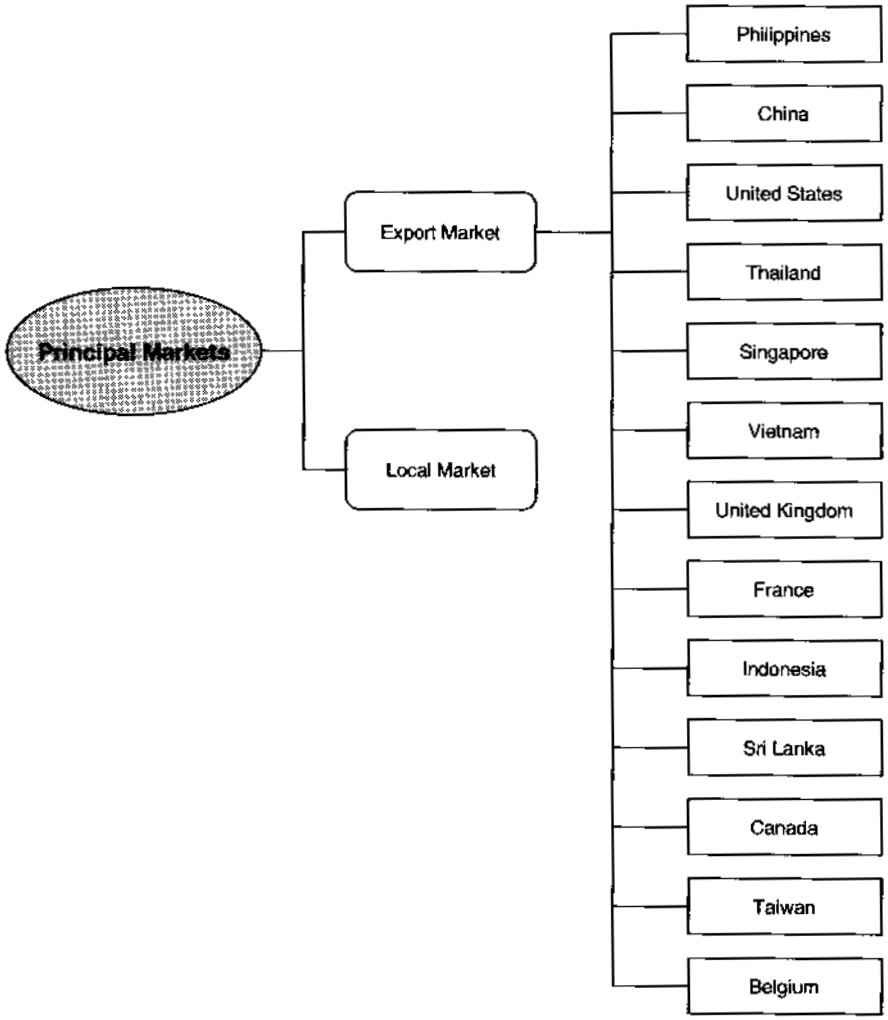
To provide total cleaning solutions and to ensure highest possible quality, Flonic Group's intention to develop and commercialise Deionising Water Supply System would be highly synergistic to its existing business as a number of its Cleaning Systems require de-ionised water supply.

Upstream Diversification

Flonic Group plans to diversify upstream by developing Ultrasonic Generator and Transducer manufacturing capabilities. This will help reduce the Group's dependency of an important component on outside suppliers, and develop new markets.

4.2.10 Principal Markets for Products

The principal markets of Flonic Group are as depicted in the diagram below:-



A significant proportion of Flonic Group's revenue for the 7 months period ended 31 August 2005 was derived from exports. Based on the audited financial statements for the 7 months period ended 31 August 2005, export sales accounted for 67.7% of Group revenue. Local sales accounted for the remaining 32.3% of Group revenue.

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

Flonic Group exported the following types of Precision Cleaning Systems for the 7 months period ended 31 August 2005: -

- Automatic single-arm, dual-arm and multiple-arm aqueous ultrasonic cleaning system;
- Vacuum washing and vacuum drying system;
- Tunnel type trays aqueous cleaning system;
- Manual five tank aqueous cleaning system;
- Two tank ultrasonic vapour cleaning system;
- Five tank automatic ultrasonic aqueous cleaning system; and
- Low-emission vapour cleaning system

Local Market

Flonic Group's local market revenue contribution by state is as follows: -

Local Market	Revenue Breakdown for the financial year ended 31 January 2005 *(RM'000)*	Proportion of Group Revenue *(%)*
Selangor	2,464.8	26.5
Penang	631.7	6.8
Kuala Lumpur	374.9	4.0
Negeri Sembilan	39.4	0.4
Perak	29.8	0.3
Sabah	17.1	0.2
Johor	7.8	0.1
Total	**3,565.5**	**38.3**

(For the financial year ended 31 January 2005, revenue of Flonic Group amounted to RM9.3 million excluding inter-company transactions.)

For the financial year ended 31 January 2005, total local revenue amounted to approximately RM3.57 million representing 38.3% of total Group revenue. Selangor represented the largest local market having accounted for 26.5% of total Group revenue. This is followed by Penang at 6.8%, and Kuala Lumpur at 4.0%. Other local markets include Negeri Sembilan, Perak, Sabah and Johor, that accounted for 0.4%, 0.3%, 0.2% and 0.1% of Group revenue respectively.

Export Market

The Group's export revenue for the financial year ended 31 January 2005 segmented by markets was as follows: -

Export Market	Revenue Breakdown for the financial year ended 31 January 2005 (RM'000)	Proportion of Group Revenue (%)
Philippines	2,737.4	29.5
China	1,387.0	14.9
Thailand	765.3	8.2
Belgium	253.0	2.7
France	184.0	2.0
Sri Lanka	161.5	1.7
Indonesia	156.0	1.7
United States	47.0	0.5
Singapore	43.9	0.5
Total	**5,735.1**	**61.7**

(For the financial year ended 31 January 2005, revenue of Flonic Group amounted to RM9.3 million excluding inter-company transactions.)

During the financial year ended 31 January 2005, total export revenue amounted to approximately RM5.74 million representing 61.7% of total Group revenue. Philippines was the largest export market for Flonic Group, accounting for 29.5% of total Group revenue for the financial year ended 31 January 2005. This was followed by China, at 14.9%. Exports to the Thailand, Belgium and France generated 8.2%, 2.7% and 2.0% of the Group's revenue respectively, while exports to Sri Lanka and Indonesia contributes 1.7% and United States and Singapore contributes 0.5% of Group revenue for the financial year ended 31 January 2005 respectively.

4.2.11 Types, Sources and Availability of Raw Materials/Inputs

Raw material purchases (in the form of parts, components and materials) accounted for 97.77% of the total purchases of Flonic Group for the 7 months period ended 31 August 2005. For the 7 months period ended 31 August 2005, the Group sourced 84.5% of its raw materials and products locally, with the remaining 15.5% sourced overseas.

Stainless-steel, steel and hardware was the largest category of raw materials purchased during the 7 months period ended 31 August 2005, accounting for 31.48% of raw material purchased by the Group, were fully imported. The second largest raw material category purchased was electrical components, accounting for 20.04% of raw material purchases of the Group during the 7 months period ended 31 August 2005, were also fully imported.

Automation Components accounted for 12.31% of the Group's raw material purchases for the 7 months period ended 31 August 2005 were fully imported from overseas. Most of the machinery parts and components utilised by Flonic Group are relatively common parts and materials used in the manufacturing of Precision Cleaning Systems including Ultrasonic Cleaning Systems.

4.2.12 Quality Control Procedures and Customers' Recognition

To ensure the quality of its products, the Group conducts checks at every stage of production, from the acceptance of the raw materials, including the testing of WIP and concluding with the testing of the quality of finished goods, and also the process flows as disclosed in Section 4.2.7. In addition, the quality of Flonic Group's Ultrasonic Cleaning Systems and Industrial Cleaning Systems is reinforced by customer recognition including: -

a) a Letter of Appreciation from Texas Instruments (M) Sdn Bhd ("Texas Instruments") for the design, building and installation of Precision Cleaning machines. Flonic collaborated worked closely with Texas Instruments to design and build the Precision Cleaning machines. Texas Instruments also expressed their appreciation to Flonic for the excellent support and service that has been provided.

b) a Letter of Appreciation from GS Magicstor Inc ("GS Magicstor") for the design and manufacture of Precision Cleaning Systems, and the provision of related services. With the help of Flonic, GS Magicstor was able to solve a production process problem. The use of Flonic Precision Cleaning Systems also enabled GS Magicstor to achieve a significant reduction in product cleaning costs. With the use of Flonic Precision Cleaning Systems, GS Magicstor products were accepted by OEM customers.

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

c) a Letter of Appreciation from Tse Lup Technology (Thailand) Ltd ("Tse Lup Technology") for the custom design and fabrication of a Precision Cleaning System. Tse Lup Technology credited Flonic with achieving a major product cleaning cost. Tse Lup Technology subsequently purchased additional systems for its manufacturing facilities. Tse Lup Technology also praised Flonic's ability to provide good periodic maintenance.

d) a Letter of Appreciation from Seasonair (M) Sdn Bhd ("Seasonair") for the custom design and fabrications of a Precision Cleaning Systems to clean large products. The specifications were stringent as thorough cleaning of a sensitive product was required. Seasonair credited Flonic with achieving a major reduction in chemical usage and labour costs.

e) a letter of appreciation from GS Magic Inc (GS Magic) for the design and manufacture of Precision Cleaning Systems and the provision of related services. GS Magic noted that the system met requirements and that the results obtained from using Flonic Precision Cleaning Systems were amazing. As a result of using the Precision Cleaning Systems supplied by Flonic, GS Magic was able to improve its production efficiency and quality.

f) a Letter of Appreciation from GS Magic Drive Inc. ("GS Magic Drive") for the design and manufacture of Precision Cleaning Systems and the provision of related services. With the assistance of Flonic, GS Magic Drive was able to achieve a substantial reduction in product cleaning costs, and more importantly, meet its product cleanliness requirements GS Magic Drive expressed the hope that Flonic would continue to participate in and support its development.

g) a letter of appreciation from Worldpak, LLC ("Worldpak", formerly known as CC-Pak, LLC) for the custom design and fabrication of specialised Precision Cleaning Systems. Worldpak praised the special effort and great diligence that Flonic put into meeting its needs. Flonic manufactured the systems using the most economical fabrication technique, and met all of Worldpak's requirements while maintaining a tight delivery schedule.

h) a Letter of Appreciation from Engtek Precision Philippines, Inc ("Engtek") for the successful improvement in some of its facilities in processing its products to meet customer specifications. Engtek customers were satisfied with the results. As a result of this improvement, Engtek managed to increase its productivity. Engtek also expressed their appreciation to Flonic for the excellent support and service they have provided.

i) a Letter of Appreciation from KESM Industries Berhad ("KESM") for the custom design and fabrication of a Precision Cleaning System which dramatically increased the cleanliness of their products. KESM were thus able to meet customer requirements and see significant improvement in customer returns.

j) a Letter of Appreciation from Vitalo Packaging International Inc. ("Vitalo") for the design and manufacture of a Precision Cleaning System. The Precision Cleaning System installed was running as per required performance level, and met with Vitalo's manufacturing process and customer requirements.

k) A Letter of Appreciation from Nidec Philippines Corporation ("Nidec") for the supply of Precision Cleaning Systems and supporting services. The Precision Cleaning Systems supplied by Flonic Group enabled Nidec to meet its product cleanliness requirements, and at the same time reduce quality issues and customer complaints due to its good automation design and machine parts compliance.

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

4.2.13 Research and Development

(i) Policy on Research and Development

Flonic maintains its good working relationship with its customers by continually offering them quality products or services. One of the most important aspects of R&D is to be able to develop new systems that meet the requirements of its customers and undertake rapid prototyping.

(a) Flonic Group's R&D activities are focussed in four areas:
- Solution conceptualisation and system design;
- Improvement of existing products and processes;
- Development of new products and services; and
- Evaluation of new industrial cleaning technologies.

(b) The ultimate goal of the Group's R&D is to achieve one or more advances in precision cleaning, which may include:

- achieving higher cleanliness;
- achieving better drying;
- lower energy consumption;
- lower chemical usage and lower waste disposal;
- improving user interface and control systems; and
- reducing human error and paperwork.

(c) By achieving these results through R&D, Flonic Group aims to realise the following benefits:

- sustain and grow the business;
- increase revenue and profitability;
- increase competitive advantages;
- improve cost effectiveness and efficiencies; and
- increase customer satisfaction.

(d) As a business entity that is responsible to its shareholders for sustainable profits, Flonic Group's R&D policies are practical in approach and incorporates the following:

- Continued involvement in different, new and emerging Industrial Cleaning Technologies to create marketable products and services;
- Design and manufacture of Ultrasonic Cleaning Systems and other Precision Cleaning Systems that meet customer requirements;
- Focused on providing competitive advantages that will increase the appeal of its products and services to win customers; and
- Client focussed and market driven to maximise success of commercialisation.

(e) As such, the Group's R&D efforts are assisted through the following means: -

- Selection of international best practices, technologies and innovations to serve as a continuous knowledge base for improved and new products;
- Evaluation and improvement of existing precision cleaning technologies to optimise cleaning techniques; and
- Evaluation of different, new and emerging precision cleaning technologies to assess their suitability to meet customers' cleaning requirements.

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

(ii) Research and Development Facilities and Personnel

Flonic Group places strong emphasis on its R&D activities. The Group has a formal R&D department. In addition, key employees are actively involved in the R&D process. They include the three Directors – Mr. Yen, Mr. Looa and Mr. Heng, and all of the Group's technical professionals and engineers. The Group has an in-house Class 10 Clean Room equipped with a DI Water Supply System in which to carry out R&D activities.

As Group Directors and senior staff are active contributors to the Group's R&D activities, the threat of R&D disruption due to the prolonged absence of people with the necessary skills is reduced as these Directors and senior staff are likely to remain with the Group for the long-term. In addition, the relatively ready availability of personnel with these skills indicates that the number of R&D personnel can be increased in the future if required.

(iii) Status of Research and Development

Flonic Group's R&D includes among others, activities related to solution conceptualisation and system design to meet the specific needs of its customers. In many situations, potential customers will discuss their cleaning problems with Flonic Group. It is up to Flonic Group to come up with the required solutions. As such, Flonic Group will need to undertake research during solution conceptualisation stage to ascertain the following: -

- optimum cleaning technology to be utilised;
- requirements for pre and post cleaning system;
- delivery and extraction system (into and out of the cleaning chamber) to minimise external contamination;
- total cleaning processes to ensure effectiveness and fast throughput;
- special handling processes to prevent damage to the Object;
- robotic arms for picking and placing objects according to parameters to minimise handling errors;
- jigs and fixtures to position the Object or cleaning devices to maximise cleaning effectiveness; and
- identifying the best cleaning solution to be used.

In addition, Flonic Group also undertakes software design to enable end-users to perform data acquisition, which includes: -

- product tracking
- parameter tracking
- parameter control
- cleaning algorithm setting
- audit trailing.

Software design also enables end-users to perform remote system monitoring, and computer integrated manufacturing (control of the manufacturing process without human intervention).

The solution conceptualisation process incorporates input from various people including the following:

- mechanical engineers for the design of the machine and all moving parts;
- electrical engineers for electronic control of processes and mechanical movements;

- software engineers to develop touch-screen software, Programmable Logic Control (PLC) software, Industrial PC software, and telecommunication protocol; and
- personnel (including the three directors of Flonic Group) with many years of experience possessing extensive knowledge to aid in the conceptualisation processes.

The Group is committed to developing solutions that meet customer's cleanliness specifications, and subsequently designing optimum solutions would also normally incorporate the following: -

- highly effective cleaning results;
- fast throughput;
- does not damage the Object being cleaned;
- cost-effective running cost particularly in terms of consumables;
- operator safety and comfort; and
- prevention of hazardous situations.

R&D is a continuous and dynamic process, as Flonic Group continuously integrates feedback from the Group's management, technical professionals, manufacturing personnel and customers with results obtained from the research laboratory to fine-tune precision cleaning processes and develop the most effective and efficient cleaning solutions. Generally, a functional prototype is also built during the primary stage of system conceptualisation and design to prove that a particular industrial cleaning technology and process meets customer specifications before full-scale manufacturing is carried out.

R&D and testing are carried out throughout the manufacturing process to ensure that the cleaning concept is sound and customer specifications are continuously met. To ensure that quality standards are met, extensive testing is carried out once the manufacturing process is completed to ensure that customer specifications are met, the system functions properly and the cleaning process is optimised.

(iv) Achievements in Research and Development

To-date, the main achievements of Flonic Group's R&D are focused on ultrasonic cleaning and other industrial cleaning technologies. Some of the key achievements include: -

a. Zero metal particle precision cleaning systems

Designing and manufacturing a zero metal particle automatic/semi-automatic precision cleaning systems that utilises a push-through conveyor tray system to transport Objects;

b. Automated ultrasonic and acetone vapour cleaning systems

Designing and manufacturing an ultrasonic and vapour cleaning systems that utilises acetone vapour as the vapour cleaning medium. Several technical issues had to be overcome, as acetone is a hazardous and highly flammable vapour.

In addition to incorporating advanced software that is able to detect improper system function and the ability to shut-down as necessary, the system is air-tight and incorporates an automatic CO_2 gas injection system that fills the system with CO_2 gas in the event of a fire.

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

The automation system installed in acetone vapour chamber is friction and spark-free to eliminate the possibility of automation system movement causing a fire or explosion;

c. Precision Vacuum cleaning and rinsing systems

Development of a precision vacuum cleaning and rinsing system. This technology improves precision ultrasonic cleaning of Objects with small blind holes, small diameter tubes, complicated surfaces, or overlapping surfaces.

Flonic Group has submitted an application to trademark its precision vacuum cleaning system under the "VACLEAN™" name.

d. Low temperature vacuum drying systems

Development of a low temperature vacuum drying system. This technique allows for the accelerated drying of Objects without the application of temperature or air-flow. This process accelerates the drying of Objects that cannot be exposed to excessive heat, and the vacuum environment will also reduce the probability that the Object will be contaminated by air-borne particles as it is drying.

The Group has submitted an application to trademark its low temperature vacuum drying system under the "VACDRY™" name.

e. High-efficiency liquid flush and replacement systems

Development of a High-efficiency Liquid Flush and Replacement System that is able eliminate the formation of blind spots and replace 100% of a cleaning or rinsing vessel's liquid content, thereby removing all contaminant particles.

This is achieved by the use of two main, complementary systems. The first circulates a controlled stream of filtered liquid back into the vessel to create controlled turbulence to prevent contaminants from being trapped in blind spots or from settling at the bottom of the vessel. The second controls the flow of the liquid evenly and thoroughly sucks the liquid into the filtration system, without allowing any liquid and contaminants from remaining in the vessel.

The Group plans to patent this new technology. The Group has also submitted applications to trademark the replacement system under the "JET-BLAST™" name, and to trademark the liquid flush system under the "EVEN-FLOW™" name.

f. Modular Precision Cleaning System

Flonic Group has successfully developed Modular Precision Cleaning Systems. A Modular Precision Cleaning System is one with interchangeable precision cleaning modules that can be quickly and easily installed in compatible Precision Cleaning Systems. The module is equipped to carry out one particular precision cleaning task (e.g. precision ultrasonic cleaning, vapour cleaning).