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

The compatible Precision Cleaning System will incorporate power supply, control systems and secondary systems such as a material handling system that will operate together with the installed Modular Precision Cleaning System. Modular Precision Cleaning Systems are also useful for clean room applications, as they can be easily disassembled and manually moved without the use of a forklift or other lifting equipment. A forklift or other lifting equipment will violate the integrity of the clean room.

g. Low Emission Vapour Cleaning System

The functional principles of low emission vapour cleaning are identical to that of vapour cleaning, save for the incorporation of additional sub-systems to minimise or prevent liquid vapour loss from the system.

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 to act as a solvent trap. Solvent vapour coming into contact with the cold air layer will condense and precipitate into the vessel;

- An Activated Carbon Solvent Recovery System may be installed; and

- The liquid and liquid vapour may be enclosed and isolated from the external environment.

h. High-Efficiency Air Knife System

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

i. Activated Carbon Solvent Recovery System

Activated Carbon Solvent Recovery System utilises activated carbon as the filtering agent to remove solvent vapour from the air in a Precision Cleaning System. Air is chilled and drawn through a filter module, where solvent vapour molecules are absorbed by the activated carbon. Chilling the air aids absorption by reducing the solvent vapour carrying capacity of air. Air exiting the filter module has low solvent vapour content.

Activated carbon is a highly absorbent form of carbon that is characterised by having a very high surface area and a large amount of microporosity. Activated carbon is commonly derived from charcoal, and is applied to a range of uses including metal extraction (e.g. gold), water purification, medicine, wastewater treatment, and as the filtering agent in gas and filter masks.

Activated carbon is generally produced in two different processes, chemical activation and steam activation. In chemical activation, a chemical solution composed mainly of acids is mixed with the source material in order to cauterise its fine pores. In steam activation, the carbonised material is mixed with vapours and/or gasses at high temperature to activate it.

Under an electron microscope, activated carbon is seen to have a large surface area composed of a large number of nooks and crannies, and many areas where flat surfaces of graphite-like material run parallel to one another. This large surface area provides many surfaces for absorption to occur, since the absorbing material can interact with many surfaces simultaneously.

Saturated activated carbon can be regenerated by heating the activated carbon, which releases absorbed solvent vapour that can be recovered. The activated carbon can also be reused.

All of Flonic Group's current Cleaning Systems and peripherals are direct results of its past achievements in R&D. In addition to the above, it includes the following: -

- Manual, semi-automatic and fully automatic Precision Ultrasonic Cleaning Systems;
- Vapour Cleaning Systems;
- High-Pressure Water Jet Cleaning Systems;
- Pre and post-wash Cleaning Systems;
- Automatic Tunnel Type Tray Dry system;
- Material Handling Systems; and
- Some Cleaning Systems that meet Clean Room Class 10 specifications.

Flonic Group's past achievements in its R&D activities demonstrates the effectiveness of its R&D to continually provide business growth and success.

R&D carried out also contributed to the improvement in quality of existing products and services. Through improvements in existing products and processes, Flonic Group is able to accrue the following benefits: -

- create competitive advantages with improved products;
- improve product quality;

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

- keeping up-to-date with changing technological trends and innovations to ensure continuing relevance;
- maximise investments in product development by extending the lifecycle of existing products;
- increased repeat orders and referrals, especially from overseas and local MNC customers;
- increased dependency of customers on Flonic Group's Precision Cleaning products and services thereby increasing customer loyalty; and
- increased profit margins by reducing manufacturing cost and increasing product values.

As such, Flonic Group continuously undertakes R&D to improve existing products and processes. Some of these include:-

- incorporation of pre and post-wash systems;
- effective means of delivery and extraction systems;
- meeting various demands for Clean Room standards including Class 10;
- use of different medium for cleaning solutions;
- incorporating close-system technologies to reduce operating cot especially in consumables;
- incorporating other technologies including, among others, ultrasonic, vapour cleaning and high-pressure water jet;
- combining various frequency output from ultrasonic transducers to optimise effectiveness;
- vacuum wash and vacuum dry systems;
- high-efficiency air knife drying systems;
- high-efficiency filtering system;
- four-side overflow filtering system;
- solvent recycling system;
- deionised water regeneration system;
- increasing automation process to increase throughput, minimising labour cost and ensuring operator safety; and
- sophisticated software to control operating parameters, cleaning algorithm (step by step cleaning procedure), data acquisition, and facilitating remote control.

Flonic Group is engaged in developing new products and services to sustain growth of the business and to maintain its competitive advantage. New product development will allow Flonic Group to continue to meet customer needs as industrial cleaning specifications become increasingly stringent and more demanding. Development of new services will enable Flonic Group to serve as a one-stop provider of its customer's precision cleaning needs, while improve contribution to Group revenue from services, and enable the Group to develop a source of long-term revenue.

Among others, Flonic Group's R&D also include developing new products using the following technologies:

- Already successfully developed and in production
  - Precision Ultrasonic Cleaning;
  - Vapour Cleaning;
  - Low Emission Vapour Cleaning System;
  - High-Pressure Precision Water Jet Cleaning;
  - High-Efficiency Air Knife System; and
  - Activated Carbon Solvent Recovery System.

- In the process or future R&D
  - Laser Cleaning;
  - CO_2 Snow Cleaning;
  - Megasonic Cleaning;
  - High-Efficiency Liquid Flush and Replacement System;
  - Four-Side Overflow Filtering System;
  - Modular Precision Cleaning System; and
  - Water-soluble Capsule Precision Cleaning System.

Flonic Group is constantly evaluating new precision cleaning technologies for integration into precision cleaning systems that it will design and manufacture in the future. The ability to integrate new industrial cleaning technologies is important as customer specifications become more stringent, especially in the electronic sector where continued miniaturisation of components has raised cleanliness requirements. The ability to design and manufacture precision cleaning systems that use the latest cleaning technologies will further differentiate Flonic Group from other industrial cleaning system manufacturers, preserving and perhaps expanding the Group's competitive advantage. The two technologies that the Group has identified for future development are Laser Cleaning and CO_2 Snow Cleaning.

(v) Future Plans and Timeline for Implementation

Currently Flonic Group's R&D is project base and various operational personnel are pulled in to assist in the R&D process as and when required. The Group's R&D facilities will be upgraded following the Group's move to new manufacturing facilities. The necessary additional equipment will be purchased, and additional personnel identified. The Directors and technical professionals will continue to play an active part in the Group's R&D activities, contributing their experience, expertise and strategic direction to the effort.

The R&D team's skills will also be upgraded thorough various training courses, seminars or workshops. Flonic Group plans to continue R&D into precision cleaning technologies that it does not currently have the capability to utilise, focusing on the following: -

- Laser Cleaning;
- CO_2 Snow Cleaning;
- Deionised water generation;
- Wafer Cleaning Systems;
- Improvement of Low-emission Vapour Cleaning Systems;
- Megasonic Cleaning; and
- Water-soluble Capsule Precision Cleaning System.

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

Business Activities	Calendar Year			
	2006	2007	2008	2009
Development of New Products and Technologies				
- Laser Cleaning System	√			
- CO_2 Snow Cleaning System	√			
- Ultrasonic Generators and Transducers	√			
- Standardised Precision Cleaning Systems	√			
- Water-soluble Capsule Precision Cleaning System	√			
- Wafer Cleaning System		√		
- Deionised Water Supply System		√		
- Megasonic Cleaning Systems			√	
Development of New Services				
- Contract Servicing of Precision Cleaning System	√			
Overseas Market Expansion (Establishing Marketing Office)				
- China, Thailand, Philippines, and Belgium	√			
- United States		√		
- Australia			√	
- Japan				√
Expansion of Facilities				
- Establishing Demonstration Room	√			
- Establishing Clean Room Grade Facilities for Fabrication	√			
- Establishing a factory in China		√		
- Establishing assembly facility in the United States				√

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

(vi) Investments Made for R&D

The amount spent on R&D during the last three financial years were as follows:

	Financial Year Ended 31 January 2003	Financial Year Ended 31 January 2004	Financial Year Ended 31 January 2005	7 months period ended 31 August 2005
R&D Capital Expenses (RM)*	19,000	152,000	14,000	1,450
R&D Operating Expenses (RM)*	226,842	168,832	191,000	87,754
Total R&D Expenses (RM)	245,842	320,832	205,000	89,204
Total R&D Expenses as a Proportion of the Group's Total Revenue (%)	5.6	5.5	2.2	1.5

** The breakdown for the financial years ended 31 January 2003 and 2004 were management estimates.*

The R&D expenditure presented in the table above is based on the following:

- Capital expense includes expenditure on the purchase of R&D and testing equipment;

- Operating expenses includes expenditure on: -
  - consumables used in R&D and testing activities including, among others, solvents, detergents and filters
  - the salary of relevant personnel heavily involved in performing R&D and testing activities including:-
    - 20% of directors' salaries;
    - 25% of production manager, design manager, Software and Electrical engineers' salaries; and
    - 1 R&D officers' salaries.

Flonic Group's R&D expenditure for the 7 months period ended 31 August 2005 was RM89,204 or 1.5% of total revenue.

4.2.14 Interruptions in Business for the Past Twelve (12) Months

There has never been any interruption in the form of trade disputes or major operational breakdown occurring within and outside the Group that may significantly impair the Group's business performance during the past twelve (12) months.

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

4.2.15 Employees

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), the total number of employees of the Flonic Group is 50 as illustrated below: -

Category	No. of Employees	Average Years in Service
Executive Directors	3	10
Professionals	15	1
Clerical	2	3
Factory workers:		
(a) Skilled	24	1
(b) Unskilled	6	1
TOTAL	**50**	

The Group recognises the importance of its employees and updates them on the latest developments in the industry as well as improves their skill and knowledge by conducting various in house training courses throughout the year as and when the need arises.

The Group has comprehensive plans for growth and with the higher profile achieved through the listing exercise, the ability of the Group to attract qualified workers. The Group does not have any employees who are members of labour unions and the employees enjoy cordial relationships with the management. There have not been any industrial disputes in the past between the employees and the management.

4.2.16 Key Achievements/Milestones/Awards

Over the years in operations, the Group's key achievements and milestones are as follows: -

Year	Milestone
1989	• Rightway Industrial Supplies Sdn Bhd changes its name to Flonic Sdn Bhd • Began manufacture and distribution of Ultrasonic Cleaning Machines
1990	• Developed Vapour Cleaning System
1991	• Developed fully automated Vapour Cleaning System • Developed fully automated Solvent Recovery System
1992	• Developed Aqueous Multi-arm Automated Cleaning System
1993	• Developed Tunnel-type Aqueous Cleaning System • Developed Spray-type Cleaning System
1994	• Developed Deionised Water Automated Precision Cleaning System • Developed Cleaning System for use in Clean Room environment
1995	• Developed Man-Machine Interface Fully Automated Control System (SCADA) Cleaning System • Developed Semi-aqueous Cleaning System
1996	• Developed Fully Automated Picture Tube Mark Washing System
1997	• Began operations in a new manufacturing facility in Port Klang, Selangor • Developed Automated Thermo-flash Cleaning System

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

Year	Milestone
1998	• Established Research and Development laboratory at the manufacturing facility in Port Klang, Selangor • Developed Tunnel-type cleaning system for wafer boat
1999	• Developed Fully Automated Vacuum Wash Cleaning System • Developed Low Temperature Vacuum Dry System
2000	• Developed Fully Automated Nozzle Spraying Cleaning System • Developed Fully Automated Conveyor Belt Cleaning System • Began the design and manufacture Precision Ultrasonic Cleaning Systems, with the design and manufacture of a 9-tank multi-arm automatic precision ultrasonic cleaning system, with integrated vacuum drying system
2001	• Constructed Class 10 Clean Room and Research and Development Laboratory at the manufacturing facility in Port Klang, Selangor • Constructed dust-controlled fabrication facility for precision cleaning system assembly at the manufacturing facility in Port Klang, Selangor
2002	• Developed Precision Cleaning Machines that are able to operate in a Class 10 Clean Room environment • Developed Robotic Arm Transfer System • Developed Ultrasonic Cleaning System that operates at 132 kHz frequency
2003	• Developed cleaning system that utilises Isopropyl Alcohol as the cleaning medium • Developed Dual-frequency Ultrasonic Cleaning System
2004	• Developed Digital-controlled 3-stage variable output ultrasonic cleaning system • Commenced provision of Contract Precision Cleaning Services • Relocated manufacturing facility from Port Klang, Selangor to expanded premises in Port Klang, Selangor
2005	• Developed Low Emission Vapour Cleaning System • Developed High-Efficiency Air Knife System • Developed Modular Precision Cleaning System

4.2.17 Modes of Marketing/Distributions/Sales

The sales and marketing team of Flonic Group employs the following marketing strategies to sustain and expand its business:

- Positioned as a Designer and Manufacturer of Precision Cleaning Systems incorporating in-house design, engineering, manufacturing, and on-site technical support and servicing.

- Providing quality products and services backed by in-house research and development, and testing facilities to meet stringent customer specifications and requirements.

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

- Committed to fast turnaround in providing total Cleaning Solutions to its customers. On average, Flonic Group is able to complete an order within two to three months of receiving a purchase order.

- Further expand its market presence overseas and develop new business opportunities by working in close partnership with existing customers and suppliers.

- Promote and market its products and services through trade shows, exhibitions and trade referrals from MNC customers.

As part of its strategy to promote its products and services to potential customers locally and overseas, Flonic Group actively participates in exhibitions and conventions.

Examples of exhibitions and conventions that Flonic Group participated include the following:-

NAME OF EXHIBITION	LOCATION	YEAR
Overseas		
Manufacturing Indonesia 2004	Jakarta, Indonesia	2004
Cleantec Asia 2002	Singapore	2002
The 4th Conference on ASEAN Auto Supporting Industries	Manila, Philippines	2002
The 3rd Conference on ASEAN Auto Supporting Industries	Jakarta, Indonesia	2000
Local		
Nepcon Malaysia 2005	Kuala Lumpur, Malaysia	2005
European Union (EU) – Malaysia Partenriat 2002	Kuala Lumpur, Malaysia	2002
Nepcon/Microelectronics Penang 2002	Penang, Malaysia	2002
8th Malaysian International Metal Working, Machine Tool, CAD/CAM, Metrology, Mould and Diem Surface and Heat Treatment, Sub-contracting, Foundry IA, Robotics, Precision Engineering and Welding Technology Exhibition	Kuala Lumpur, Malaysia	2002
7th Malaysian International Metal Working, Machine Tool, CAD/CAM, Metrology, Mould and Diem Surface and Heat Treatment, Sub-contracting, Foundry IA, Robotics, Precision Engineering and Welding Technology Exhibition	Kuala Lumpur, Malaysia	2001
Nepcon/Microelectronics Penang 2000	Penang, Malaysia	2000
The 11th Malaysian International Tradefair of Industrial Development, Automation, Technology, Machinery and Equipment	Kuala Lumpur, Malaysia	1997
The 10th Malaysian International Tradefair of Industrial Development, Automation, Technology, Machinery and Equipment	Kuala Lumpur, Malaysia	1996

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

Flonic Group has its own sales and marketing team to focus on cultivating new business development with existing and potential customers. The Group's Directors and technical professionals contribute actively to the sales and marketing effort, especially for the export market. The experience, technical and industry expertise that the Group's Directors and technical professional possess are especially valuable in marketing highly customised and technically advanced Precision Cleaning Systems.

The Group's market distribution channel strategy is based on a combination of direct and indirect distribution. The Group utilises its own sales and marketing team to address opportunities in the local market whereas an indirect distribution strategy is utilised to address overseas market opportunities.

The Group has appointed a local dealer, Kesslar Instruments Sdn Bhd, in Penang, to assist in providing coverage of the Northern market.

The Group has also appointed a number of non-exclusive agents and distributors to market the Group's Precision Cleaning Systems in the following export markets:

NAME OF OVERSEAS AGENTS/DEALERS	LOCATION
Trek Industries Inc	California, USA
Le Champ (Thailand) Co Ltd	Bangkok, Thailand
Flonic International Co.*	Caloocan City, Philippines
Le Champ (Singapore) Pte Ltd	Singapore
Aquagama Sprl	Belgium
Taruna Berkat Toolsindo PT	Jakarta, Indonesia
Kingroup Automation Industry Corporation	Taiwan

Note:
* No relationship to Flonic Group through shareholdings or related parties. The agent is allowed to use the 'Flonic' name for marketing purposes.

4.2.18 Production/Operating Capacities and Output

As the manufacture of Precision Ultrasonic Cleaning Systems and other Precision Cleaning Systems is primarily dependent on technically skilled personnel, it is not practical or applicable to estimate production capacity. This is mainly because if there is high demand for Flonic Group's products, it is relatively easy to hire more personnel and rent premises.

The customised nature of the systems manufactured by the Group, coupled with the built-to-order nature of the Group's manufacturing activities further makes it impractical to estimate capacity of the operating facilities.

4.2.19 Principal Place of Business

The location of principal place of business of the Group is as follows:

		Location of Business	Approximate Built-up Area (sq. ft.)
Head Office / Manufacturing Plant	:	Lot 6, Solok Sultan Hishamuddin 6, North Port Straits Industrial Estate, 42000 Port Klang, Selangor Darul Ehsan	30,026

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

4.3 SUBSIDIARY AND ASSOCIATED CORPORATIONS

4.3.1 FSB

(i) History and Business

FSB was incorporated in Malaysia under the Companies Act, 1965 on 14 September 1984 as a private limited company under the name of Rightway Industrial Supplies Sdn Bhd. FSB commenced its business in year 1985. On 4 October 1989 it assumed its present name.

Its principal activities are design and distribution of precision cleaning systems.

(ii) Share Capital

The existing authorised share capital is RM2,000,000 comprising 2,000,000 ordinary shares of RM1 each whilst its issued and paid-up share capital is RM1,500,000 comprising 1,500,000 ordinary shares of RM1 each. The changes in the issued and paid-up share capital of FSB since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
14.9.1984	2	1.00	Cash	2
1.4.1985	49,998	1.00	Cash	50,000
25.8.1997	250,000	1.00	Cash	300,000
1.9.2000	1,200,000	1.00	Bonus Issue*	1,500,000

Note:-

* The bonus issue of 1,200,000 ordinary shares of RM1.00 each in FSB on the basis of 4 new ordinary shares for every 1 existing share held.

(iii) Subsidiary and Associated Companies

FSB has no subsidiary or associated companies.

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

(iv) Shareholders

The shareholders of FSB are as follows: -

Shareholder	Place of Incorporation	<------- Direct -------> No. of Shares held	%	<------- Indirect -------> No. of Shares held	%
Flonic	Malaysia	1,500,000	100.0	-	-
Novatige	Malaysia	-	-	[(1)]1,500,000	100.0
Yen Yoon Fah	Malaysian	-	-	[(1)]1,500,000	100.0
Looa Hong Hooi	Malaysian	-	-	[(1)]1,500,000	100.0
Heng Hock Meng	Malaysian	-	-	[(1)]1,500,000	100.0

Note:
(i) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Flonic, which in turn has a substantial shareholdings in FSB.

4.3.2 FPS

(i) History and Business

FPS was incorporated in Malaysia under the Companies Act, 1965 on 19 November 2002 as a private limited company. FPS commenced its business in year 2002. Its principal activity is involved in the marketing and distribution of precision cleaning systems.

(ii) Share Capital

The existing authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1 each whilst its issued and paid-up share capital is RM3 comprising 3 ordinary shares of RM1 each. The changes in the issued and paid-up share capital of FPS since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
19.11.2002	3	1.00	Cash	3

(iii) Subsidiary and Associated Companies

FPS has no subsidiary or associated companies.

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

(iv) Shareholders

The shareholders of FPS are as follows: -

Shareholder	Place of Incorporation	<-------- Direct -------> No. of Shares held	%	<------ Indirect ------> No. of Shares held	%
Flonic	Malaysia	3	100.0	-	-
Novatige	Malaysia	-	-	(i) 3	100.0
Yen Yoon Fah	Malaysian	-	-	(i) 3	100.0
Looa Hong Hooi	Malaysian	-	-	(i) 3	100.0
Heng Hock Meng	Malaysian	-	-	(i) 3	100.0

Note:
(i) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Flonic, which in turn has a substantial shareholdings in FPS.

4.3.3 FE

(i) History and Business

FE was incorporated in Malaysia under the Companies Act, 1965 on 3 December 2002 as a private limited company. It is a dormant company.

(ii) Share Capital

The existing authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1 each whilst its issued and paid-up share capital is RM3 comprising 3 ordinary shares of RM1 each. The changes in the issued and paid-up share capital of FE since its incorporation are as follow:

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
3.12.2002	3	1.00	Cash	3

(iii) Subsidiary and Associated Companies

FE has no subsidiary or associated companies.

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

(iv) Shareholders

The shareholders of FE are as follows: -

Shareholder	Place of Incorporation	<-------- Direct -------> No. of Shares held	%	<----- Indirect -------> No. of Shares held	%
Flonic	Malaysia	3	100.0	-	-
Novatige	Malaysia	-	-	(i) 3	100.0
Yen Yoon Fah	Malaysian	-	-	(i) 3	100.0
Looa Hong Hooi	Malaysian	-	-	(i) 3	100.0
Heng Hock Meng	Malaysian	-	-	(i) 3	100.0

Note:
(i) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Flonic, which in turn has a substantial shareholdings in FE.

4.3.4 USB

(i) History and Business

USB was incorporated in Malaysia under the Companies Act, 1965 on 5 March 2002 as a private limited company. It designs and manufactures precision cleaning systems.

(ii) Share Capital

The existing authorised share capital is RM100,000 comprising 100,000 ordinary shares of RM1 each whilst its issued and paid-up share capital is RM2 comprising 2 ordinary shares of RM1 each. The changes in the issued and paid-up share capital of USB since its incorporation are as follow: -

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
5.3.2002	2	1.00	Cash	2

(iii) Subsidiary and Associated Companies

USB has no subsidiary or associated companies.

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

(iv) Shareholders

The shareholders of USB are as follows: -

Shareholder	Place of Incorporation	<------ Direct ------> No. of Shares held	%	<------ Indirect ------> No. of Shares held	%
Flonic	Malaysia	2	100.0	-	-
Novatige	Malaysia	-	-	(i) 2	100.0
Yen Yoon Fah	Malaysian	-	-	(i) 2	100.0
Looa Hong Hooi	Malaysian	-	-	(i) 2	100.0
Heng Hock Meng	Malaysian	-	-	(i) 2	100.0

Note:-

(i) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Flonic, which in turn has a substantial shareholdings in FE.

4.4 INDUSTRY OVERVIEW

4.4.1 Overview of the Malaysian Market

The Malaysian economy as a whole expanded by 7.1% in 2004. Growth was led by private sector activity, while the Federal Government continued with its fiscal consolidation program. In the manufacturing sector, the more diversified base has provided support to moderate the impact of the slowdown in the electronic equipment sub-sector. The primary commodity sector recorded strong performance due to higher palm oil and crude oil production, while the construction sector remained weak due primarily to lower civil engineering activity.

Going forward, the outlook for the global economy in 2005 remains favourable. World output and world trade are projected to expand at a steady pace of 4.0% (2004: 4.8%) and 5.8% (2004:8.8%) respectively in 2005. The major industrial countries are expected to expand by 2.6% (2004:3.4%)

The underlying conditions of the domestic economy continue to remain strong, with robust private consumption and investment activity. While there are signs of slower global growth, there is uncertainty relating to the extent to which specific developments may moderate growth. In particular, these include the impact of higher oil prices, the extent to which interest rates will be raised and the depth and duration of the electronic downturn. Despite these emerging trends, domestic economic growth in 2005 is projected to be sustained at 5 – 6%. This growth forecast takes into account the potential uncertainties related to the global developments. The more modest the impact of these developments on global growth, the more supportive will be external demand on the growth prospects of the domestic economy. While these uncertainties prevail in the external environment, the strong domestic demand projected for the year enhances the underlying potential for the favourable growth prospects in 2005.

The Malaysian economy remained resilient in the first quarter of 2005, expanding by 5.7%. Growth was driven by the major sectors of the economy, namely services, manufacturing and the primary commodity sectors. The services sector growth remained firm supported by consumption, tourism and telecommunication activities, while the primary commodity sector grew further mainly on account of higher production of crude palm oil and natural gas. Although the manufacturing sector was affected by the ongoing global semiconductor downcycle, the diversified industrial structure provided support to moderate the impact. Of significance, resource-based industries continued to perform strongly. Meanwhile, the construction sector remained weak due mainly to slower activity in the civil engineering segment. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

4.4.2 Overview and Performance of the Manufacturing Sector

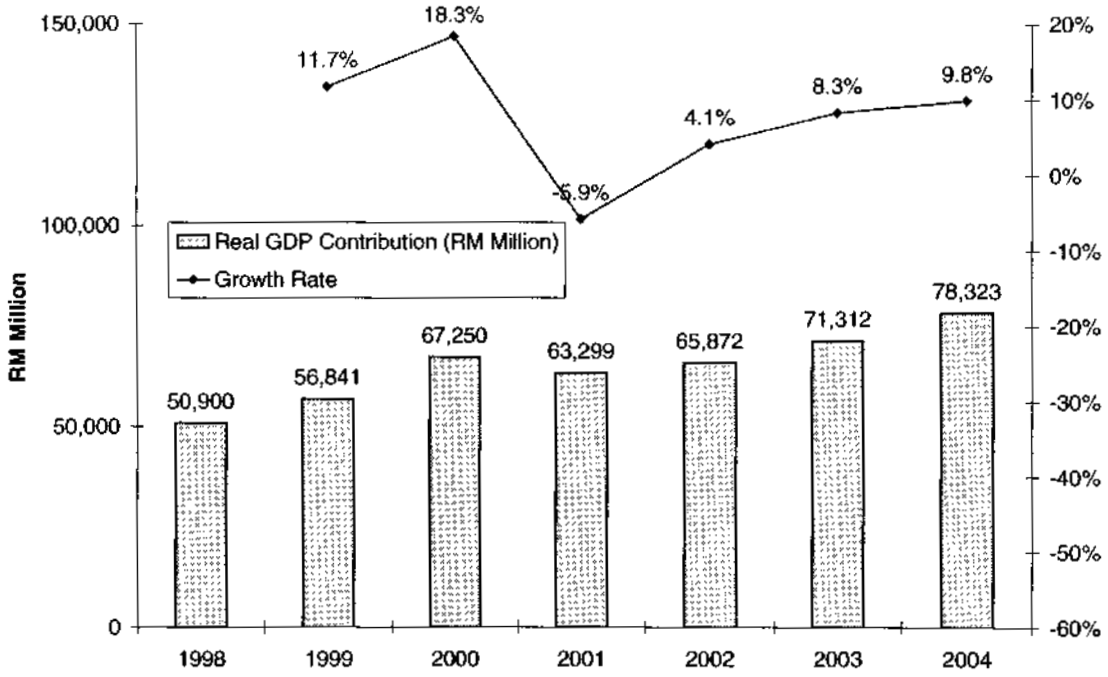
The manufacturing sector recorded another strong double-digit expansion in 2004, with output growth strengthening to 12.7% (2003: 10.5%). The robust performance was supported by the positive external environment following stronger growth in both the industrial and regional countries, and further reinforced by improved domestic demand. Growth was more pronounced in the first half-year (16.1%; second half-year: 9.6%), fuelled by strong demand for electronics, in line with the upward momentum in the global semiconductor cycle. Growth during the year was also underpinned by strong export demand for resource-based products including rubber, chemicals and wood. In the domestic-oriented industries, growth was led by a turnaround in the transport equipment industry and robust expansion in the fabricated metal industry, which more than offset the moderation in the construction-related materials industry. Consequently, growth in both the export-oriented and domestic-oriented industries strengthened to 14.2% and 7.1% respectively in 2004 (2003: 11.9% and 6.1% respectively).

Value added in the manufacturing sector expanded by 5.6% in the first quarter of 2005 (4Q 2004: 5.5%). Among the export-oriented industries as a whole, output growth moderated slightly as moderation in the output of electronics was cushioned by higher output of the resource-based industries. Domestic manufacturers in the electronics and electrical products segment continued with their inventory adjustment exercise and rationalized production during the quarter under review. Nevertheless, resource-based industries such as chemicals, rubber products and off-estate processing industries, which account for about one-fourth of the manufacturing production index expanded at a rapid pace during the quarter.

Growth was recorded in almost all of the domestic-oriented industry sub-sectors, particularly in the transport equipment, fabricated metal, paper and petroleum products industries, which more than offset the contraction in the construction-related materials industries.

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

GDP Performance of Manufacturing Industry at Constant Prices



Between 2000 and 2004, the Manufacturing Industry grew at an average annual growth rate of 3.9%. In 1999, the industry recorded a double-digit real growth of 11.7%, which accelerated to 18.3% in 1999. The Manufacturing Industry recorded a decline of 5.9% compared to the previous year. This was the result of a slowdown in major industrialised countries and the downturn in the global electronics market.

However, in 2002, the Manufacturing Industry turned around to expand by 4.1%, mainly attributed to higher external demand, particularly from the Electronics sector. Growth continued in 2003, with the sector expanding by 8.3%.

Growth of the Manufacturing Industry continued to accelerate in 2004, with a real growth rate of 9.8% recorded. The diversified base of the manufacturing industry provided the support to moderate the impact of the slowdown in the electronics equipment sector. Gross Domestic Product of the Manufacturing Industry at 1987 prices was RM78.3 billion, or RM140.8 billion when measured at current prices. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

4.4.3 Performance of the Machinery and Equipment Industry

The development of the Machinery and Equipment Industry in Malaysia began sometime in the 1960s and 1970s. The industry progressed from the repair and servicing of machinery and equipment as well as related parts and components for the primary rubber processing and tin mining sectors, to the growth of machinery and equipment manufacturing.

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

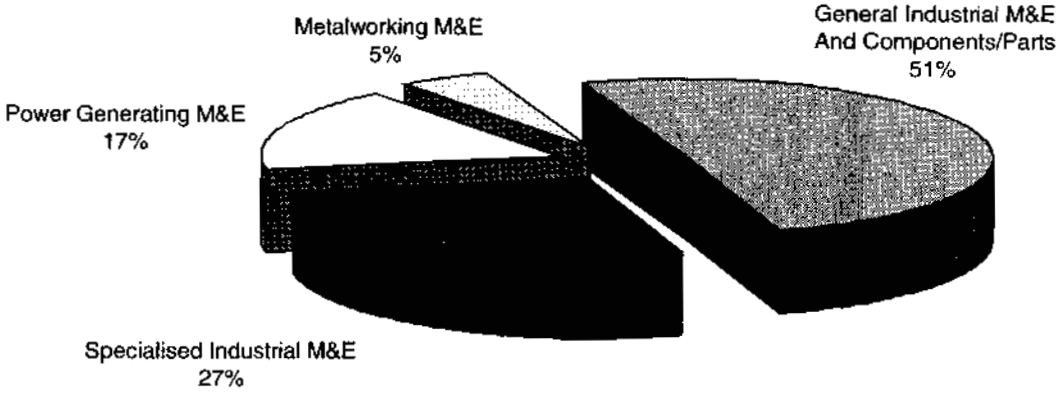
Malaysia is still a net importer, in value terms, of machinery and equipment. In 2004, the import value of Machinery and Equipment was RM32.9 billion while export value was RM15.6 billion. Malaysia continues to import machinery and equipment to meet the needs of its industries in general, and high technology industries in particular. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

The Government has identified the Machinery and Equipment Industry as one of the key areas for growth and development. Attractive fiscal and non-fiscal incentives have been introduced for producers and assemblers of almost all types of machinery and equipment to develop Malaysia into a regional hub for the manufacture and distribution of machinery and equipment. As a result of the Government's continuous efforts to actively promote the Machinery and Equipment Industry, investment in this industry has grown. In 2004, investments totalling RM406.8 million were approved in the Machinery and Equipment Industry. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

In addition, trade liberalisation under Asean Free Trade Area (AFTA) creates market potential for the industry. In 2004, Malaysian exports of Machinery and Equipment to Asean totalled RM6.4 billion, an increase of 33.3% over the previous year. The top five destinations in the AFTA region were Singapore, Thailand, Indonesia, the Philippines and Brunei Darussalam. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

In 2004, the export value of Machinery and Equipment was RM15.6 billion, compared to RM12.4 billion in 2003. The following is breakdown of export revenue by sub-sector in 2004:

Export Revenue of Machinery and Equipment Segmented by Industry Sub-sector in 2004



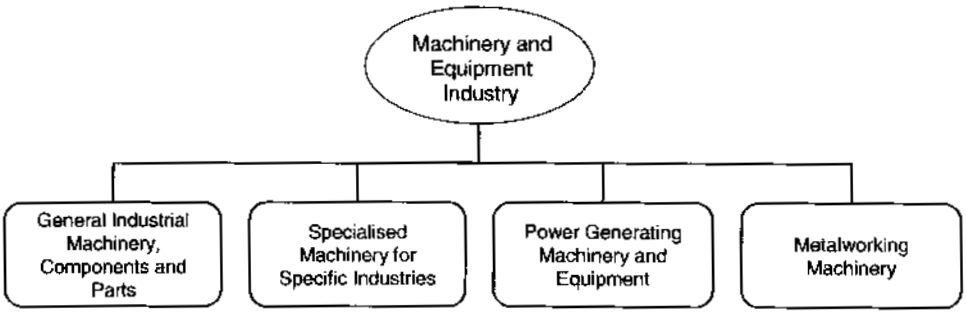
M&E = Machinery and Equipment

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

Besides its contribution to the nation's foreign exchange earnings, the Machinery and Equipment Industry has the potential of contributing significantly towards employment and income generation, and value-added creation.

According to the MIDA, the Machinery and Equipment Industry can be classified into four broad categories as follows:-

Structure of the Machinery and Equipment Industry



(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

The General Industrial Machinery and Equipment sector caters to the general needs of a broad range of industries. Precision Cleaning Machines, of which Ultrasonic Cleaning Machines is one of the product categories, fall under the overall umbrella of General Industrial Machinery and Equipment. Generally the machinery and equipment under this category generally perform one task that has varied applications in a number of different industries. For example, Ultrasonic Cleaning Machines may be used to clean items as diverse as stainless-steel bottles, machined parts, printed circuit boards, integrated circuits, sophisticated electronic sensors and many others. Flonic Group falls within the General Industrial Machinery and Equipment sector of the overall Machinery and Equipment Industry.

Some of the Machinery and Equipment in the General Industrial Machinery and Equipment sector include:-

- Precision Cleaning Machines including Precision Ultrasonic Cleaning Machines;
- Industrial air conditioning plant and equipment;
- Elevators;
- Cranes;
- Pressure vessels; and
- Heat exchangers.

In 2004, a total of 34 projects were approved in the General Industrial Machinery and Equipment sector which involved an investment of RM166.6 million. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

Domestic investments in 2004 amounted to RM125.3 million, or 75.2% of total investment. Foreign investment totalled RM41.3 million, or 24.8% of total investment during the same period. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

In 2004, major projects approved in the General Industrial Machinery and Equipment category include the following Malaysian-owned projects:-

- One project to manufacture tower cranes and parts thereof for the construction, logging and manufacturing industries and ports;

- One project to manufacture valves, actuators and regulators for oil and gas, and petrochemical industries, power generation and water treatment plants;

In 2003, Ultraflonic Sdn Bhd, a fully-owned subsidiary of Flonic Group, received approval for a project for the manufacture of ultrasonic cleaning machines.

Major foreign-owned projects that were approved include:-

- One project to manufacture parts and components for elevators such as gearless machines, car door mechanism and landing door mechanism;

- One joint venture expansion/diversification project to manufacture gear and gearless high-speed lifts.

As the Flonic Group is primarily involved in the manufacture Precision Cleaning Systems, which fall under the broader umbrella of General Industrial Machinery and Equipment, this report will focus on the overall Machinery and Equipment Industry in general, and the General Industrial Machinery and Equipment sector in particular.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

4.4.4 Future Growth of the Industry

Since, the Government has identified the Machinery and Equipment Industry as one of the key areas for growth and development. Attractive fiscal and non-fiscal incentives have been introduced for producers and assemblers of almost all types of machinery and equipment to develop Malaysia into a regional hub for the manufacture and distribution of machinery and equipment. As a result of the Government's continuous efforts to actively promote the Machinery and Equipment Industry, investment in this industry has grown. In 2004, investments totalling RM406.8 million were approved in the Machinery and Equipment Industry. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

In addition, trade liberalisation under Asean Free Trade Area (AFTA) creates market potential for the industry. In 2004, Malaysian exports of Machinery and Equipment to Asean totalled RM6.4 billion, an increase of 33.3% over the previous year. The top five destinations in the AFTA region were Singapore, Thailand, Indonesia, the Philippines and Brunei Darussalam. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

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

4.4.5 Players and Competition

There are an estimated ten companies involved in the Ultrasonic Cleaning Systems sector that are currently operating in Malaysia. They are as follows:

Manufacturers

- Flonic Hi-Tec Bhd
- Challenger Avenue (M) Sdn Bhd
- Crest Ultrasonics (M) Sdn Bhd
- Delichem Sdn Bhd
- Enhanced Quality Sdn Bhd
- JKS Engineering (M) Sdn Bhd

Importers Only

- Pomac Machinery & Engineering
- Branson Ultrasonics Sdn. Bhd
- Alex Technology Sdn Bhd
- Scienscope Sdn Bhd

Manufacturers that also import Ultrasonic Cleaning Systems

- JKS Engineering (M) Sdn Bhd
- Challenger Avenue (M) Sdn Bhd

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)*

Competitive Advantages

While Flonic Group is aware of the intense competition within the industry, its management believes that its business model that emphasises on innovation and high product quality and its focus on responsive customer services will withstand threats from its competitors. Flonic Group has built its reputation over the last 10 years as one of the premier providers of precision cleaning machine with the flowing competitive advantage: -

- Providing total solutions in Precision Cleaning Systems;
- In-house research and development capabilities;
- Established track record;
- Undertakes R&D and prototyping with customers; and
- Experienced management team.

Providing Total Solutions in Precision Cleaning Systems

Flonic Group has full in-house capabilities to provide total solutions incorporating designing and manufacturing Precision Cleaning Systems, including Precision Ultrasonic Cleaning Systems. This includes the capabilities to provide customised Precision Cleaning Systems through in-house solutions conceptualisation, engineering design, and final manufacturing. In addition, the Group offers supporting products and services including on-site technical support, maintenance and parts.

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

In-house Research and Development Capabilities

As each of the Precision Cleaning Systems including Precision Ultrasonic Cleaning Systems are customised to meet the specific requirements of the customer, Flonic Group has to undertake research and development activities as part of the product development process. This enables the Group to meet the specific needs of customers in terms of Precision Cleaning Systems.

In addition, its efforts in R&D allows it to continuously innovate in terms of improving existing products, using new or different technologies and creating new products. This allows it to remain technologically relevant and continue to meet the changing preferences and requirements of customers.

Established Track Record

Flonic Group has a track record in designing and manufacturing Precision Cleaning Systems since commencement of operations in 1989. Over the last 15 years, it has developed a market reputation as a manufacturer of quality Precision Cleaning Systems that are able to meet the requirements of local and overseas customers.

The fact that 67.7% of the Group's revenue for the 7 months period ended 31 August 2005 was derived from exports reinforces its quality and capabilities that meet the stringent requirements of overseas customers.

Undertake R&D and Prototyping with Customers

Flonic Group is able to help assess customers' requirements and undertake R&D and prototyping to test practicality, effectiveness and efficiency of the optimum Cleaning System prior to manufacturing. These capabilities provide Flonic with the competitive advantage of winning highly complex and challenging jobs where solutions are customised specifically to meet customers' requirements.

Experienced Management Team

Flonic Group is supported by a strong and experienced management team led by Mr Yen Yoon Fah, the Executive Chairman of the Group. Mr. Yen brings with him approximately 15 years of hands-on experience in the Precision Cleaning Systems Industry.

Mr. Heng Hock Meng, the Executive Director of Flonic Group has also accumulated approximately 15 years of experience in the Precision Cleaning Systems Industry.

Mr. Looa Hong Hooi, the Managing Director of Flonic Group brings with him expertise and experience in Design Engineering of Precision Cleaning Systems. Mr. Looa holds a Bachelor's Degree in Mechanical Engineering from the University of Teeside, United Kingdom conferred in 1994.

The strength and relatively long experience within the industry will provide existing and potential customers of the tried and tested products of Flonic Group.

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

Barriers To Entry

Generally, barriers to entry into the General Industrial Machinery and Equipment Industry and Precision Cleaning Machines sub-sector are moderate to high. This is mainly substantiated by the followings:-

- Within the General Industrial Machinery and Equipment sector, in 2004 there were 7 manufacturers of industrial air conditioning plant and equipment, 5 companies producing elevators, 85 companies producing pressure vessels and heat exchangers, and 6companies producing tower cranes, port cranes, overhead travelling cranes and other lifting equipment.

- According to the Department of Statistics, in 2004 there were approximately 395 establishments engaged in manufacturing general-purpose Machinery and Equipment, and approximately 680 establishments manufacturing special purpose Machinery and Equipment *(Source: Performance of the Manufacturing Sector in Malaysia, 2004, Machinery Manufacturing, Malaysian Industrial Development Authority)*

- Within the Precision Cleaning Machines sector, there are an estimated ten companies involved in the Ultrasonic Cleaning Systems sector that are currently operating in Malaysia. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

Capital and Set-up Costs

The barriers to entry based on capital requirements (excluding land and building) are low. The capital investment required to start up a small sized facility to manufacture Precision Cleaning Machines including Ultrasonic Cleaning Machines (excluding land, building and working capital) would cost approximately RM500,000.

However revenue would depend significantly on the ability to win sales, as the other production constraints are related to personnel, and more workers can be hired if there is a business case to do so. With the capital set-up cost described above, it is possible for the small sized manufacturing set-up to generate revenue of RM0.3 million to RM0.5 million per year *(Source: Flonic Hi-Tec Bhd).*

Although Precision Cleaning System orders typically consist of small, customised batches, larger operators can still enjoy economies of scale as the larger operators can design and manufacture Precision Cleaning Systems based on a few standard platforms to meet the requirements of a range of end-user industry and export markets.

Technical Skills

Generally, the skill level of labour used in the equipment and machinery industry is high. Some of the key personnel required include the followings:-

- Professional engineers and technical personnel with an engineering background, experience in mechanical and electrical engineering, and expertise in computer software programming, development and technology.

- A large-pool of skilled and semi-skilled factory floor operators, usually recruited from vocational schools. At this level of skill, workers will have undergone extensive training and have experience in welding and metalwork.

- Skilled and competent professional engineers and technical personnel are critical to the production process, as they are responsible for the design of a Precision Cleaning System that meets the client's specifications. Without these personnel, it is virtually impossible to win or complete all but the simplest, lowest margin projects.

- Experienced and trained personnel are also required for quality assurance to conduct Ultrasonic Cleaning Machine testing and optimisation.

Thus, having access to the right technical skills and technologies as well as to a pool of skilled and experienced manufacturing personnel is a barrier to entry faced by new entrants.

Track Record

The Precision Cleaning process is often a critical intermediate step in the production of finished goods, particularly in high technology manufacturing industries such as those found in the electrical and electronic sector. Manufacturers have to be absolutely certain that the Precision Cleaning Machines that they utilise will consistently produce results that meet their stringent specifications, and as such are only likely to purchase Ultrasonic Cleaning Equipment from operators with an established track record.

Barriers To Exit

Barriers to exit for the manufacturing of machinery and equipment, including the manufacture of Precision Cleaning Machines are low. It may be possible for other operators in the General Industrial machinery and equipment to convert or modify some of the equipment used in the manufacture of Precision Cleaning Machines for use in general applications.

Government Incentives

As part of the Malaysian Government's intention to nurture the growth and development of the Machinery and Equipment Industry, there are incentives provided for companies in the manufacture of machinery and machinery components under the Promotion of Investments Act 1986. The incentives include: -

- Pioneer Status;
- Investment Tax Allowance; and
- Reinvestment Allowance.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

- The promoted activities and products classified under the manufacture of machinery and machinery components include, among others, Ultrasonic Cleaners.

4.4.6 Laws and Regulations

As with other businesses, the Group's operations are subject to the government rules and regulation. To the best knowledge of its Directors, the Group has complied with all required rules and regulations. The rules and regulations that govern the Group's operations include, but not limited to, Industrial Coordination Act, 1975. There are no restrictions on foreign equity participation in the Machinery and Equipment Industry. In addition, local and foreign investors can now hold 100% equity irrespective of the level of exports.

4.4.7 Demand and Supply

Generally, there are many different types of raw materials required for the manufacturing of Machinery and Equipment. However, some of the major raw materials required for the manufacturing of Machinery and Equipment focusing on General Industrial Machinery and Equipment include:-

- Other Fabricated Metal Products, not elsewhere classified;
- Vacuum pumps;
- Parts for pumps or compressors; and
- Other machines and mechanical appliances having individual functions, not elsewhere specified.

The manufacture of Other Fabricated Metal Products, not elsewhere classified includes general purpose parts for machinery and specialised parts of machinery and equipment. Malaysia is a producer of Other Fabricated Metal Products. In 2004, the sales value manufacture of Other Fabricated Metal Products, not elsewhere classified, amounted to RM4.2 billion, a growth of 17.9% over the previous year. Between 2000 and 2004, sales value increased at an average annual rate of 8.7%. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

Key components and raw materials imported by Flonic Group include: -

- Oil-free scroll vacuum pumps, and vacuum pumps;
- Bellows, clamps and centrings, and nipples or valves; and
- Transducers.

Vacuum pumps, Parts for pumps or compressors, and Other machines and mechanical appliances having individual functions, not elsewhere specified may be imported if local manufacturers are unable to meet some of the specifications set by their customers.

The demand for Precision Cleaning Systems will be dependent upon the performance of the user-industries. Some of the user industries of Precision Cleaning Machines and Ultrasonic Cleaning Machines, are as follows:-

- Electrical and Electronics Industry for example the cleaning of hard disk drive, semi-conductors, electronic components, motors and others;
- Automotive Industry for example the cleaning of automotive components, condensers, electric motors;
- Jewellery Industry for the cleaning of finished products;
- Plastics Industry for example the cleaning of tools and small parts and components;
- Power Industry for the cleaning of electrical apparatus;

- Aeronautical Industry for the cleaning of avionics and other moving parts and components; and
- Consumer products including cleaning of finished products for example pewter ware.

The expansion of some of the end-user industry sectors will continue to generate demand for Machinery and Equipment, including General Industrial Machinery and Equipment.

4.4.8 Substitute Products/Services

Manual cleaning of objects is not a practical solution to many of the applications to which Precision Cleaning Systems, including Precision Ultrasonic Cleaning Systems are applied. The reasons include the following:-

- even for relatively non-demanding specifications (e.g. de-greasing of stamped metal parts) manual cleaning may not consistently produce the cleanliness levels required, and it is certainly impractical for high-specification tasks (e.g. to achieve 10 micron level of cleanliness);
- manual handling may itself cause the object to be contaminated;
- manual cleaning may not reach the throughput rates required;
- manual cleaning may be too abrasive or aggressive, resulting in damage to sensitive or fragile components; and
- hazardous cleaning agents (e.g. acetone) or environments (e.g. heat or vacuum) may be required for certain precision cleaning applications, rendering manual cleaning hazardous or impractical.

When considering Precision Ultrasonic Cleaning Systems in particular, other precision cleaning methods may not be as suitable or efficient as ultrasonic cleaning for certain applications. Potential alternatives include: -

- brush cleaning may be unsuitable for components that are sensitive to abrasion damage or electrostatic discharge that may result from the build up of charges on moving brush bristles and parts;
- vapour degreasing using chlorofluorocarbons as solvents are generally not allowed for environmental reasons; and/or
- other cleaning methods may not be as effective as ultrasonic cleaning methods at removing contaminants lodged in blind holes or small diameter tubes.

As cleanliness requirements become increasingly stringent, particularly in the electrical and electronic sector where components are constantly decreasing in size, Precision Cleaning Technology, particularly Precision Ultrasonic Cleaning Technology for certain applications, is generally seen as the most effective and efficient means of achieving the required cleanliness specifications.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

4.4.9 Prospects and Outlook

The outlook for the General Industrial Machinery and Equipment Industry in Malaysia is favourable. The General Industrial Machinery and Equipment Industry is forecasted to grow at approximately **5% to 8% per annum** for the next five years. This is mainly substantiated by the following analysis and observations:

- **Local Production**

  In 2002, the value of gross output of the Manufacture of Other General Purpose Machinery not elsewhere classified was RM125.7 million.

  (Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

- **Exports**

  The export value of General Industrial Machinery and Equipment, and Machine Parts increased at an average annual rate of 12.7% between 2000 and 2004. The export value of General Industrial Machinery and Equipment, and Machine Parts increased by 37.4% to reach RM7,848 million in 2004.

  Between 2000 and 2004, the export value of Other Dish Washing Machines (including Ultrasonic Aqueous System, and Vapour Cleaning Systems), declined at an average annual rate of 11.9%. In 2004, the export value declined by 63.8% to RM1.2 million. Between 2000 and 2004, the export value of Washing, Bleaching or Drying Machines (including Single Tank Washing Machines), fell at an average annual rate of 18.1%. In 2004, export value increased by 36.9% to RM1.3 million.

  Between 2000 and 2004, the export value of Other Cleaning Machinery (including Ultrasonic Cleaning Systems consisting of Degreaser for Norma Proply Bromite and Filter re-circulation and Spray Wand), grew at an average annual rate of 7.6%. In 2004, export value of Other Cleaning Machinery increased by 34.7% to RM9.5 million. Between 2000 and 2004, the export value of Other Machinery and Apparatus, Having Individual Functions (including Flat Panel Display Cassette Cleaners) increased at an average annual rate of 38.5%. In 2004, export value increased by 218.4% to a value of RM487.6 million.

  (Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

- **Imports**

  Malaysia is still a net importer, in value terms, of Machinery and Equipment. In 2004, the import value of Machinery and Equipment was to RM32.9 billion.

  Between 2000 and 2004, the import value of Other Dish Washing Machines (including Ultrasonic Aqueous System, and Vapour Cleaning Systems), declined by an average annual rate of 9.3%. In 2004, import value increased by 5.9% to RM12.9 million. Between 2000 and 2004, the import value of Washing, Bleaching or Drying Machines (including Single Tank Washing Machines), fell at an average annual rate of 35.2%. In 2004, import value increased by 36.3% to RM14.9 million.

Between 2000 and 2004, the import value of Other Cleaning Machinery (including Ultrasonic Cleaning Systems consisting of Degreaser for Norma Proply Bromite and Filter re-circulation and Spray Wand), contracted at an average annual rate of 18.8%. In 2004, import value of Other Cleaning Machinery grew by 8.6% to RM21.0 million. Between 2000 and 2004, the import value of Other Machinery and Apparatus, Having Individual Functions (including Flat Panel Display Cassette Cleaners) increased at an average annual rate of 3.9%. In 2004, import value decreased by 10.7% to RM157.1 million.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

- **End-User Industry Sectors**

The performances of some of the end-user industries for Machinery and Equipment are as follows:-

- Between 2000 and 2004, the production index of the Electrical and Electronics Products grew at an average annual rate of 4.1%. In 2004, the production index recorded growth of 17.7%.

- Between 2000 and 2004, the sales value of Semiconductors and Other Electronic Components and Communication Equipment and Apparatus declined at an average annual rate of 0.9%. In 2004, the sales value increased by 8.6% to RM110.0 billion.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

4.4.10 Reliance on and Vulnerability to Imports

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.

The main reasons for importing raw materials and components are as follows:-

- specific types of equipment parts or raw materials are not produced locally (for example, stainless steel);
- some of these parts are based on customers' specifications; and
- some parts, components and modules utilise the latest technology, which are currently not available from local sources.

Thus far, management has not experienced any shortages in the supply of machinery parts and components.

(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)

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

4.5 MAJOR CUSTOMERS

Based on the Group's audited financial statements for the 7 months period ended 31 August 2005, the top ten (10) customers of the Group are as follows: -

Financial period ended 31 August 2005	Sales	Length of relationship
Customers	**(%)**	**(Years)**
Fujitsu Computer Products Corp	25.34	0.5
Nidec Philippines Corporation	13.17	6
Textron Fastening (M) Sdn Bhd	12.58	4
Altum Precision Sdn Bhd	11.89	0.5
Critical Clean Packaging Inc	8.40	6
Vitalo Packaging International Inc	6.88	2
Elite Precision Components Sdn Bhd	5.40	0.5
Ferrodur	4.89	0.5
Worldpak, LLC	3.88	3
B Braun Medical (Suzhou) Co Ltd	2.21	3

The top three customers of the Group represented 51.09% of the total turnover based on the audited financial statements for the 7 months period ended 31 August 2005. Over the years, the Group has taken effort to diversify its customer base and established a wide network of customers and since inception, the Group has established a customer base of approximately 175 customers.

4.6 MAJOR SUPPLIERS

Based on the Group's last audited financial statements for the 7 months period ended 31 August 2005, the top ten (10) suppliers of the Group are as follows: -

Financial period ended 31 August 2005	Purchases	Length of relationship
Suppliers	**(%)**	**(Years)**
KVC Electric (Klang) Sdn Bhd	7.8	3
Well Choice Co. Ltd	6.6	8
Po Hsuan Enterprise Co Ltd	6.4	4
Chain Chon Stainless Steel Sdn Bhd	4.8	5
Goldirex Sdn Bhd	4.8	1
M-CKD Precision Sdn Bhd	3.6	11
Vista Reward Industrial Supplies Sdn Bhd	2.7	1
Bosch Rextroth Sdn Bhd	2.6	4
Prominent Filter (M) Sdn Bhd	2.2	2
Meka Machinery Part Supply Enterprise	1.9	3

The Group is not over dependent on any single supplier. With no supplier representing more than 10% of total purchases, Flonic Group is not significantly dependent on any one or group of suppliers.

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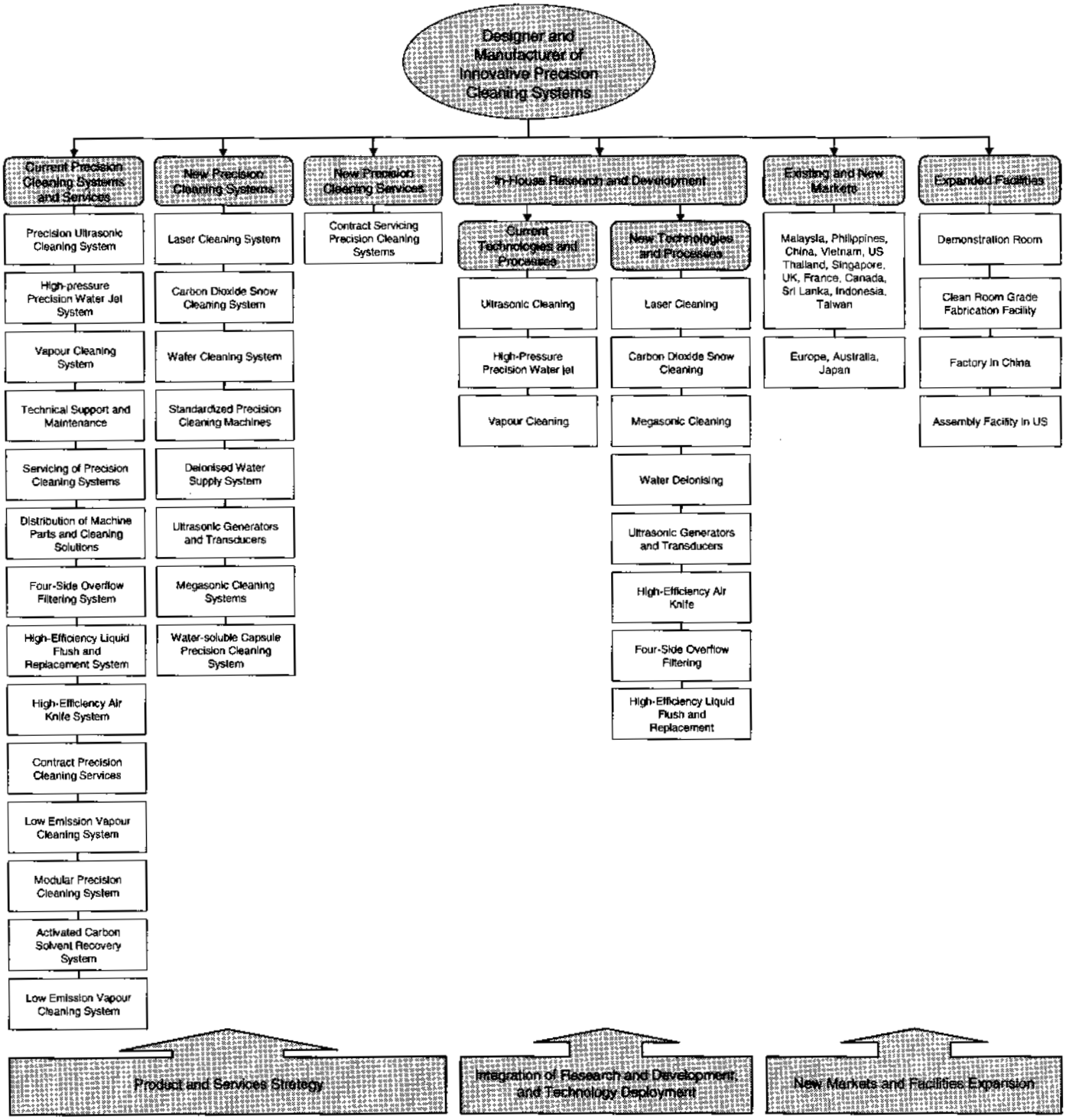
4. INFORMATION ON THE GROUP *(Cont'd)*

4.7 FUTURE PLANS, STRATEGIES AND PROSPECTS

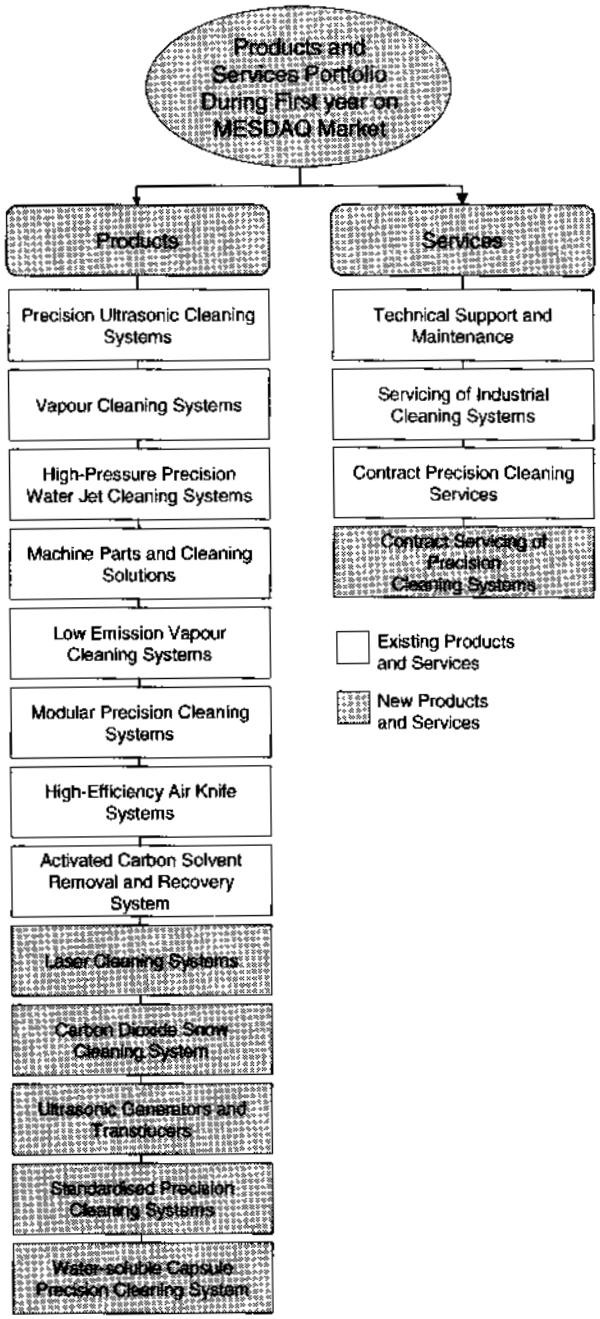
Flonic Group's business intention is to be a Designer and Manufacturer of High-Technology Precision Cleaning Systems as shown in the figure below:



Flonic Group's Overall Business Intention

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

To achieve its business intention, Flonic Group plans to expand its portfolio by adopting the following products and services strategy:



Flonic Group's Products and Services During First Year of Admission to MESDAQ Market

As part of Flonic Group's intention to stay ahead of its competitors, it will develop new products and services in the Precision Cleaning sector to provide growth for the business. The Group plans to diversify upstream into the manufacture of Ultrasonic Generators and Transducers to capture new revenue sources, and to reduce dependencies of a key component on outside suppliers.

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

Flonic Group plans to develop the above-mentioned new products between 2005 and 2009.

a. **Ultrasonic Generators and Transducers**

Ultrasonic Generators and Transducers are the key components in Ultrasonic Cleaning Systems that create ultrasonic waves. Flonic Group plans to diversify upstream into the manufacture of Ultrasonic Generators and Transducers to capture new revenue sources, and to reduce dependencies of a key component on outside suppliers.

b. **Laser Cleaning Systems**

Laser Cleaning Systems utilise laser energy to perform precision cleaning tasks.

c. **Carbon Dioxide Snow Cleaning Systems**

A Carbon Dioxide Snow Cleaning System generally functions by blowing an Object surface with a high-velocity stream of air charged with solid Carbon Dioxide. This precision cleaning technology is relatively new.

d. **Megasonic Cleaning Systems**

Megasonic Cleaning technology is similar to Ultrasonic Cleaning technology currently used by the Group, except that the sound waves employed are of a much higher frequency. This will create smaller bubbles that will enable it to clean microscopic areas that are normally not reachable by Ultrasonic Cleaning technology.

e. **Deionised Water Supply System**

Flonic Group plans to design and install Deionised Water Supply Systems to generate and supply pure, de-ionised water (DI water) for use primarily with Precision Cleaning Systems.

f. **Wafer Cleaning Systems**

Wafer Cleaning System will be developed to clean silicon wafers that are used in the manufacture of microchips. The system utilises ultrasonic cleaning technology but represents significant improvement incorporating several refinements over conventional systems, including the use of particle-free components and sub-systems, and the use of ultra-pure deionised water.

g. **Standardised Precision Cleaning Systems**

Flonic Group intends to develop and manufacture standardised Precision Cleaning Machines for lower specification requirements. Flonic Group plans to target at users who do not need to achieve very high cleanliness specifications. It envisaged a large number of such potential users.

h. **Water-soluble Capsule Precision Cleaning Systems**

Flonic Group plans to develop a Water-soluble Capsule Precision Cleaning System initially targeted at enabling precision cleaning of medicinal capsules.

i. **Contract Servicing of Precision Cleaning Systems**

Flonic Group plans to offer Contract Servicing of Precision Cleaning Systems, whereby Flonic Group will provide periodic system servicing. This service may potentially widen the Group's customer base and should also create a steady revenue stream.

Flonic Group intends to integrate new technologies such as Laser Cleaning, Carbon Dioxide Snow Cleaning and Megasonic Cleaning into future Precision Cleaning Systems. The Group also plans to offer complementary systems, such as Deionised Water Supply Systems to its customers. The Group also plans to design and manufacture Vacuum Cleaning, Vacuum Rinsing and Vacuum Drying Systems. The Group will also improve and manufacture Low Emission Vapour Cleaning Systems, and Wafer Cleaning Systems.

In addition, the Group intends to develop and manufacture standardised Precision Cleaning Machines. The Group will also expand the range of services offered by developing Contract Servicing of Precision Cleaning Systems. The Group also plans to develop and manufacture Modular Precision Cleaning Systems. Flonic Group also plans to develop and manufacture Water-soluble Capsule Precision Cleaning Systems.

The Group's products will be positioned in the high-end market segment and aim to be recognised as one of the top international brands in the future. Flonic would be able to develop world-class machines given its in-depth knowledge of the cleaning industry and competitors' products as well the strong technical know-how of its employees.

Prospect

Export Market Expansion

Flonic Group will remain focused on serving its existing domestic customers and will continue to market its products and services locally, while fulfilling its vision of expanding its export markets further. For the 7 months period ended 31 August 2005, exports accounted for 67.7% of the Group's revenue, where the Philippines and United States were the Group's main exports markets. Sales to export customers are already an important contributor to the Group's revenue. However, the Group believes that exports can be expanded further and is targeting Europe, Australia and Japan as future export markets.

The Group plans to establish two overseas production facilities, a factory located in China and an assembly facility located in the United States. These facilities will enable the Group to establish a physical connection with customers in two important markets. They will also allow the Group to be in contact with new developments and technologies. The Group plans to establish marketing offices in several markets that it has identified to be important, or which have good growth potential. These markets are Philippines, the United States, China, Thailand, Belgium (to serve the European market), Australia and Japan. The Group's marketing offices will replace existing non-exclusive marketing arrangements with external partners, allowing the Group to work directly with its existing and potential customers, enabling the Group to better serve their needs. Operating a manufacturing plant in these markets will also enhance the Group's credibility with customers in these important markets, and give the Group an advantage over Malaysian and other international operators who are not established in these markets.

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

The Group's overseas expansion plan will provide the Group with the following benefits:-

- increase market opportunities beyond Malaysia and existing export markets;
- greater control over brand development;
- business expansion by leveraging existing successes in local and overseas markets; and
- continued business growth.

Expansion of Facilities

The Group plans to expand its production facilities in Malaysia by establishing a demonstration room. The Group also plans to establish a Clean Room Grade for fabrication. The Group plans to establish overseas production facilities in China and the United States. Establishing production and assembly facilities in two important export markets will enable the Group to work more closely with existing and potential customers, thus aiding in future product development. Undertaking assembly in the United States will enable the Group to directly access advanced technological developments.

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