

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL

### 5.1 PROMOTERS

#### 5.1.1 Particulars and Shareholdings

The details of the promoters of the Group and their shareholdings in Flonic after the Public Issue are as follows: -

Name	Place of Incorporation/ Nationality	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
Novatige	Malaysia	31,500,820	45.00	-	-
Yen Yoon Fah	Malaysian	10,173,100	14.53	<sup>(1)</sup> 31,500,820	45.00
Looa Hong Hooi	Malaysian	3,337,590	4.77	<sup>(1)</sup> 31,500,820	45.00
Heng Hock Meng	Malaysian	6,788,490	9.70	<sup>(1)</sup> 31,500,820	45.00

Note: -

(1) Deemed interested pursuant to Section 6A of the Act by virtue of their substantial shareholdings in Novatige.

#### 5.1.2 Profiles of Promoters

The profiles of Yen Yoon Fah, Looa Hong Hooi and Heng Hock Meng are set out in Section 5.3.2 of this Prospectus.

**Novatige** is a company incorporated in Malaysia under the Companies Act, 1965 on 8 July 2004, having an authorised share capital of RM1,000,000 divided into 1,000,000 ordinary shares of RM1.00 each and an issued and paid-up capital of RM787,520 divided into 787,520 ordinary shares of RM1.00 each. Its principal activity is investment holding.

The Directors of Novatige and their respective shareholdings in Novatige as at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus) are as follows: -

Name	Nationality	Total No. of RM1.00 Ordinary Shares Held			
		Direct	(%)	Indirect	(%)
Yen Yoon Fah	Malaysian	394,672	50.12	-	-
Looa Hong Hooi	Malaysian	129,484	16.44	-	-
Heng Hock Meng	Malaysian	263,364	33.44	-	-

The shareholders of Novatige and their respective shareholdings in Novatige as at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus) are as follows: -

Name	Nationality	Total No. of RM1.00 Ordinary Shares Held			
		Direct	(%)	Indirect	(%)
Yen Yoon Fah	Malaysian	394,672	50.12	-	-
Looa Hong Hooi	Malaysian	129,484	16.44	-	-
Heng Hock Meng	Malaysian	263,364	33.44	-	-

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 5.2 SUBSTANTIAL SHAREHOLDERS

#### 5.2.1 Particulars and Shareholdings

The details of the substantial shareholders of the Group and their shareholdings in Flonic after the Public Issue are as follows: -

Name	Place of Incorporation/ Nationality	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
Novatige	Substantial Shareholder	31,500,820	45.00	-	-
Yen Yoon Fah	Executive Chairman	10,173,100	14.53	<sup>(1)</sup> 31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	<sup>(1)</sup> 31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	<sup>(1)</sup> 31,500,820	45.00

Note: -

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

#### 5.2.2 Profiles of Substantial Shareholders

The profiles of Yen Yoon Fah, Heng Hock Meng and Looa Hong Hooi are set out in Section 5.3.2 of this Prospectus.

### 5.3 DIRECTORS

#### 5.3.1 Particulars and Shareholdings

The details of the Directors of the Group and their shareholdings in Flonic after the Public Issue are as follows: -

Name	Designation / Functions	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
Yen Yoon Fah	Executive Chairman	10,173,100	14.53	<sup>(1)</sup> 31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	<sup>(1)</sup> 31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	<sup>(1)</sup> 31,500,820	45.00
Chin Soon Nyen	Independent Non-Executive Director	<sup>(2)</sup> 100,000	0.14	-	-
Tong Siew Choo	Independent Non-Executive Director	<sup>(2)</sup> 100,000	0.14	-	-

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

Notes: -

- (1) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Novatige, which in turn has a substantial shareholdings in Flonic.
- (2) Being their pink form allocation respectively.

### 5.3.2 Profiles of Directors and Chief Executive Officer

**Yen Yoon Fah**, aged 42, is the Executive Chairman of Flonic. He has more than 16 years of experience in the Precision Cleaning Systems Industry.

He began his career as a Sales Representative with Electrolux (M) Sdn Bhd responsible for direct selling of vacuum cleaners in 1984. In 1985, he joined Pressure Liquid (M) Sdn Bhd as a Sales Manager involved in the trading and distribution of pressure cleaners. He left in 1987 to join Westar Corporation Sdn Bhd in a similar capacity, as a Sales Manager.

In 1989, he left and joined FSB as Managing Director. He has been the driving force behind the development, growth and expansion of the Group. His current responsibilities include overall strategic management and business development of Flonic Group. He is also actively involved in the Group's Research and Development activities, as well as the Group's new business development activities.

He is also a Director in FSB, FPS, FE and USB.

**Looa Hong Hooi**, aged 36, is the Managing Director of Flonic. He graduated with a Bachelor's Degree in Mechanical Engineering from the University of Teeside, United Kingdom in 1994. He has more than 8 years experience in design engineering in the Precision Cleaning Systems Industry.

He started his career in 1994 when he joined Samsung Electron Devices (M) Sdn Bhd as a Design Engineer. In 1997, he joined Crest Ultrasonics (M) Sdn Bhd as a Design Engineer responsible for Design and Research and Development involving Ultrasonic Cleaning Systems.

He joined FSB in 2000 as the Technical Director responsible for Design, Research and Development, and Production. He also heads the Group's Research and Development efforts. He has contributed significantly on the technical aspects of the design and manufacturing of Precision Cleaning Systems.

He is also a Director in FSB, FPS, FE and USB.

**Heng Hock Meng**, aged 49, is an Executive Director of Flonic. He has more than 16 years of experience in the Precision Cleaning Systems Industry.

He started his career in 1976 as a Salesman with International Hardware Sdn Bhd. He subsequently left in 1978 to join Sin Kwang Optical Sdn Bhd as a Salesman. He left in 1979 to establish Janson Trading, a company dealing in hardware. He joined Universal Home Service Sdn Bhd as an insurance agent prior joining Letrokom Sdn Bhd, a company dealing in telecommunications equipment, in 1982 as a Sales Executive. He left in 1985 to join Pressure Liquid (M) Sdn Bhd as a Sales Executive dealing with high-pressure pumps.

In 1990, he joined FSB as the Purchase & Sales Director responsible for overseeing system installation, as well as after sales services and purchasing. He is also a Director in FSB, FPS, FE and USB.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

**Chin Soon Nyen**, aged 51, is an Independent Non-Executive Director of Flonic.

In 1975, he joined Business Machine System Sdn Bhd as a sales executive dealing in fire resisting safe, banking equipment and currency handling machine. In 1976, he joined Safe and Security Systems Sdn Bhd as a Managing Director dealing in fire resisting safe, data safe, banking equipment and currency handling machine and resigned in 1978.

He is currently working for Kilang Papan Bukit Emas Sdn Bhd as a Sawmill Manager since June 1978.

**Tong Siew Choo**, aged 44, is an Independent Non-Executive Director of Flonic. She is a member of the Malaysian Institute of Certified Public Accountants (MICPA), the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Taxation (MIT).

She is the proprietor of SC Tong & Co., a Chartered Accountants firm since 1991. She is also an Independent Non-Executive Director of Kossan Rubber Industries Bhd.

### 5.3.3 Directors' Remuneration and Benefits

The aggregate remuneration and benefits paid to the Directors of Flonic for services rendered in all capacities to the Group for the financial year ended 31 January 2005 and the current financial year ending 31 January 2006 are as follows:-

Remuneration Band (RM'000)	Financial Year Ended 31 January 2005		Financial Year Ending 31 January 2006	
	Aggregate Remuneration (RM'000)	Number of Directors	Aggregate Remuneration (RM'000)	Number of Directors
Up to 50,000	34	1	27	2
50,001 – 100,000	-	-	-	-
100,001 – 200,000	384	3	442	3
200,001 – 500,000	-	-	-	-
Above 500,000	-	-	-	-
<b>Total</b>	<b>418</b>	<b>4</b>	<b>469</b>	<b>5</b>

### 5.4 AUDIT COMMITTEE

The main functions of the Audit Committee fall within the ambit of the Listing Requirements, which include the review of audit plans and audit reports with the Group's auditors, review of the auditors' evaluation of internal accounting controls and management information systems, review of the scope of internal audit procedures, review of the balance sheet and profit and loss accounts, and nomination of the auditors.

The Audit Committee comprises of the following individuals: -

Name	Designation	Directorship
Chin Soon Nyen	Chairman of Audit Committee	Independent Non-Executive Director
Heng Hock Meng	Member of Audit Committee	Executive Director
Tong Siew Choo	Member of Audit Committee	Independent Non-Executive Director

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

### 5.5 KEY MANAGEMENT AND TECHNICAL PERSONNEL

#### 5.5.1 Particulars and Shareholdings of the Key Management and Technical Personnel Team

The details of the key management and technical personnel of the Group and their shareholdings in Flonic after the Public Issue are as follows: -

Name	Designation / Functions	No. of Ordinary Shares Held			
		Direct	%	Indirect	%
Yen Yoon Fah <sup>(3)</sup>	Executive Chairman	10,173,100	14.53	<sup>(1)</sup> 31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	<sup>(1)</sup> 31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	<sup>(1)</sup> 31,500,820	45.00
Lee Kwai Ling <sup>(3)</sup>	Finance Manager	<sup>(2)</sup> 175,000	0.25	-	-
Lim Kim An	Production Manager	<sup>(2)</sup> 97,000	0.14	-	-
Lai Kok Hou	Software and Electrical Manager	<sup>(2)</sup> 97,000	0.14	-	-
Gwee Chin Eng	Accounts Manager	<sup>(2)</sup> 93,000	0.13	-	-
Kamarul Azwan bin Abu Bakar	Design Manager	<sup>(2)</sup> 93,000	0.13	-	-
Siow Woon Chien	Software and Electrical Assistant Manager	<sup>(2)</sup> 77,000	0.11	-	-

Notes: -

- (1) Deemed interested pursuant to Section 6A of the Act by virtue of their respective substantial shareholdings in Novatige, which in turn has a substantial shareholdings in Flonic.
- (2) Being their pink form allocation respectively.
- (3) Yen Yoon Fah and Lee Kwai Ling are husband and wife.

#### 5.5.2 Profiles of the Key Management and Technical Personnel

The profiles of Yen Yoon Fah, Heng Hock Meng and Looa Hong Hooi are set out in Section 5.3.2 of this Prospectus.

**Lim Kim An**, aged 33, is the Production Manager of FSB. He graduated with a Diploma in Mechanical and Manufacturing Engineering from Kolej Tunku Abdul Rahman, Malaysia in 1996.

His career started when he then joined ADS Bulk Materials Handling Sdn Bhd as a Project Engineer in 1996 where he was responsible for tendering, subcontracting, installation and turnkey projects.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

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He subsequently left to join FSB as a Project Engineer in 2002, where he was responsible for the control and monitoring of projects. He was then promoted to the post of Production Manager in 2003. He has approximately eight years of experience in the manufacturing environment particularly in the area of production planning work scheduling, and materials management.

He is currently responsible for the operations of the factory and supervising day-to-day production.

**Lee Kwai Ling**, aged 34, is the Finance Manager of FSB. She has L.C.C.I. certificate.

Her career started when she joined FSB in 1991 in the position of Finance Executive responsible for Finance, Credit Control and Purchasing. She is also responsible for administrative matters and is involved in the purchasing of raw materials and parts.

She is also a Director of USB.

**Siow Woon Chien**, a Malaysian aged 28, is the Software and Electrical Assistant Manager of FSB. He graduated with a Bachelor's Degree in Science from Campbell University, United States in 2001.

His career started when he joined FA Controls Sdn Bhd in 2001, a company involved in the trading of automation components, as an Engineer. He was responsible for providing Technical Support.

Subsequently in 2002, he left to join FSB as Software Engineer and was promoted to his current position in October 2004. He is primarily responsible for Software Programming and Circuit Design. His other responsibilities include electrical circuit design, looping of hand wiring, programming the user-system interface, and building in inter-locking controls to ensure that a high degree of safety is maintained in systems operation.

**Lai Kok Hou**, aged 26, is the Software and Electrical Manager with FSB. He graduated with a Bachelor's Degree in Electrical and Electronic Engineering (Honours) from the University of Lincoln, United Kingdom in 2002.

His career started when he joined Flonic Sdn Bhd in 2002 as an Assistant to the Electrical and Electronic Engineer. He was then promoted to the post of Electrical and Electronic Engineer and the post of Software and Electrical Assistant Manager in July 2004. He was promoted to his current position in October 2004.

He is mainly responsible for electrical circuitry of the Precision Cleaning Systems. He also has knowledge of programming, and assists in programming functions. He is involved in the final installation of Precision Cleaning Systems and after-sales servicing.

**Gwee Chin Eng**, aged 26, is the Accounts Manager of FSB. She graduated with a Bachelor of Commerce in Accounting Degree from University of Adelaide, Australia in 2000. She was admitted as a Certified Practising Accountant registered with CPA Australia and a member of Malaysian Institute of Accountants in 2004.

## 5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)

She began her career started as an Audit Assistant with Khoo Teng Keat & Co in 2001, where she was responsible for leading an Audit Team and performing audits. She was promoted to the position of Audit Senior in 2003.

She subsequently left Khoo Teng Keat & Co in 2004 to join FSB, filling the position of Accounts Executive and was promoted to Account Manager in September 2004. She is responsible for the preparation of management accounts and financial reports, financial management and internal controls of the Group.

**Kamarul Azwan bin Abu Bakar**, aged 32, is the Design Manager of FSB. He obtained his Majlis Latihan Vokasional Kebangsaan Malaysia (Intermediate) from Sekolah Menengah Vokasional S.H.A.S. Pahang, Malaysia in 1990.

He started his career as a Designer with SIRIM Bhd in 1992. Subsequently, he left SIRIM Bhd in 1995 to join Invetech Asia Sdn Bhd as a Design Engineer. In 1998, En. Kamarul left Invetech Asia Sdn Bhd to join Innovative Connection Sdn Bhd as a Design Engineer.

In 2000, he joined Flonic Sdn Bhd as a Design Engineer. As a Design Engineer, En. Kamarul was responsible for the system and mechanical design of new precision ultrasonic and other precision cleaning systems. He was also responsible for assembly preparation and detailed design.

He left FSB to join EPA Tech Sdn Bhd as a Project Manager in 2002.

He returned to FSB at his present position as Design Manager in 2004. His current responsibilities include co-ordinating system electrical controls and programmable logic circuit programming. He is also responsible for managing designers and draughtsmen involved in on-going projects, and for co-ordinating system assembly and testing activities with the production team.

### 5.6 INVOLVEMENT OF EXECUTIVE DIRECTORS / KEY MANAGEMENT AND TECHNICAL PERSONNEL IN OTHER BUSINESSES / CORPORATIONS

Save as disclosed below, none of the Executive Directors or key management and technical personnel is involved in other businesses or corporations: -

Name	Businesses/Corporations	Position
<b><u>Executive Directors</u></b>		
Yen Yoon Fah	Novatige YHL Marketing Sdn. Bhd.*	Director Director
Looa Hong Hooi	Novatige	Director
Heng Hock Meng	Novatige YHL Marketing Sdn. Bhd.* Antartika Aman Sdn. Bhd.*	Director Director Director

Notes:

\* These companies are dormant.

**5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)**

**5.7 DECLARATION OF DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL**

No director, key personnel or person nominated to become a director or key personnel is or has been involved in any of the following events in or outside Malaysia: -

- (a) a petition under any bankruptcy or insolvency laws was filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a director or key personnel;
- (b) charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding; or
- (c) the subject of any order, judgement or ruling of any court of competent jurisdiction temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.

**5.8 FAMILY RELATIONSHIPS**

Lee Kwai Ling is the Finance Manager of Flonic and the spouse of Yen Yoon Fah, the Executive Chairman of Flonic.

Save as disclosed above, there is no family relationship (as defined in Section 122A of the Act) or association between the substantial shareholders, promoters, Directors, key management or key technical personnel.

**5.9 EXISTING OR PROPOSED SERVICE AGREEMENTS**

As at 30 September 2005 (being the latest practicable date prior to the issue of this Prospectus), there are no existing or proposed service agreements between the Group and its directors, key management or key technical personnel which are not terminable by notice without payment of compensation.

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**5. INFORMATION ON PROMOTERS, SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)****5.10 CHANGES IN SHAREHOLDINGS IN THE COMPANY FOR THE PAST THREE (3) YEARS**

The significant changes of the promoters' and substantial shareholders' shareholdings in the Company since incorporation are as follows: -

Name	As at Date of Incorporation		After the Acquisitions <sup>(b)</sup>				After the Renounceable Rights Issue <sup>(c)</sup>				After the Sub-division <sup>(d)</sup>			
	Direct	%	Direct	%	Indirect	%	Direct	%	Indirect	%	Direct	%	Indirect	%
<b>Promoters</b>														
Novatige	-	-	3,150,082	77.3	-	-	3,150,082	60.8	-	-	31,500,820	60.8	-	-
Yen Yoon Fah	-	-	463,560	11.4	3,150,082	77.3	1,017,310	19.6	3,150,082	60.8	10,173,100	19.6	<sup>(e)</sup> 31,500,820	60.8
Looa Hong Hooi	-	-	152,085	3.7	3,150,082	77.3	333,759	6.4	3,150,082	60.8	3,337,590	6.4	<sup>(e)</sup> 31,500,820	60.8
Heng Hock Meng	-	-	309,333	7.6	3,150,082	77.3	678,849	13.1	3,150,082	60.8	6,788,490	13.1	<sup>(e)</sup> 31,500,820	60.8
<b>Substantial Shareholders</b>														
Nadia Huwaini Binti Muhamat Daut <sup>(a)</sup>	1	50.0	-	-	-	-	-	-	-	-	-	-	-	-
Rosnani Binti Rajali <sup>(a)</sup>	1	50.0	-	-	-	-	-	-	-	-	-	-	-	-
Novatige	-	-	3,150,082	77.3	-	-	3,150,082	60.8	-	-	31,500,820	60.8	-	-
Yen Yoon Fah	-	-	463,560	11.4	3,150,082	77.3	1,017,310	19.6	3,150,082	60.8	10,173,100	19.6	<sup>(e)</sup> 31,500,820	60.8
Looa Hong Hooi	-	-	152,085	3.7	3,150,082	77.3	333,759	6.4	3,150,082	60.8	3,337,590	6.4	<sup>(e)</sup> 31,500,820	60.8
Heng Hock Meng	-	-	309,333	7.6	3,150,082	77.3	678,849	13.1	3,150,082	60.8	6,788,490	13.1	<sup>(e)</sup> 31,500,820	60.8

Notes: -

(a) Being the initial subscriber shareholders of Flonic.

(b) The Acquisitions was completed on 6 July 2005.

(c) The Renounceable Rights Issue was completed on 10 October 2005.

(d) The Sub-division was completed on 10 October 2005

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

**5. INFORMATION ON PROMOTERS, SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL (Cont'd)****5.11 DIRECTORSHIPS AND SUBSTANTIAL SHAREHOLDINGS IN ALL OTHER PUBLIC CORPORATIONS FOR THE PAST TWO YEARS**

Save as disclosed below, none of the other Promoters and Directors have any directorships or substantial shareholdings in other public corporations for the past two years preceding 30 September 2005.

Name	Name of Corporation Involved	Year of Appointment to the Board	Substantial Shareholdings (No. of Shares)	(%)	Principal Activities
<b>Director</b>					
Tong Siew Choo	Kossan Rubber Industries Bhd	2002	-	-	Manufacturing and selling of rubber products and investment holding.

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**6. APPROVAL AND CONDITIONS****6.1 APPROVALS AND CONDITIONS**

The Acquisitions, Rights Issue, Sub-division, Public Issue and Listing was approved by the following authorities as follows: -

Authorities	Date
MITI	27 October 2004
SC*	13 May 2005

\* Including approval under the Foreign Investment Committee's Guidelines on the Acquisitions of Interests, Mergers and Takeovers by Local and Foreign Interests.

Conditions Imposed By SC	Status of Compliance
<b>As per the approval cover letter</b>	
AmMerchant Bank and Flonic are reminded that any breach or non-compliance of the terms and conditions of the approval of the SC under the SCA can be perceived as misconduct and can be reprimanded as provided under the SCA.	The Directors have taken note of the condition and will ensure compliance.
The SC has taken note of Flonic's five year business plan as included in the submission. The Board of Directors of Flonic and the Sponsor of Flonic are responsible to ensure that the aforesaid business development plan is achieved to ensure the financial forecast and projections of Flonic are achieved.	The Directors have taken note of the condition and will ensure compliance.
<b>As per the Attachment of the approval letter</b>	
(i) Moratorium to be imposed on 31,500,000 ordinary shares representing 45% of the enlarged share capital of Flonic issued to the promoter, Novitage Sdn Bhd, in accordance with the moratorium requirements stipulated in Paragraph 2.10 of the Listing Requirements of Bursa Malaysia for the MESDAQ Market ("MMLR");	Complied. Refer to Section 6.2.
(ii) Flonic to disclose in the prospectus, the rationale for adopting the merger method instead of the acquisition method of accounting for the acquisition of FSB, FPS, USB and FE;	Complied. Refer to Sections 1.5 and 4.1.3 (i).
(iii) Flonic to disclose the status of the utilisation of proceeds in its quarterly and annual reports until the proceeds are fully utilised;	The Directors have taken note of the condition and will ensure compliance.
(iv) Flonic to meet the 30% Bumiputera requirement within one (1) year after it has achieved the profit track record requirement for companies applying for listing on the Second Board of Bursa Securities or Five (5) Years after being listed on the MESDAQ Market of Bursa Malaysia, whichever is the earlier, which shares shall be allocated to Bumiputera investors to be approved by MITI;	The Directors have taken note of the condition and will ensure compliance.

**6. APPROVAL AND CONDITIONS (Cont'd)**

Conditions Imposed By SC	Status of Compliance
(v) Flonic to submit to SC a preliminary proposal on how the Company proposes to meet the Bumiputera equity condition, six (6) months before the expiry date of compliance;	The Directors have taken note of the condition and will ensure compliance.
(vi) Adviser/Flonic to comply with all relevant requirements in relation to the implementation of the proposals, as stipulated in the MMLR; and	To be complied upon completion.
(vii) Adviser/Flonic to inform SC upon completion of the proposed flotation exercise.	To be complied upon completion.

SC also noted that the equity structure of Flonic will be held by non-Bumiputera arising from the Public Issue.

The SC had on 14 October 2005 granted its approval to the Company for an extension of time for three (3) months from 13 November 2005 to 12 February 2006 for the implementation of the Listing on the MESDAQ Market of Bursa Malaysia Securities Berhad.

Conditions Imposed By MITI	Status of Compliance
(i) Flonic is required to increase its Bumiputera equity to 30% within five (5) years upon listing or within one (1) year upon meeting the Second Board listing requirements, whichever is earlier.	The Directors have taken note of the condition and will ensure compliance.
(ii) The distribution of the Bumiputera shares as per paragraph (i) above is subject to MITI's approval.	The Directors have taken note of the condition and will ensure compliance.
(iii) To obtain the SC's approval for the listing scheme and compliance with the Guideline on acquisition, mergers and take-overs.	Obtained on 13 May 2005.
(iv) To obtain the MESDAQ's approval.	With effect from 1 January 2005, Bursa Securities has ceased to approve the issue and listing of securities on the MESDAQ Market and all applications will be decided solely by the SC. The SC's approval has been obtained via its letter dated 13 May 2005.

**6. APPROVAL AND CONDITIONS (Cont'd)****6.2 MORATORIUM ON SHARES**

In accordance with the Listing Requirements for MESDAQ Market, certain shareholders of Flonic will not be allowed to sell, transfer or assign their shareholdings amounting to 45% of the enlarged issued and paid-up capital of Flonic for one (1) year from the date of admission of Flonic to the Official List of the MESDAQ Market of the Bursa Securities and thereafter, they are permitted to sell, transfer or otherwise dispose up to a maximum of one third of their respective shareholdings per annum of their respective shareholdings under moratorium on a straight-line basis.

The existing shareholders of Flonic whose shares are subjected to the moratorium is as follows: -

Name of shareholders	No. of shares held after Public Issue	% of enlarged issued and paid-up capital (%)	No. of shares held under moratorium	% of enlarged issued and paid-up capital (%)
Novatige	31,500,820	#45.0	31,500,000	#45.0
	<b>31,500,820</b>	<b>45.0</b>	<b>31,500,000</b>	<b>45.0</b>

Notes:

# Computed based on enlarged issued and paid up share capital of 70,000,000 Shares

The restriction, which is fully accepted by the shareholders, is specifically endorsed on the share certificates representing the respective shareholdings of the shareholders whose are under moratorium to ensure that Flonic's registrars do not register any transfer not in compliance with the restriction imposed by the SC. The shareholders have provided an undertaking that they shall not sell, transfer or assign their respective shareholdings under moratorium in accordance with the SC Guidelines.

The shareholders of Novatige namely Yen Yoon Fah, Looa Hong Hooi and Heng Hock Meng have provided an undertaking that they shall not sell, transfer or assign their respective shareholdings in Novatige during the moratorium period.

The endorsement affixed on the share certificates is as follows: -

*"The shares comprised herein are not capable of being sold, transferred or assigned for the period as determined by the Securities Commission ("moratorium period"). The shares comprised herein will not constitute good delivery pursuant to the Rules of the Exchange during the moratorium period. No share certificates will be issued to replace this certificate during the moratorium period unless the same shall be endorsed with this restriction".*

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**7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST****7.1 EXISTING AND PROPOSED RELATED-PARTY TRANSACTIONS AND CONFLICT OF INTEREST**

There are no existing and/or proposed related-party transactions and conflicts of interest in relation to the Group, which involves the interest direct or indirect of the Directors, substantial shareholders, key management and/or persons connected to them, as at the date of this Prospectus.

**7.2 TRANSACTION UNUSUAL IN THEIR NATURE OR CONDITIONS**

There are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which the Company or any of its subsidiaries was a party in respect of the past one (1) financial year and the subsequent financial period thereof, immediately preceding the date of the prospectus.

**7.3 OUTSTANDING LOANS MADE BY CORPORATION OR ANY OF ITS PARENT OR SUBSIDIARIES TO/FOR THE BENEFIT OF RELATED PARTIES**

There are no outstanding loans (including guarantees of any kind) made by the Company or any of its subsidiaries to or for the benefit of related party(ies).

**7.4 INTEREST IN SIMILAR BUSINESS**

To the best of knowledge and belief of the Directors and substantial shareholders of Flonic, none of the Directors or substantial shareholders and/or key management of Flonic are interested, directly or indirectly, in any business carrying on a similar trade as the Company and its subsidiary companies.

**7.5 PROMOTIONS OF ANY MATERIAL ASSETS ACQUIRED/TO BE ACQUIRED WITHIN TWO YEARS PRECEDING THE DATE OF THIS PROSPECTUS**

Save as disclosed below, none of the other Directors and substantial shareholders has any interest, direct or indirect, in the promotion of or in any material assets acquired or proposed to be acquired or disposed or proposed to be disposed of or leased or proposed to be leased to the Company or any of its subsidiary companies within the two (2) years preceding the date of this Prospectus: -

- (a) Sale and Purchase Agreement dated 6 September 2004 and Supplemental Sale and Purchase Agreement dated 13 June 2005, entered into between Yen Yoon Fah, Heng Hock Meng and Looa Hong Hooi (collectively "Vendors") and Flonic ("Purchaser"), whereby the Vendors agreed to sell and the Purchaser agreed to purchase the entire issued and paid-up share capital of (i) FSB comprising of 1,500,000 ordinary shares of RM1.00 each, (ii) FP comprising of 3 ordinary shares of RM1.00 each, and (iii) FE comprising of 3 ordinary shares of RM1.00 each, for a purchase consideration of RM4,075,056 to be satisfied by the issuance of 4,075,056 new ordinary shares of RM1.00 each in Flonic.
- (b) Sale and Purchase Agreement dated 6 September 2004, entered into between Looa Hong Hooi and Lee Kwai Ling (collectively "Vendors") and Flonic ("Purchaser"), whereby the Vendors agreed to sell and the Purchaser agreed to purchase the entire issued and paid-up share capital of USB comprising 2 ordinary shares of RM1.00 each, for a purchase consideration of RM2.00 to be satisfied by the issuance of 2 new ordinary shares of RM1.00 each in Flonic.

## **7. RELATED-PARTY TRANSACTIONS/ CONFLICT OF INTEREST (Cont'd)**

### **7.6 CONTRACTS OR ARRANGEMENTS IN WHICH THE DIRECTORS OR SUBSTANTIAL SHAREHOLDERS ARE INTERESTED AND SIGNIFICANT IN RELATION TO THE BUSINESS OF THE GROUP TAKEN AS A WHOLE**

None of the Directors and/or substantial shareholders of Flonic have an interest in any contract or arrangement, which is significant in relation to the business of the Group taken as a whole.

### **7.7 RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

There is no recurrent related party transactions involving recurrent transactions of revenue or trading in nature involving the Company or the Group.

Pursuant to Rule 6.8 of the Listing Requirements, Flonic may seek the shareholders' mandate in respect of related party transactions involving recurrent transactions of revenue or trading in nature subject to the following: -

- (a) the transactions are in the ordinary course of business and are on terms not more favourable to the related party than those generally available to the public;
- (b) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year; and
- (c) in a meeting to obtain shareholders' mandate, the interested director, interested major shareholder or interested person connected with a director or major shareholder; and where it involves the interest of an interested person connected with a director or major shareholder, such director or major shareholder, must not vote on the resolution approving the transactions. An interested director or interested major shareholder must ensure that persons connected with him abstain from voting on the resolution approving the transactions.

### **7.8 DECLARATION BY THE ADVISERS**

AmMerchant Bank hereby confirms that there is no conflict of interest with respect to their capacity as the Adviser, Sponsor, Managing Underwriter and Placement Agent to the Group for the Public Issue.

Messrs. Lee Choon Wan & Co hereby confirms that there is no conflict of interest with respect to their capacity as Solicitors to the Group for the Public Issue and due diligence respectively.

Messrs. Khoo Teng Keat & Co hereby confirms that there is no conflict of interest with respect to their capacity as Auditors and Reporting Accountants to the Group for the Public Issue.

Vital Factor Consulting Sdn Bhd hereby confirms that there is no conflict of interest with respect to their capacity as Independent Business and Market Research Consultants to the Group for the Public Issue.

Aseambankers Malaysia Berhad hereby confirms that there is no conflict of interest with respect to their capacity as Co-Placement Agent to the Group for the Public Issue.

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**8. OTHER INFORMATION CONCERNING THE CORPORATION / GROUP**

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**8.1 INFORMATION ON LAND AND BUILDINGS**

The Group does not own any landed properties as at the date of this Prospectus.

As mentioned in Section 14.4, USB had on 19 October 2005 entered into a sale and purchase agreement with Rolform Sdn Bhd ("Vendor") whereby the Vendor agreed to sell and USB agreed to purchase all that piece of land held under HD (D) 98504, PT No. 718 Sek. 16, Bandar Shah Alam, Daerah Petaling, Negeri Selangor with 1 unit of factory erected thereon, for a cash consideration of RM5,550,000.00.

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**9. FINANCIAL INFORMATION****9.1 HISTORICAL FINANCIAL INFORMATION**

This proforma consolidated results has been extracted from the Accountants' Report set out in Section 10 of this Prospectus and should be read in conjunction with the notes and assumptions thereto.

The following table sets out a summary of the proforma consolidated results of the Group for the past five (5) financial years ended 31 January 2005 and the 7 months period ended 31 August 2005, presented for illustrative purposes only and on the assumption that the Group has been in existence throughout the period under review.

Financial year ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Revenue	5,274	4,046	4,411	5,788	9,300	5,801
EBIDTA	1,265	956	1,090	1,743	3,188	1,646
Interest expense	(62)	(75)	(129)	(93)	(70)	(32)
Depreciation and amortisation	(57)	(59)	(70)	(91)	(83)	(47)
Exceptional items	-	-	-	-	64	-
Share of profits of associated companies	-	-	-	-	-	-
PBT	1,146	822	891	1,559	3,099	1,567
Taxation	(187)	(72)	(71)	(143)	(337)	(68)
PAT	959	750	820	1,416	2,762	1,499
Extraordinary items	-	-	-	-	-	-
MI	-	-	-	-	-	-
Net Profit	959	750	820	1,416	2,762	1,499
No. of ordinary shares assumed in issue ('000) *	51,800	51,800	51,800	51,800	51,800	51,800
Enlarged no. of shares assumed in issue ('000) #	70,000	70,000	70,000	70,000	70,000	70,000
Gross EPS * (sen)	2.21	1.59	1.72	3.01	5.98	3.03
Net EPS * (sen)	1.85	1.45	1.58	2.73	5.33	2.89
Gross EPS # (sen)	1.64	1.17	1.27	2.23	4.43	2.24
Net EPS # (sen)	1.37	1.07	1.17	2.02	3.95	2.14

Notes: -

\* The assumed issued and paid up capital of 51,800,000 ordinary shares of RM0.10 each is based on the issued and paid up capital of Flonic after the Acquisitions, Rights Issue and Subdivision but prior to the Public Issue.

# The enlarged issued and paid up capital of 70,000,000 ordinary shares of RM0.10 each is based on the issued and paid up capital of Flonic after the Acquisitions, Rights Issue, Sub-division and Public Issue.

**9. FINANCIAL INFORMATION (Cont'd)**

- (1) The Performa Group Income Statement have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited Financial Statements.
- (2) All significant inter-company transactions have been eliminated from the group result.
- (3) Revenue increased by 14% to RM5,274 million for the financial year ended 31 January 2001 as compared to the previous financial year mainly due to higher demand for higher technology cleaning systems. PBT increased by 9% to RM1.146 million for the financial year ended 31 January 2001 as compared to the previous financial year due to the higher revenue generated.
- (4) Revenue decreased by 23% to RM4,046 million for the financial year end 31 January 2002 mainly due to the temporary slowdown of the electronic and semiconductor industry from which the Group secured bigger orders. Accordingly, PBT decreased by 28% to RM0.822 million for the financial year ended 31 January 2002 over the previous year in line with the drop in the revenue.
- (5) Revenue increased by 9% to RM4,411 million for the financial year ended 31 January 2003 as compared to the previous year mainly due to increase in demand from foreign customers in the electronic and semiconductor industry. PBT increased by 8% to RM0.891 million for the financial year ended 31 January 2003 over the previous financial year due to increase in revenue.
- (6) Revenue increased by 31% to RM5,788 million for the financial year ended 31 January 2004 as compared to the previous financial year mainly due to increase in sales to foreign customers in the electronic and semiconductor industry. PBT increased by 75% to RM1,559 million for the financial year ended 31 January 2004 over the previous financial year resulted from better margin from sales of enhanced larger precision cleaning equipment to the electronic and semiconductor industry.
- (7) Revenue increased by 61% to RM9,300 million for the financial year ended 31 January 2005 as compared to the previous year mainly due to more recurring sales of higher values from satisfied customers. PBT increased by 99% to RM3,099 million for the financial year ended 31 January 2005 over the previous year as a result of higher revenue generated.
- (8) For the 7 months period ended 31 August 2005, Flonic Group generated revenue of RM5,801 million. This represented 62% of revenue for the year ended 31 January 2005. PBT amounted to RM1,567 million for the 7 months period ended 31 August 2005 representing 51% of that for the year ended 31 January 2005.
- (9) The lower effective tax charged for the four (4) financial years ended 31 January 2005 was due to the pioneer status enjoyed by the Group. The pioneer status of FSB expired on 31 March 2004. The pioneer status of USB is expected to expire on September 2009.
- (10) The effective tax rate for the 7 months period ended 31 August 2005 is 4%. This is due to pioneer status enjoyed by USB.
- (11) Except for the gain on disposal of freehold land and building for the financial year ended 31 January 2005 amounting to RM64,000, there were no exceptional or extraordinary items for the financial years under review.
- (12) The net EPS is calculated based on the net profit and on the assumed number of ordinary shares in issue after the acquisition.

The financial statements of the Group for the years under review were not subjected to any audit qualification.

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**9. FINANCIAL INFORMATION (Cont'd)****9.2 ANALYSIS OF HISTORICAL FINANCIAL INFORMATION****9.2.1 Segmental Analysis of Revenue and Operating Profit****Analysis of Revenue by Corporations: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Flonic	-	-	-	-	-	-
FSB	5,274	4,046	4,411	5,238	9,997	6,132
FPS	-	-	-	1,624	1,644	-
FE	-	-	-	-	-	-
USB	-	-	-	-	4,005	4,321
Consolidation adjustments	-	-	-	(1,074)	(6,346)	(4,652)
Proforma Consolidated Revenue	5,274	4,046	4,411	5,788	9,300	5,801

**Analysis of Revenue by Products and Services: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Ultrasonic and other precision cleaning machines	4,891	3,819	4,275	6,585	14,338	9,893
Services & parts	361	217	136	277	1,299	599
Solvent	22	10	-	-	9	1
Consolidation adjustments	-	-	-	(1,074)	(6,346)	(4,652)
Proforma Consolidated Revenue	5,274	4,046	4,411	5,788	9,300	5,801

**Analysis of Revenue by Markets / Geographical Location: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Malaysia	2,526	2,912	2,469	2,006	9,926	6,524
China	-	-	540	1,634	1,387	128
South East Asia	847	917	1,072	2,818	3,707	2,732
Sri Lanka	52	-	-	-	161	73
United States	1,849	217	330	404	28	713
Europe	-	-	-	-	437	284
Consolidation adjustments	-	-	-	(1,074)	(6,346)	(4,652)
Proforma Consolidated Revenue	5,274	4,046	4,411	5,788	9,300	5,801

**9. FINANCIAL INFORMATION (Cont'd)****Analysis of Operating Profits by Corporations: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Flonic	-	-	-	-	-	(1)
FSB	1,146	822	895	1,548	812	432
FPS	-	-	-	16	89	(3)
FE	-	-	-	(4)	(2)	(1)
USB	-	-	(4)	(1)	2,136	1,140
Consolidation adjustments	-	-	-	-	-	-
Proforma Consolidated Operating Profits	1,146	822	891	1,559	3,035	1,567

**Analysis of Operating Profits by Products and Services: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Ultrasonic and other precision cleaning machines	1,063	776	864	1,774	4,679	2,673
Services & parts	78	44	27	74	424	151
Solvent	5	2	0	0	3	-
Consolidation adjustments	-	-	-	(289)	(2,071)	(1,257)
Proforma Consolidated Operating Profits	1,146	822	891	1,559	3,035	1,567

**Analysis of Operating Profits by Markets / Geographical Location: -**

Financial Year Ended 31 January	2001 (RM'000)	2002 (RM'000)	2003 (RM'000)	2004 (RM'000)	2005 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Malaysia	549	592	499	540	3,239	1,763
China	-	-	109	440	453	35
South East Asia	184	186	216	759	1,210	738
Sri Lanka	11	-	-	-	53	20
United States	402	44	67	109	9	192
Europe	-	-	-	-	142	76
Consolidation adjustments	-	-	-	(289)	(2,071)	(1,257)
Proforma Consolidated Operating Profits	1,146	822	891	1,559	3,035	1,567

**9. FINANCIAL INFORMATION (Cont'd)**

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**9.2.2 OVERVIEW OF REVENUE AND OPERATING PROFIT**

As mentioned in the notes in Section 9.1 above, the revenue was on an upward trend in the year ended 31 January 2001. But in the next year ended 31 January 2002, the revenue dropped due to the temporary slowdown of the electronic and semiconductor industry. However, the revenue picked up in the next year ended 31 January 2003. For the years ended 31 January 2004 and 2005, the revenue also maintained an upward trend.

For the financial year ended 31 January 2005 and 7 months period ended 31 August 2005, revenues are mostly contributed by FSB and USB.

For the years ended 31 January 2001 to 2003, export markets contributed between 28.0% to 52.1% of the total revenue. Contribution from export markets increased to 69.8% and 61.7% in the years ended 31 January 2004 and 31 January 2005 respectively as the Group secured more orders from electronic and semiconductor companies situated overseas. For the 7 months period ended 31 August 2005, the export constitutes about 67.7% of the total revenue for the period.

During the 5 financial years ended 31 January 2005 and 7 months period ended 31 August 2005, the PBT changed in line with the changes in the revenue. Over 85% of the PBT was derived from the sales of precision cleaning machines and the balance from services and sales of parts.

For the 5 years ended 31 January 2005 and 7 months period ended 31 August 2005, the local market contribution to the PBT ranged from RM499,000 to RM3.239 million. The export market contribution ranged from RM230,000 in the year ended 31 January 2002, where there was a slowdown in the electronic and semiconductor industry to RM1.867 million in the most recent year ended 31 January 2005.

**9.2.3 IMPACT OF FOREIGN EXCHANGE / INTEREST RATES / COMMODITY PRICES ON OPERATING PROFITS**

There was no material impact of foreign exchange, interest rates or commodity prices on the Company's historical operating profits for the past five (5) financial years.

**9.2.4 TAXATION**

As explained in the notes in Section 9.1 above, the effective rate of taxation for the Group is lower than the statutory rate from financial year ended 31 January 2001 to financial year ended 31 January 2005 and 7 months period ended 31 August 2005. This is due to the pioneer status enjoyed by FSB and USB. The pioneer status of FSB expired on 31 March 2004. The pioneer status of USB is expected to expire in September 2009.

**9.2.5 EXCEPTIONAL AND EXTRAORDINARY ITEMS**

Save and except for gain on disposal of freehold land and building of RM64,452 for the financial year ended 31 January 2005, there were no other exceptional or extraordinary items for the five (5) financial years ended 31 January 2005 and 7 months period ended 31 August 2005.

**9. FINANCIAL INFORMATION (Cont'd)****9.3 FINANCIAL PERFORMANCE, POSITION AND OPERATIONS**

Save as disclosed in Section 9 of this Prospectus, the Directors are of the view that the financial performance, position and operations of the Group are not affected by any of the following: -

- (i) Any known trends, demands, commitments, events or uncertainties that have had, or that the corporation reasonably expects to have, a material favourable or unfavourable impact on financial performance, position and operations of Flonic;
- (ii) Any material capital commitments;
- (iii) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of Flonic; and
- (iv) Known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

**9.4 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, MATERIAL COMMITMENT AND LITIGATION****(i) Working Capital**

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

**(ii) Borrowings**

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), the total utilised bank borrowings in the form of trade facilities, bank overdraft and hire purchase amounted to RM387,937. The borrowings can be analysed further as follows: -

<b>Borrowings</b>	<b>Amount (RM)</b>
Short Term borrowings	
• Interest bearing	387,937
• Non-interest bearing	-
<b>Total Borrowings</b>	<b>387,937</b>

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group has no foreign currency borrowings and the Group has also not defaulted on payments of either interest and/or principal sums in respect of any borrowings.

The Group's level of gearing is 0.02 times based on the shareholders' funds upon the Public Issue, which is within the manageable level and would not have an adverse financial impact on the Group.

**9. FINANCIAL INFORMATION (Cont'd)****(iii) Contingent Liabilities**

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), there is no material contingent liabilities incurred by the Group.

**(iv) Material Commitments**

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), there are no material commitments for capital expenditure incurred or known to be incurred by the Group, which may have a substantial impact on the financial position of the Group.

<b>Material Commitments</b>	<b>Amount (RM'000)</b>
Land and building	
• Approved and contracted for*	5,550
• Approved but not contracted for	-
<b>Total</b>	<b>5,550</b>

Note:

- \* USB had on 19 October 2005 entered into a sale and purchase agreement for a purchase of land and building for a cash consideration of RM5.55 million, details of which are set out in Section 14.4 (e) of this Prospectus.

**(v) Material Litigation/Arbitration**

As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), the Group is not engaged whether as plaintiff or defendant in any legal action, proceeding, arbitration or prosecution for any criminal offence, which has a material effect on the financial position of the Group and the Directors do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of the Group.

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**9. FINANCIAL INFORMATION (Cont'd)**

**9.5 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED  
BALANCE SHEET AS AT 31 AUGUST 2005**  
*(Prepared for inclusion in the Prospectus)*

**KHOO TENG KEAT & CO. (AF 0033)**

CHARTERED ACCOUNTANTS

82-F (1st. Floor), Jalan Pulasan, 41000 Klang, Selangor.

Tel : 03-33714725, 33714742 & 33714835

Fax : 603-33724128



Member Firm of  
Malaysian Institute of Accountants

**REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED  
BALANCE SHEET AS AT 31 AUGUST 2005**

**21 OCT 2005**

The Board of Directors

Flonic Hi-Tec Bhd.

Lot 6, Solok Sultan Hishamuddin 6,  
North Port Straits Industrial Estate,  
42000 Port Klang,  
Selangor Darul Ehsan.

Dear Sirs,

**FLONIC HI-TEC BHD. ("Flonic")**

**Reporting accountants' letter on the proforma consolidated balance sheets as at 31 August 2005**

We have reviewed the presentation of the proforma consolidated balance sheets of Flonic and its subsidiaries ("Flonic Group") as at 31 August 2005 that have been prepared for illustrative purposes only, for which the Directors are solely responsible, together with the accompanying notes thereto (which we have stamped for the purpose of identification), for inclusion in the Prospectus in connection with the listing of and quotation for the entire issued and paid up share capital of Flonic on the Mesdaq Market of Bursa Malaysia Securities Berhad and which should not be relied on for any other purposes.

In our opinion,

- the proforma consolidated balance sheets have been properly compiled on the basis of preparation stated;
- such basis is consistent with the accounting policies adopted by the Flonic Group as disclosed in their latest audited Financial Statements and as set out in Section 4.2 of the Accountants' report; and
- the adjustments are appropriate for the purposes of the proforma consolidated balance sheets.

Yours faithfully,

**Khoo Teng Keat & Co.**  
Chartered Accountants  
AF 0033

Encls.



**9. FINANCIAL INFORMATION (Cont'd)****FLONIC HI-TEC BHD.****PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 AUGUST 2005**

The proforma Consolidated Balance Sheets as at 31 August 2005 set out below have been prepared for illustrative purposes only to show the effects on the audited balance sheet of Flonic, had the Listing Scheme been effected on that date.

	<b>Audited as at 31 August 2005 RM'000</b>	<b>Proforma 1 RM'000</b>	<b>Proforma 2 RM'000</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	633	633	633
<b>CURRENT ASSETS</b>			
Inventories	2,157	2,157	2,157
Trade and other receivables	7,068	7,068	7,068
Fixed deposit with licensed bank	450	450	450
Cash and bank balances	22	879	10,119
	9,697	10,554	19,874
<b>CURRENT LIABILITIES</b>			
Trade and other payables	2,156	2,156	2,156
Hire purchase liabilities	9	9	9
Taxation	282	282	282
Bank overdraft	248	0	0
	2,695	2,447	2,447
<b>NET CURRENT ASSETS</b>	7,002	8,107	17,427
	7,635	8,740	18,060
<b>REPRESENTING :</b>			
<b>SHARE CAPITAL</b>	4,075	5,180	7,000
<b>SHARE PREMIUM ACCOUNT</b>	0	0	#7,500
<b>MERGER DEFICIT ACCUMULATED PROFITS</b>	(2,575)	(2,575)	(2,575)
<b>SHAREHOLDERS' FUND</b>	6,073	6,073	6,073
	7,573	8,678	17,998
<b>DEFERRED AND LONG TERM LIABILITIES</b>			
Hire purchase liabilities	33	33	33
Deferred taxation	29	29	29
	7,635	8,740	18,060
<b>NTA per Ordinary Share (RM)</b>	1.86	0.17	0.26

Note :-

- # After the Rights Issue and after deducting the estimated listing expenses of RM1,600,000.



**9. FINANCIAL INFORMATION (Cont'd)****FLONIC HI-TEC BHD.****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

The proforma consolidated balance sheets of Flonic and the following subsidiaries ("Flonic Group") as at 31 August 2005 have been prepared for illustrative purposes only to show the effects of the Proposed Listing as stated in Note 1, had the Proposed Listing been implemented and completed on that date :

(i) Flonic Sdn. Bhd.	("FSB")
(ii) Flonic Precision Systems Sdn. Bhd.	("FPS")
(iii) Ultraflonic Sdn. Bhd.	("USB")
(iv) Flonic Engineering Sdn. Bhd.	("FE")

The proforma consolidated balance sheets have been prepared based on the accounting policies and bases consistent with those adopted in the preparation of the respective audited Financial Statements of Flonic and its subsidiaries for the financial period ended 31 August 2005.

**1. PROPOSED LISTING****Acquisitions**

The audited Financial Statements for the 7 months period ended 31 August 2005 has taken into consideration the acquisition of FSB, FPS, FE and USB. The acquisitions were completed on 6 July 2005.

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, FPS and FE, whilst Looa Hong Hooi and Lee Kwai Ling were the shareholders of USB.

Subsequently, Novatige Sdn. Bhd. ("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.

The Acquisitions have been accounted for using merger method of accounting in accordance with Malaysian Accounting Standards Board No. 21.



**9. FINANCIAL INFORMATION (Cont'd)****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.

**Proforma 1 - After Renounceable Rights Issue and Sub-division**

Upon the completion of the Acquisitions, 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.

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

<b>Directors</b>	<b>No. of shares of RM1.00 each</b>
Yen Yoon Fah	428,057
Heng Hock Meng	285,641
Looa Hong Hooi	140,437
<b>Total</b>	<b>854,135</b>

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

Upon completion of the Renounceable Rights Issue, 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.



**9. FINANCIAL INFORMATION (Cont'd)****Proforma 3 - After the Public Issue**

Upon completion of the Renounceable Rights Issue and Sub-division, Flonic will undertake the Public Issue involving a public issue of 18,200,000 new ordinary shares of RM0.10 each at an issue price of RM0.60 each.

Upon completion of the Public Issue, the issue and paid up share capital of Flonic will be increased from RM5,180,000 to RM7,000,000 comprising 70,000,000 ordinary shares of RM0.10 each.

**2. SHARE CAPITAL**

The movements in the issued and paid-up share capital of Flonic after taking into consideration of the Proposed Listing as stated in Note 1 are as follows : -

	RM'000
As at the date of incorporation	#
Issued as consideration for the acquisition of subsidiaries	4,075
Rights issue	1,105
Per Proforma Consolidated Balance sheet 1	5,180
Public issue	1,820
Per Proforma Consolidated Balance Sheet 2	7,000

# RM2.00 comprising 2 ordinary shares of RM1.00 each

**3. RESERVES**

The movements of the reserves of Flonic after taking into consideration of the Proposed Listing as stated in Note 1 are as follows : -

	Share premium <u>account</u> RM'000	Merger <u>deficit</u> RM'000	Accumulated <u>profits</u> RM'000	Total <u>reserves</u> RM'000
Per audited 31 August 2005 and Proforma Consolidated Balance Sheet 1	0	(2,575)	6,073	3,498
Arising from Proposed Public Issue	9,100	0	0	9,100
Listing expenses	(1,600)	0	0	(1,600)
Per Proforma Consolidated Balance Sheet 2	RM 7,500	RM (2,575)	RM 6,073	RM 10,988



**10. ACCOUNTANTS' REPORT**  
*(Prepared for inclusion in the Prospectus)*

**KHOO TENG KEAT & CO. (AF 0033)**

CHARTERED ACCOUNTANTS

82-F (1st. Floor), Jalan Pulasan, 41000 Klang, Selangor.

Tel : 03-33714725, 33714742 & 33714835

Fax : 603-33724128



Member Firm of  
Malaysian Institute of Accountants

**21 OCT 2005**

The Board of Directors,  
Flonic Hi-Tec Bhd.  
Lot 6, Solok Sultan Hishamuddin 6,  
North Port Straits Industrial Estate,  
42000 Port Klang,  
Selangor Darul Ehsan.

Dear Sirs,

**RE : ACCOUNTANTS' REPORT**

This report has been prepared by Messrs Khoo Teng Keat & Co., an approved company auditor, for inclusion in the Prospectus in connection with the public issue of 18,200,000 new ordinary shares of RM0.10 each in Flonic Hi-Tec Bhd. ("Flonic" or "the Group") at an issue price of RM0.60 per ordinary share and the listing and quotation for its entire enlarge issued and paid up share capital on the MESDAQ Market of Bursa Malaysia Securities Berhad (the "MESDAQ Market").

**1 GENERAL INFORMATION**

**1.1 Background**

Flonic, formerly known as Flonic Hi-Tec Sdn. Bhd., was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 10th June 2004. On 22 July 2004, the Company converted its status to a public limited company for the purpose of the listing exercise as detailed in Note 1.3.

The principal activity of Flonic is investment holding. The principal activities of its subsidiaries are set out in Note 1.4 herein.

**1.2 Share capital**

As at the date of incorporation, Flonic's authorised share capital was RM100,000 consisting of 100,000 ordinary shares of RM1.00 each. At that date, its issued and paid-up shares capital was RM2 consisting of 2 subscribers' shares of RM1.00 each.

At the date of this report, the authorised share capital is RM10,000,000 consisting of 100,000,000 ordinary shares of RM0.10 and the issued and paid-up share capital of Flonic is RM5,180,000 consisting of 51,800,000 ordinary shares of RM0.10 each.



**10. ACCOUNTANTS' REPORT (Cont'd)**

The details of the changes in the issued and fully paid-up share capital of Flonic since the date of incorporation are as follows : -

Date of allotment	Number of ordinary shares	Par value RM	Issue price per ordinary share RM	Consideration	Total issued and paid-up share capital RM
10 June 2004	2	1.00	1.00	Cash	2
6 July 2005	4,075,058	1.00	1.00	Acquisition of subsidiaries	4,075,060
10 October 2005	1,104,940	1.00	1.00	Rights issue	5,180,000
10 October 2005	51,800,000	0.10	0.10	Sub-division of shares	5,180,000

Upon completion of the public issue and placement, the issued and paid-up share capital of Flonic will be increased to RM7,000,000 comprising 70,000,000 ordinary shares of RM0.10 each.

**1.3. Listing scheme**

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of Flonic on the MESDAQ Market, Flonic undertook/will undertake the following scheme : -

**(i) Acquisitions**

The audited financial statements for the 7 months period ended 31 August 2005 has taken into consideration the acquisition of FSB, FPS, FE and USB. The Acquisitions were completed on 6 July 2005.

Flonic acquired the entire issued and paid-up share capital of Flonic Sdn. Bhd. ("FSB"), Flonic Precision Systems Sdn. Bhd. ("FPS"), Flonic Engineering Sdn. Bhd. ("FE") and Ultraflonic Sdn. Bhd. ("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. Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. Looa Hong Hooi were the shareholders of FSB, FB and FE, whilst Mr. Looa Hong Hooi and Ms. Lee Kwai Ling were the shareholders of USB.

Subsequently, Novatige Sdn. Bhd. ("Novatige"), the investment holding company acquired 3,150,082 ordinary shares in Flonic from Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. 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 an issue price of RM4.00 for each Novatige share.



**10. ACCOUNTANTS' REPORT (Cont'd)****(ii) Renounceable Rights Issue and Sub-Division**

Upon the completion of the Acquisitions, 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 in Flonic.

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

<b>Directors</b>	<b>No. of shares of RM1.00 each</b>
Yen Yoon Fah	428,057
Heng Hock Meng	285,641
Looa Hong Hooi	140,437
<b>Total</b>	<b>854,135</b>

Upon completion of the Renounceable Rights Issue, the par value of RM1.00 per ordinary share of Flonic was sub-dividend 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 Renounceable Rights Issue and Sub-division were completed on 10 October 2005.

**(iii) Public Issue**

Upon completion of the Renounceable Rights Issue and Sub-division, Flonic will undertake the Public Issue ("Public Issue") involving a public issue of 18,200,000 new ordinary shares of RM0.10 each ("Public Issue Shares").



**10. ACCOUNTANTS' REPORT (Cont'd)****1.4 Information on subsidiaries**

As at the date of this report, the details of the subsidiaries of Flonic which are incorporated in Malaysia under the Companies Act, 1965 and their principal activities are as follows : -

Name	Date of incorporation	-----Share capital-----		Effective interest %	Principal activities
		Authorised RM	Issued and paid up RM		
FSB	14 September 1984	2,000,000	1,500,000	100	Design and distribution of precision cleaning systems
FPS	19 November 2002	100,000	3	100	Marketing and distribution of precision cleaning systems
FE	3 December 2002	100,000	3	100	Dormant
USB	5 March 2002	100,000	2	100	Design and manufacture of precision cleaning systems

**1.5 Financial Statements and Auditors**

The present financial year end of the Group is 31st January. Messrs Khoo Teng Keat & Co. have acted as the auditors for all the companies for all the financial years/period covered by this report.

The auditors' reports of the companies within the Group for all the relevant financial years/period under review were not subject to any qualification and did not include any emphasis of matter.

**1.6 Dividend**

On 31 January 2003, FSB paid a tax-exempt dividend of 100% amounting to RM1,500,000 in respect of the financial year ended 31st January 2003.

On 15 January 2005, FSB paid a tax-exempt dividend of 50% amounting to RM750,000 in respect of the financial year ended 31 January 2005.

Except for the above, no dividends were paid or declared by Flonic and its subsidiaries on the ordinary shares for the years/period under review.





**10. ACCOUNTANTS' REPORT (Cont'd)****2 SUMMARISED INCOME STATEMENT****2.1 PROFORMA CONSOLIDATED INCOME STATEMENT**

The summarised proforma consolidated results of Flonic Group for the past five (5) financial years ended 31 January 2005 and the seven (7) months period ended 31 August 2005 have been prepared for illustrative purpose only and assuming that the current structure of Flonic Group has been in existence throughout the financial years/period under review.

	<-----Financial year ended 31 January----->					7 months period ended 31 August 2005 RM'000
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	
Revenue	5,274	4,046	4,411	5,788	9,300	5,801
EBIDTA	1,265	956	1,090	1,743	3,188	1,646
Interest expenses	(62)	(75)	(129)	(93)	(70)	(32)
Depreciation and amortisation	(57)	(59)	(70)	(91)	(83)	(47)
Exceptional items	0	0	0	0	64	0
PBT	1,146	822	891	1,559	3,099	1,567
Taxation	(187)	(72)	(71)	(143)	(337)	(68)
PAT	959	750	820	1,416	2,762	1,499
Extraordinary items	0	0	0	0	0	0
MI	0	0	0	0	0	0
Net profit	959	750	820	1,416	2,762	1,499
No. of ordinary shares assumed in issue ('000)*	51,800	51,800	51,800	51,800	51,800	51,800
Enlarged no of shares assumed in issue ('000)#	70,000	70,000	70,000	70,000	70,000	70,000
Gross EPF * (sen)	2.21	1.59	1.72	3.01	5.98	3.03
Net EPS * (sen)	1.85	1.45	1.58	2.73	5.33	2.89
Gross EPF # (sen)	1.64	1.17	1.27	2.23	4.43	2.24
Net EPS # (sen)	1.37	1.07	1.17	2.02	3.95	2.14



**10. ACCOUNTANTS' REPORT (Cont'd)**

- \* The issued and paid up capital of 51,800,000 ordinary shares of RM0.10 each is based on the issued and paid-up capital of Flonic after the Acquisitions, Renounceable Rights Issue and Sub-Division but prior to the Public Issue.
- # The enlarged issued and paid up capital of 70,000,000 ordinary shares of RM0.10 each is based on the issued and paid up capital of Flonic after the Acquisitions, Renounceable Rights Issue, Sub-Division and Public Issue.

**NOTES :**

- i) The Proforma Group Income Statements have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited Financial Statements of the Group.
- ii) All significant inter-company transactions have been eliminated from the group results.
- iii) Revenue increased by 14% to RM5.274 million for the financial year ended 31 January 2001 as compared to the previous financial year mainly due to higher demand for higher technology cleaning systems. PBT increased by 9% to RM1.146 million for the financial year ended 31 January 2001 as compared to the previous financial year due to the higher revenue generated.
- iv) Revenue decreased by 23% to RM4.046 million for the financial year ended 31 January 2002 mainly due to the temporary slowdown of the electronic and semiconductor industry from which the Group secured bigger orders. Accordingly, PBT decreased by 28% to RM0.822 million for the financial year ended 31 January 2002 over the previous year in line with the drop in the revenue.
- v) Revenue increased by 9% to RM4.411 million for the financial year ended 31 January 2003 as compared to the previous year mainly due to increase in demand from foreign customers in the electronic and semiconductor industry. PBT increased by 8% to RM0.891 million for the financial year ended 31 January 2003 over the previous financial year due to increase in revenue.



**10. ACCOUNTANTS' REPORT (Cont'd)**

- vi) Revenue increased by 31% to RM5.788 million for the financial year ended 31 January 2004 as compared to the previous financial year mainly due to increase in sales to foreign customers in the electronic and semiconductor industry. PBT increased by 75% to RM1.559 million for the financial year ended 31 January 2004 over the previous financial year resulted from better margin from sales of enhanced larger precision cleaning equipment to the electronic and semiconductor industry.
- vii) Revenue increased by 61% to RM9.300 million for the financial year ended 31 January 2005 as compared to the previous year mainly due to more recurring sales of higher values from satisfied customers. PBT increased by 99% to RM3.099 million for the financial year ended 31 January 2005 over the previous year as a result of higher revenue generated.
- viii) For the 7 months ended 31 August 2005, Flonic generated a revenue of RM5.801 million. This represented 62% of the revenue for the year ended 31 January 2005. PBT amounted to RM1.567 million representing 51% of that for the year ended 31 January 2005.
- ix) The lower effective tax charged for the four (4) financial years ended 31 January 2005 due to the pioneer status enjoyed by the Group. The pioneer status of FSB expired on 31 March 2004. The pioneer status of USB is expected to expire in September 2009.
- x) The effective tax rate for the 7 month period ended 31 August 2005 is 4%. This is due to pioneer status enjoyed by USB.
- xi) Except for the gain on disposal of freehold land and building for the financial year ended 31 January 2005 amounting to RM64,000, there were no exceptional or extraordinary items for the financial years/period under review.
- xii) The net EPS is calculated based on the net profit and on the assumed number of ordinary shares in issue after the acquisition.



**10. ACCOUNTANTS' REPORT (Cont'd)**

- 2.2 We set out below the audited individual results of Flonic and its subsidiaries for the relevant financial years/period under review : -

**FLONIC**

	10.6.04 to 31.1.05 RM'000	7 months period ended 31 August 2005 RM'000
Revenue	0	0
LBIDTA	(1)	(4)
Interest expenses	0	0
Depreciation and amortisation	0	0
Exceptional items	0	0
Loss before taxation	(1)	(4)
Taxation	0	0
Net loss	(1)	(4)
No. of ordinary shares in issue	2	4,075,000
Net loss per share (RM)	(500)	(0.001)

**NOTE :**

- i) Flonic was incorporated on 10 June 2004 and has not commenced operation as at 31 August 2005. The losses incurred for the financial periods ended 31 January 2005 were in respect of preliminary and pre-operating expenses.
- ii) Flonic commence its activities as an investment holding company on 6 July 2005. The loss incurred for the financial period ended 31 August 2005 was in respect of administrative expenses.
- iii) There is no current taxation charge for the financial periods under review.
- iv) There were no exceptional and extraordinary items for the financial period under review.
- v) The net loss per share is calculated based on the net loss and the number of ordinary shares in issue at the end of the financial period.



**10. ACCOUNTANTS' REPORT (Cont'd)****FSB**

	<-----Financial year ended 31 January----->					7 months period ended 31 August 2005 RM'000
	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	
Revenue	5,274	4,046	4,411	5,238	9,997	6,132
EBIDTA	1,265	956	1,093	1,729	952	488
Interest expenses	(62)	(75)	(129)	(93)	(70)	(32)
Depreciation and amortisation	(57)	(59)	(70)	(88)	(70)	(24)
Exceptional items	0	0	0	0	64	0
Profit before taxation	1,146	822	894	1,548	876	432
Taxation	(187)	(72)	(71)	(139)	(167)	(43)
Net profit	959	750	823	1,409	709	389
Weighted average number of ordinary shares in issue ('000)	1,500	1,500	1,500	1,500	1,500	1,500
Net EPS (RM)	0.64	0.50	0.55	0.94	0.47	0.26



**10. ACCOUNTANTS' REPORT (Cont'd)**

Note :

- i) Revenue increased by 14% to RM5.274 million for the financial year ended 31 January 2001 as compared to the previous financial year mainly due to higher demand for the improved equipment.

Profit before taxation increased by 9% to RM1.146 million for the financial year ended 31 January 2001 over the previous financial year due to higher revenue generated.

- ii) Revenue decreased by 23% to RM4.046 million for the financial year ended 31 January 2002 mainly due to the temporary slowdown of the electronic and semiconductor industry from which the Group secured bigger orders.

Accordingly, profit before tax decreased by 28% to RM0.822 million for the financial year ended 31 January 2002 over the previous year in line with the drop in the revenue.

- iii) Revenue increased by 9% to RM4.411 million for the financial year ended 31 January 2003 as compared to the previous year mainly due to increase in demand from foreign customers in the electronic and semiconductor industry.

Profit before taxation increased by 9% to RM0.894 million for the financial year ended 31 January 2003 over the previous financial year due to increased in revenue.

- iv) Revenue increased by 19% to RM5.238 million for the financial year ended 31 January 2004 as compared to the previous financial year mainly due to increase in sales to foreign customers in the electronic and semiconductor industry.

Profit before taxation increased by 73% to RM1.548 million for the financial year ended 31 January 2004 over the previous financial year resulted from better margin from sales of enhanced larger precision cleaning equipment to the electronic and semiconductor industry.



**10. ACCOUNTANTS' REPORT (Cont'd)**

- v) Revenue increased by 91% to RM9.997 million for the financial year ended 31 January 2005 as compared to the previous financial year mainly due to more recurring sales of higher values from satisfied customers.

Profit before tax decreased by 43% to RM0.876 million for the financial year ended 31 January 2005 as compared the previous year as the manufacture of precision cleaning system had been sub-contracted to USB with effect from October 2004.

- vi) For the 7 months ended 31 August 2005, FSB generated a revenue of RM6.132 million. This represented 61% of the revenue for the year ended 31 January 2005.

Profit before taxation for the same period amounted to RM0.432 million representing 49% of that for the year ended 31 January 2005.

- vii) The effective rate of taxation for the Company is lower than the statutory rate for the financial year ended 31 January 2001 due to the pioneer status enjoyed by the Company. Under provision of taxation in prior year amounting to RM89,284 taken up in this financial year.

The lower effective tax charges for the financial years ended 31 January 2002 to 31 January 2004 was due to the pioneer status enjoyed by the Company. The effective tax rate for the year ended 31 January 2005 was 19%. This was higher than the previous years as the pioneer status of FSB expired on 31 March 2004.

For the financial period ended 31 August 2005, the effective tax rate for the Company is lower than the statutory rate due to over-provision of income tax and deferred tax in the prior year.

- viii) Except for the gain on disposal of freehold land and building for the financial year ended 31 January 2005 amounting to RM64,000, there were no exceptional or extraordinary items for the financial years/period under review.

- ix) The net earnings per share is calculated based on the net profit and the weighted average number of ordinary shares in issue at the end of each years/period.



**10. ACCOUNTANTS' REPORT (Cont'd)****FPS**

	19.11.02 to 31.1.04 RM'000	31.1.05 RM'000	7 months period ended 31 August 2005 RM'000
Revenue	1,624	1,644	0
EBIDTA	19	90	(3)
Interest expenses	0	0	0
Depreciation and amortisation	(3)	(1)	0
Exceptional items	0	0	0
Profit before taxation	16	89	(3)
Taxation	(4)	(20)	1
Net profit	12	69	(2)
No. of ordinary Shares in issue	3	3	3
Net EPS (RM)	4,000	23,000	(667)

**Note :**

- i) FPS was incorporated on 19 November 2002 and commenced operation on 17 December 2002 generating revenue of RM33,000 only for the 1 ½ months till 31 January 2003. This represents only 2% of the total revenue for the first financial period ended 31 January 2003 and is not material. Thus a separate analysis for the 1 ½ months till 31 January 2003 is not shown.
- ii) Revenue for the financial year ended 31 January 2005 increased marginally by 1% to RM1.644 million. However, profit before taxation increased by 456% to RM0.089 million due to lower overheads incurred.
- iii) For 7 months ended 31 August 2005, FPS does not generated any revenue.
- iv) For the financial year/period ended 31 January 2004 and 31 January 2005 the effective tax rate is higher than the statutory rate due to certain expenses that were not deductible for tax purposes.
- v) There were no exceptional and extraordinary items for the financial periods under review.
- vi) The net EPS is calculated based on the net profit and on the number of ordinary shares in issue at the end of the financial period.





**10. ACCOUNTANTS' REPORT (Cont'd)****FE**

	19.11.02 to 31.1.04 RM'000	31.1.05 RM'000	7 months period ended 31 August 2005 RM'000
Revenue	0	0	0
LBIDTA	(4)	(2)	(1)
Interest expenses	0	0	0
Depreciation and amortisation	0	0	0
Exceptional items	0	0	0
Loss before taxation	(4)	(2)	(1)
Taxation	0	0	0
Net loss	(4)	(2)	(1)
No. of ordinary Shares in issue	3	3	3
Net loss per share (RM)	(1,333)	(667)	(333)

**NOTE :**

- i) FE was incorporated on 3 December 2002 and has not commenced operation as at 31 August 2005. The losses incurred for the financial periods were in respect of preliminary and pre-operating expenses.
- ii) There is no current taxation charge for the financial periods under review.
- iii) There were no exceptional and extraordinary items for the financial period under review.
- iv) The net loss per share is calculated based on the net loss and the number of ordinary shares in issue at the end of the financial period.



**10. ACCOUNTANTS' REPORT (Cont'd)****USB**

	5.3.02 to 31.1.03 (RM'000)	31.1.04 (RM'000)	31.1.05 (RM'000)	7 months period ended 31 August 2005 (RM'000)
Revenue	0	0	4,005	4,321
EBIDTA	(4)	(1)	2,148	1,163
Interest expenses	0	0	(12)	(23)
Depreciation and amortisation	0	0	0	0
Exceptional items	0	0	0	0
Profit before taxation	(4)	(1)	2,136	1,140
Taxation	0	0	(150)	(25)
Net profit/(loss)	(4)	(1)	1,986	1,115
No. of ordinary shares in issue	2	2	2	2
Net profit/(loss) per share (RM'000)	(2)	(0.5)	993	558

**NOTE :**

- i) USB was incorporated on 5 March 2002.
- ii) During the financial year ended 31 January 2005, USB commenced business as a manufacturer of precision cleaning systems and generated a revenue of RM4.005 million. Profit before taxation for the financial year ended 31 January 2005 amounted to RM2.136 million.
- iii) For the 7 months ended 31 August 2005, USB generated a revenue of RM4.321 million. This represented 108% of the revenue for the year ended 31 January 2005. Profit before taxation for the same period amounted to RM1.140 million representing 56% of that for the year ended 31 January 2005.
- iv) For the financial year ended 31 January 2005, the effective tax rate was 7% which is lower than the statutory tax rate due to the availability of pioneer status of USB. For the financial period ended 31 August 2005, the effective tax of 2% is lower than the statutory tax rate due to the availability of pioneer status. The pioneer status of USB is expected to expire on September 2009.
- v) There were no exceptional and extraordinary items for the financial periods/year under review.
- vi) The net loss per share is calculated based on the net loss and the number of ordinary shares in issue at the end of the financial year/period.



**10. ACCOUNTANTS' REPORT (Cont'd)****3. SUMMARISED BALANCE SHEET****3.1 PROFORMA CONSOLIDATED BALANCE SHEETS**

Proforma balance sheets of the Flonic Group have been presented in respect of 31 August 2005 based on the latest audited statement of assets and liabilities as at 31st August 2005 as shown in Section 4 of this Report.

**3.2 The summarised audited individual balance sheets of Flonics and its subsidiaries based on their respective audited Financial Statements as at the end of the financial years/period under review are as follows :-**

**FLONIC**

	As at 31.1.2005 RM'000	As at 31.8.2005 RM'000
SUBSIDIARIES	0	4,075
CURRENT ASSETS		
Cash in hand	*	*
CURRENT LIABILITIES		
Sundry payables	4	5
NET CURRENT LIABILITIES	(4)	(5)
	(4)	4,070
REPRESENTING :-		
SHARE CAPITAL	*	4,075
ACCUMULATED LOSSES	(4)	(5)
TOTAL SHAREHOLDERS' DEFICIT	(4)	4,070
NTA PER SHARE (RM)	(2,000)	(0.99)

\* Represents RM2 comprising 2 ordinary shares of RM1.00 each.



**10. ACCOUNTANTS' REPORT (Cont'd)****FSB**

	<b>&lt;-----As at 31 January -----&gt;</b>					<b>As at</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>31.8.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
PROPERTY, PLANT AND EQUIPMENT	1,168	1,143	1,287	1,357	228	259
CURRENT ASSETS						
Inventories	497	240	630	806	634	553
Trade receivables	2,027	3,487	3,402	4,936	6,348	5,116
Sundry receivables and deposits	287	575	47	45	663	1,013
Amount due from related company	0	0	0	0	0	817
Fixed deposits with licensed bank	0	0	0	0	250	250
Cash and bank balances	8	2	2	2	3	3
	<b>2,819</b>	<b>4,304</b>	<b>4,081</b>	<b>5,789</b>	<b>7,898</b>	<b>7,752</b>
CURRENT LIABILITIES						
Trade payables	311	515	437	425	2,572	127
Sundry payables	72	65	130	216	583	547
Amount due to related company	0	0	0	0	0	2,486
Hire purchase liabilities	0	0	0	0	9	9
Taxation	98	88	106	194	134	128
Bank borrowings	550	958	1,493	1,717	744	248
	<b>1,031</b>	<b>1,626</b>	<b>2,166</b>	<b>2,552</b>	<b>4,042</b>	<b>3,545</b>
NET CURRENT ASSETS	<b>1,788</b>	<b>2,678</b>	<b>1,915</b>	<b>3,237</b>	<b>3,856</b>	<b>4,207</b>
	<b>2,956</b>	<b>3,821</b>	<b>3,202</b>	<b>4,594</b>	<b>4,084</b>	<b>4,466</b>
REPRESENTING :-						
SHARE CAPITAL	1,500	1,500	1,500	1,500	1,500	1,500
ACCUMULATED PROFITS	1,081	1,831	1,155	2,563	2,522	2,912
TOTAL						
SHAREHOLDERS FUND	<b>2,581</b>	<b>3,331</b>	<b>2,655</b>	<b>4,063</b>	<b>4,022</b>	<b>4,412</b>
DEFERRED AND LONG TERM LIABILITIES						
Hire purchase liabilities	0	0	0	0	38	33
Bank borrowings	321	436	493	425	0	0
Deferred taxation	54	54	54	106	24	21
	<b>375</b>	<b>490</b>	<b>547</b>	<b>531</b>	<b>62</b>	<b>54</b>
	<b>2,956</b>	<b>3,821</b>	<b>3,202</b>	<b>4,594</b>	<b>4,084</b>	<b>4,466</b>
NTA PER SHARE (RM)	<b>1.72</b>	<b>2.22</b>	<b>1.77</b>	<b>2.71</b>	<b>2.68</b>	<b>2.94</b>



**10. ACCOUNTANTS' REPORT (Cont'd)**

USB

	<-----As at 31 January----->			As at
	2003	2004	31.1.2005	31.8.2005
	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	0	0	352	372
CURRENT ASSETS				
Inventories	0	0	981	1,604
Trade receivables	0	0	803	0
Other receivables	0	0	0	19
Due from related Company	0	0	0	2,486
Fixed deposit with licensed bank	0	0	0	200
Cash and bank balances	0	0	1	17
	0	0	1,785	4,326
CURRENT LIABILITIES				
Trade payables	0	0	0	1,441
Sundry payables	4	6	7	19
Taxation	0	0	136	135
	4	6	143	1,595
NET CURRENT ASSETS/(LIABILITIES)	(4)	(6)	1,642	2,731
	(4)	(6)	1,994	3,103
REPRESENTING :				
SHARE CAPITAL	*	*	*	*
ACCUMULATED PROFITS/(LOSSES)	(4)	(6)	1,981	3,096
TOTAL SHAREHOLDERS' FUND/(DEFICIT)	(4)	(6)	1,981	3,096
DEFERRED AND LONG TERM LIABILITIES				
Deferred taxation	0	0	13	7
	(4)	(6)	1,994	3,103
NTA PER SHARE (RM)	(2,000)	(3,000)	990,500	1,548,000

\* Represents RM2 comprising 2 ordinary shares of RM1.00 each.



**10. ACCOUNTANTS' REPORT (Cont'd)**

FPS

	<-----As at 31 January----->		As at
	2004	2005	31.8.2005
	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	29	2	2
CURRENT ASSETS			
Trade receivables	720	920	920
Sundry receivables and deposits	33	0	0
Cash and bank balance	15	4	2
	768	924	922
CURRENT LIABILITIES			
Trade payables	773	814	0
Sundry payables	8	12	13
Amount due to a related Company	0	0	814
Taxation	4	19	19
	785	845	846
NET CURRENT ASSETS/(LIABILITIES)	(17)	79	76
	12	81	78
REPRESENTING :			
SHARE CAPITAL	*	*	*
ACCUMULATED PROFITS	11	81	78
TOTAL SHAREHOLDERS' FUND	11	81	78
DEFERRED AND LONG TERM LIABILITIES			
Deferred taxation	1	0	0
	12	81	78
NTA PER SHARE (RM)	3,667	27,000	26,000

\* Represents RM 3 comprising 3 ordinary shares of RM1.00 each.



**10. ACCOUNTANTS' REPORT (Cont'd)**

FE

	<-----As at 31 January----->		As at
	2004	2005	31.8.2005
	RM'000	RM'000	RM'000
CURRENT ASSETS			
Cash in hand	*	*	*
CURRENT LIABILITIES			
Sundry payables	4	6	7
NET CURRENT LIABILITIES	(4)	(6)	(7)
REPRESENTING : -			
SHARE CAPITAL	*	*	*
ACCUMULTED LOSSES	(4)	(6)	(7)
TOTAL SHAREHOLDERS' DEFICIT	(4)	(6)	(7)
NTA PER SHARE (RM)	(1,333)	(2,000)	(2,333)

\* Represents RM3 comprising 3 ordinary share of RM1.00 each.



**10. ACCOUNTANTS' REPORT (Cont'd)****4. STATEMENT OF ASSETS AND LIABILITIES**

The statement of assets and liabilities of Flonic and the Proforma Flonic Group are provided for illustrative purposes only to show the effects on the proforma Consolidated Balance Sheet of Flonic as at 31 August 2005, had the Listing Scheme been effected on that date.

	Note	Audited as at 31.1.2005 RM'000	-----Merger method-----		----Acquisition method----	
			After renouceable rights issue and sub-division	After public issue	After renouceable rights issue and sub-division	After public issue
			RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	4.3	633	633	633	633	633
GOODWILL ON CONSOLIDATION	4.4	-	0	0	6	6
CURRENT ASSETS						
Inventories	4.5	2,157	2,157	2,157	2,157	2,157
Trade and other receivables	4.6	7,068	7,068	7,068	7,068	7,068
Fixed deposit with licensed bank	4.7	450	450	450	450	450
Cash and bank balances		22	879	10,199	879	10,199
		9,697	10,554	19,874	10,554	19,874
CURRENT LIABILITIES						
Trade and other payables	4.8	2,156*	2,156	2,156	2,156	2,156
Hire purchase liabilities	4.9	9	9	9	9	9
Taxation		282	282	282	282	282
Bank overdraft	4.10	248	0	0	0	0
		2,695	2,447	2,447	2,447	2,447
NET CURRENT ASSETS		7,002	8,107	17,427	8,107	17,427
		7,635	8,740	18,060	8,746	18,066
REPRESENTING :						
SHARE CAPITAL	4.11	4,075	5,180	7,000	5,180	7,000
RESERVE ON CONSOLIDATION	4.12	0	0	0	3,510	3,510
SHARE PREMIUM ACCOUNT	4.13	0	0	7,500	0	7,500
MERGER DEFICIT		(2,575)	(2,575)	(2,575)	0	0
ACCUMULATED PROFIT		6,073	6,073	6,073	(6)	(6)
SHAREHOLDERS' FUND		7,573	8,678	17,998	8,684	18,004
DEFERRED AND LONG TERM LIABILITIES						
Hire purchase liabilities	4.9	33	33	33	33	33
Deferred taxation	4.14	29	29	29	29	29
		7,635	8,740	18,060	8,746	18,066
Net tangible Assets per Ordinary Share (RM)	4.15	1.86	0.17	0.26	0.17	0.26

Note : -

\* As at 31 August 2005, the acquisition of the subsidiaries has been completed.

# After the Rights Issue and after deducting the estimated listing expenses of RM1,600,000.





**10. ACCOUNTANTS' REPORT (Cont'd)****Merger method****Acquisitions**

The audited financial statements for the 7 months period ended 31 August 2005 has taken into consideration the acquisition of FSB, FPS, Fe and USB. The Acquisitions were completed on 6 July 2005.

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. Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. Looa Hong Hooi were the shareholders of FSB, FB and FE, whilst Mr. Looa Hong Hooi and Ms. Lee Kwai Ling were the shareholders of USB.

Subsequently, Novatige Sdn. Bhd., the investment holding company acquired 3,150,082 shares in Flonic from Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. 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.

The Acquisitions have been accounted for using merger method of accounting in accordance with Malaysian Accounting Standards Board No. 21.

**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 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.

**Renounceable Rights Issue and Sub-Division**

Upon the completion of the Acquisitions, 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 in Flonic.



**10. ACCOUNTANTS' REPORT (Cont'd)**

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

<b>Directors</b>	<b>No. of shares of RM1.00 each</b>
Yen Yoon Fah	428,057
Heng Hock Meng	285,641
Looa Hong Hooi	140,437
<b>Total</b>	<b>854,135</b>

Upon completion of the Renounceable Rights Issue, the par value of RM1.00 per ordinary share of Flonic was sub-dividend 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 Renounceable Rights Issue and Sub-division were completed on 10 October 2005.

**Public Issue**

Upon completion of the Renounceable Rights Issue and Sub-division, Flonic will undertake the Public Issue involving a public issue of 18,200,000 new ordinary shares of RM0.10 each.

**Acquisition method****Acquisitions**

The audited financial statements for the 7 months period ended 31 August 2005 has taken into consideration the acquisition of FSB, FPS, FE and USB. The Acquisitions were completed on 6 July 2005.

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 based on the acquisition method of accounting. Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. Looa Hong Hooi were the shareholders of FSB, FB and FE, whilst Mr. Looa Hong Hooi and Ms. Lee Kwai Ling were the shareholders of USB.

Subsequently, Novatige Sdn. Bhd., the investment holding company acquired 3,150,082 shares in Flonic from Mr. Yen Yoon Fah, Mr. Heng Hock Meng and Mr. 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.

**Renounceable Rights Issue and Sub-Division**

Upon the completion of the Acquisitions, 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 in Flonic.



**10. ACCOUNTANTS' REPORT (Cont'd)**

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

<b>Directors</b>	<b>No. of shares of RM1.00 each</b>
Yen Yoon Fah	428,057
Heng Hock Meng	285,641
Looa Hong Hooi	140,437
<b>Total</b>	<b>854,135</b>

Upon completion of the Renounceable Rights Issue, the par value of RM1.00 per ordinary share of Flonic was sub-dividend 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 Renounceable Rights Issue and Sub-division were completed on 10 October 2005.

**Public Issue**

Upon completion of the Renounceable Rights Issue and Sub-division, Flonic will undertake the Public Issue involving a public issue of 18,200,000 new ordinary shares of RM0.10 each.

Both the management and shareholders of the combining parties, that is, 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 interests of the existing shareholders therefore do 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 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 recognition.

The Acquisition method assumes that the acquisition is effected on 31st August 2005. There are no material differences between the Acquisition method and Merger method, except as follows : -

Acquisition method will give rise to goodwill on acquisition which is amortised over 20 years whereas Merger method will give rise to the negative reserve which is a non-distributable reserve. Therefore the difference is that the profit after taxation for Acquisition method is lower by RM1,000 due to the amortisation of goodwill as compared to the Merger method.

However both methods will arrive at the same Net Tangible Assets value of RM0.26 per ordinary share of RM0.10 each.



**10. ACCOUNTANTS' REPORT (Cont'd)****4.1 FINANCIAL RISK MANAGEMENT POLICIES**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group business whilst managing its risks. The Group operates within guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas at financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows : -

- a) **Foreign currency risk**  
The Group is exposed to foreign currency risk as a result of its normal business activities, where the currency denomination differs from the local currency, Ringgit Malaysia (RM). The currency giving rise to this risk is primarily US Dollars and Euro Dollars. The Group does not hedge its foreign currency transactions.
- b) **Interest rate risk**  
The Group policy is to borrow principally on the floating rate basis but to retain a proportion of fixed rate debt. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward changes in interest rates while enabling benefits to be enjoyed if interest rates fall.
- c) **Credit risk**  
Credit risk is managed by the application of credit approvals, credit limits and monitoring procedures. Credit risks are minimised and monitored by strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's management reporting procedures.
- d) **Liquidity and cash flows risks**  
The Group actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.
- e) **Fair value**  
The carrying amounts of the financial assets and liabilities approximate their fair values due to the relative short term nature of these financial instruments.



**10. ACCOUNTANTS' REPORT (Cont'd)****4.2. SIGNIFICANT ACCOUNTING POLICIES****a) Basis of Accounting**

The Financial Statements of the Group have been prepared under the historical cost convention and unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act 1965 and applicable approved accounting standards in Malaysia.

**b) Basis of consolidation**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control effectively commences until the date that the date control effectively ceases. Subsidiaries are consolidated using the merger method of accounting.

Under the merger method of accounting, the cost of investment in the Company's books is recorded at the nominal value of the shares acquired. Credit differences arising between the cost of acquisition and the nominal value of the share capital of the subsidiaries are regarded as a non-distributable merger reserve. Debit differences arising are accounted for as merger deficit and are set-off against the Group's reserve. The results of the companies being merged are included as if the merger had been effected throughout the current and previous financial years.

All the significant inter-company transactions are eliminated on consolidation and the Consolidated Financial Statements reflect external transactions only.

**c) Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on the straight line basis at rates calculated to write off the cost of the assets over their estimated useful lives.

The principal annual rates used are as follows :-

Furniture, fittings and equipment	10%
Motor vehicles	20%
Office renovation	10%
Plant and machinery	10%
Research and development equipment	10%

**d) Currency Conversion and Translation**

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from these transactions are taken to the income statement.



**10. ACCOUNTANTS' REPORT (Cont'd)**

The principal exchange rate used for every unit of foreign currency ruling at the balance sheet date is as follows : -

	<u>2005</u>	<u>2004</u>
	RM	RM
United States Dollar	3.80	3.80
Euro	4.50	N/A

- c) **Revenue Recognition**  
Revenue from services rendered is recognised upon performance of services net of service tax and discounts.
- f) **Provisions for Liabilities**  
Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.
- g) **Inventories**  
Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost includes all relevant and appropriate proportion portion of overheads.
- h) **Income Tax**  
Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credit to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credit can be utilised in the future. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.



**10. ACCOUNTANTS' REPORT (Cont'd)**

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

- i) **Trade and other receivables**  
Trade and other receivables are carried at anticipated realisable value. Bad debts are written off when identified. An allowance is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.
- j) **Impairment of Assets**  
An impairment loss is charged to the income statement immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.
- k) **Retirement Benefits**  
Contributions to the Employees Provident Fund are charged to the income statement in the year to which they relate.
- l) **Cash and Cash Equivalents**  
Cash and cash equivalents include cash in hand and at bank and deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.
- m) **Research and Development Costs**  
Research costs are charged as an expense in the income statement in the year in which these are incurred. Development costs which relate to a definable product or process that is demonstrated to be technically feasible, and for which the Company has sufficient technical, financial and other resources to use or market, are recognised as assets to the extent that such costs are recoverable from related probable future economic benefits. Development costs which do not satisfy the established criteria are recorded as an expense in the year in which these are incurred. The expenditure capitalised includes cost of materials, direct labour and an appropriate proportion of overhead.

Capitalised development expenditure is amortised and recognised as an expense on a systematic basis so as to reflect the pattern in which the related economic benefits are recognised over 5 years upon the completion of development work.



**10. ACCOUNTANTS' REPORT (Cont'd)****4.3 PROPERTY, PLANT AND EQUIPMENT**

	-----PROFORMA GROUP-----		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net book</u>
	<u>RM'000</u>	<u>depreciation</u>	<u>value</u>
		<u>RM'000</u>	<u>RM'000</u>
Furniture, fittings and equipment	310	120	190
Plant and machinery	407	35	372
Motor vehicle	58	12	46
Research and development equipment	15	1	14
Office renovation	12	1	11
	<u>802</u>	<u>169</u>	<u>633</u>

**4.4 GOODWILL ON CONSOLIDATION**

	<u>31.8.2005</u>
	<u>RM'000</u>
Net assets as at 31 August 2005 - FE	<u>7</u>
Less	.
Purchase consideration	<u>*</u>
Goodwill on acquisition	<u>7</u>
Less	.
Amortisation	<u>1</u>
	<u>6</u>

\* RM2

**4.5 INVENTORIES**

	<u>PROFORMA</u>
	<u>GROUP</u>
	<u>RM'000</u>
At cost:-	
Raw materials	1,394
Work-in-progress	553
Finished goods	210
	<u>2,157</u>





**10. ACCOUNTANTS' REPORT (Cont'd)****4.6 TRADE AND OTHER RECEIVABLES**

PROFORMA  
GROUP  
RM'000

Trade receivables	6,036
Sundry receivables and deposits	1,032
	<u>7,068</u>

**4.7 FIXED DEPOSITS WITH LICENSED BANK**

The fixed deposits with licensed bank are charged to the banks for banking facilities granted to the Group.

**4.8 TRADE AND OTHER PAYABLES**

PROFORMA  
GROUP  
RM'000

Trade payables	1,568
Sundry payables	330
Amounts owing to Directors	258
	<u>2,156</u>

The amounts due to the Directors are unsecured, interest free and have no fixed term of repayment.



**10. ACCOUNTANTS' REPORT (Cont'd)****4.9 HIRE PURCHASE LIABILITIES**

Future minimum payments are as follows :-

	PROFORMA GROUP RM'000
Payable with one year	12
Payable between one and five years	36
	<u>48</u>
Less	
Finance charges	6
	<u>42</u>
Representing hire purchase liabilities :-	
Due within 12 months	9
Due after 12 months	33
	<u>42</u>

The hire purchase liabilities carry interest at 3.5% per annum.

**4.10 BANK OVERDRAFT**

Bank overdraft is secured as follows :-

- a) a pledged on fixed deposits of the Group; and
- b) joint and several guarantee by all the directors.

Bank overdraft carries interest at 3.5% above the Bank Negara Malaysia's funding rate per annum.



**10. ACCOUNTANTS' REPORT (Cont'd)****4.11 SHARE CAPITAL**

PROFORMA  
GROUP  
RM'000

Authorised :	
Ordinary share of RM0.10 each	10,000
Issued and fully paid :	
On incorporation	#
Issued as consideration for the acquisition of subsidiaries	4,075
Rights issue	1,105
	5,180
Public issue	1,820
	7,000

# RM 2.00 comprising 2 ordinary shares of RM 1.00 each

**4.12 RESERVE ON CONSOLIDATION**

31.8.2005  
RM'000

Net assets as at 31 August 2005 - FSB	4,411
- FPS	78
- USB	3,096
	7,585
Less	
Purchase consideration	4,075
	3,510

**4.13 SHARE PREMIUM**

PROFORMA  
GROUP  
RM'000

Public issue of 18,200,000 ordinary shares of RM 0.10 each at a premium of RM 0.50 per share	9,100
Less: Estimated listing expenses	(1,600)
	7,500



**10. ACCOUNTANTS' REPORT (Cont'd)****4.14 DEFERRED TAXATION**

	PROFORMA GROUP RM'000
Arising from acquisition of subsidiaries	38
Transfer from income statement	(9)
At end of the period	<u>29</u>

The deferred tax liabilities are in respect of the following temporary differences:-

	PROFORMA GROUP RM'000
Excess of capital allowance over depreciation	<u>29</u>

**4.15 NET TANGIBLE ASSETS PER ORDINARY SHARE**

Based on the proforma statement of assets and liabilities of the Proforma Flonic Group as at 31 August 2005, the net tangible assets per share after the acquisition, renounceable rights issue, sub-division and public issue, are calculated as follows:

	PROFORMA GROUP RM'000
Net tangible assets (RM'000)	<u>17,998</u>
Total number of ordinary shares of RM 0.10 each in issue ('000)	<u>70,000</u>
Net tangible assets per ordinary share of RM 0.10 each (RM)	<u>0.26</u>

**4.16 CAPITAL COMMITMENT**

	PROFORMA GROUP RM'000
Authorised and contracted for	<u>5,550</u>



**10. ACCOUNTANTS' REPORT (Cont'd)****4.17 PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The table below sets out the consolidated cash flow statement of the Group for the seven (7) months period ended 31 August 2005 and is provided for illustrative purposes based on the audited financial statements of the Group :-

	As at 31.8.2005 (RM'000)
Profit before taxation	1,568
Adjustments for :-	
Depreciation	47
Interest expenses	32
	79
	1,647
Increase in inventories	(542)
Increase in fixed deposit pledged to bank	(200)
Decrease in receivables	1,667
Decrease in payables	(1,841)
	(916)
* Cash generated from operations	731
Tax paid	(32)
Interest paid	(86)
	(118)
Net cash from operating activities	613
Purchase of property, plant and equipment	(97)
	516
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Repayment of hire purchase liabilities	(5)
Repayment of term loan	(200)
Term loan received	200
	(5)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	511
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	(737)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	(226)
<b>CASH AND CASH EQUIVALENTS</b>	
Cash and bank balances	22
Bank overdraft	(248)
	(226)



**10. ACCOUNTANTS' REPORT (Cont'd)**

**4.18 SUBSEQUENT EVENTS**

There were no significant events between the date of the last Financial Statements used in the preparation of this report and the date of this report which affect materially the content of this report.

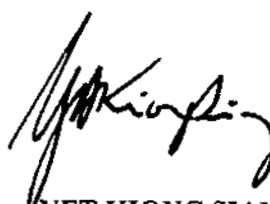
**4.19 AUDITED FINANCIAL STATEMENTS**

As at date of this report, no audited Financial Statements have been prepared in respect of any period subsequent to 31 August 2005 for Flonic.

Yours faithfully,



**KHOO TENG KEAT & CO.  
CHARTERED ACCOUNTANTS  
NO. AF 0033**



**YET KIONG SIANG  
PROPRIETOR  
NO. 1382/5/07 (J)**

