1. SUMMARY INFORMATION

THE SUMMARY INFORMATION IS ONLY A SUMMARY OF THE SALIENT INFORMATION ABOUT FLONIC GROUP. INVESTORS SHOULD READ AND UNDERSTAND THE WHOLE PROSPECTUS PRIOR TO DECIDING WHETHER TO INVEST IN THE SHARES OF THE COMPANY. THE SUMMARY INFORMATION SET OUT BELOW IS DERIVED FROM THIS PROSPECTUS AND SHOULD BE READ IN CONJUNCTION WITH THE FULL TEXT OF THIS PROSPECTUS.

1.1 HISTORY AND BUSINESS

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

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

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

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

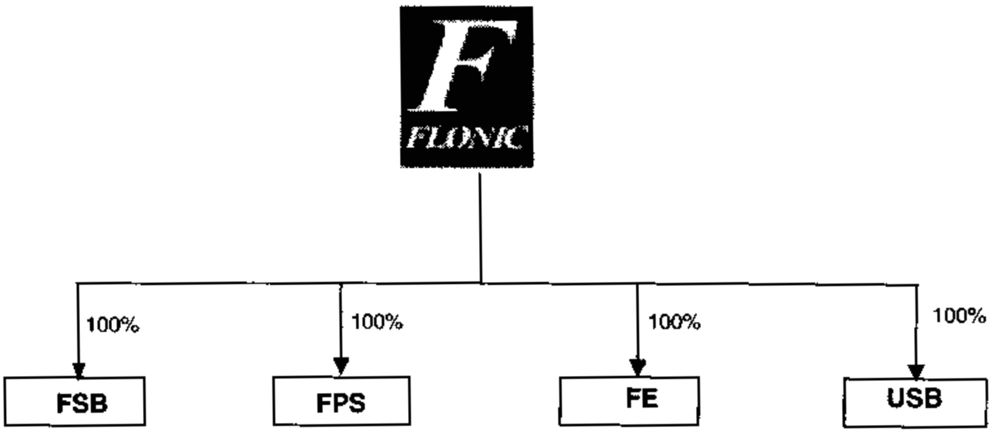
In line with the Malaysian Government's intention to nurture the development of Machinery and Equipment manufacturing industry, FSB obtained approval in principle for Pioneer Status from Malaysian Industrial Development Authority ("MIDA") for the manufacturing of Ultrasonic Cleaning machines on 2 July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

1. SUMMARY INFORMATION *(Cont'd)*

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

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

The structure of the Group is as set out below: -



Details of the subsidiaries of Flonic are as follows: -

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

1. SUMMARY INFORMATION *(Cont'd)*

Further details on the history and business of the Group are set out in Section 4 of this Prospectus.

1.2 PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS, KEY MANAGEMENT AND TECHNICAL PERSONNEL

The direct and indirect shareholdings of the promoters, substantial shareholders, Directors, key management and technical personnel of the Group are as follows: -

		No. of Ordinary Shares Held in Flonic After the Public Issue			
Name	**Designation**	**Direct**	**(%)**	**Indirect**	**(%)**
Promoters					
Novatige	Substantial Shareholder	31,500,820	45.00	-	-
Yen Yoon Fah[3]	Executive Chairman	10,173,100	14.53	[1]31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	[1]31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	[1]31,500,820	45.00
Substantial Shareholders					
Novatige	Substantial Shareholder	31,500,820	45.00	-	-
Yen Yoon Fah[3]	Executive Chairman	10,173,100	14.53	[1]31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	[1]31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	[1]31,500,820	45.00
Directors					
Yen Yoon Fah[3]	Executive Chairman	10,173,100	14.53	[1]31,500,820	45.00
Looa Hong Hooi	Managing Director	3,337,590	4.77	[1]31,500,820	45.00
Heng Hock Meng	Executive Director	6,788,490	9.70	[1]31,500,820	45.00
Chin Soon Nyen	Independent Non-Executive Director	[2]100,000	0.14	-	-
Tong Siew Choo	Independent Non-Executive Director	[2]100,000	0.14	-	-

1. SUMMARY INFORMATION *(Cont'd)*

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

Details of the Promoters, substantial shareholders, Directors, key management and technical personnel of Flonic are set out in Section 5 of this Prospectus.

1.3 INTELLECTUAL PROPERTY

FSB has submitted its application to register the following marks under Class 7 of the Trade Mark Act 1976. These marks are pending registration:

(a) "FLONIC™", the corporate logo and brand name;
(b) "JET-BLAST™", high-efficiency liquid flush and replacement system;
(c) "FLOBOTIC™", a rigid and stable robotic arm;
(d) "SAFEPRODE™", a double-stage safety protection arm system;
(e) "VACLEAN™", a vacuum cleaning system;
(f) "EVEN-FLOW™", a high efficiency liquid filtering and replacement system; and
(g) "VACDRY™", a vacuum drying system.

Further details of the trademarks are set out in Section 4.2.5.

1. SUMMARY INFORMATION *(Cont'd)*

1.4 FINANCIAL HIGHLIGHTS

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 7 months period ended 31 August 2005, prepared on the assumption that the Group has been in existence throughout the period under review. The proforma consolidated results are prepared for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 10 of this Prospectus.

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.

(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.

1. SUMMARY INFORMATION *(Cont'd)*

(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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1. SUMMARY INFORMATION *(Cont'd)*

1.5 PROFORMA CONSOLIDATED BALANCE SHEETS OF THE GROUP 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.

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

Notes: -

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

Acquisitions

The audited financial statements for the 7 months period ended 31 August 2005 has taken into consideration the acquisitions 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, FB and FE, whilst Looa Hong Hooi and Lee Kwai Ling were the shareholders of USB.

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

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 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 the Renouceable 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:-

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

The Renounceable Rights Issue was completed on 10 October 2005. The issued and paid up share 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 subdivided 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.

Proforma 2 – 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 issued 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.

Detailed Proforma Consolidated Balance Sheets and the Reporting Accountants' Report thereon are set out in Sections 9.5 and 10 of this Prospectus respectively.

1.6 SUMMARY OF MATERIAL RISK FACTORS

An investment in the shares listed/to be listed on Bursa Securities involves a number of risks, some of which, including market, industry, liquidity, credit, operational, legal and regulatory risks could be substantial and inherent in the business of the Group.

Prospective investors should rely on their own evaluations and to carefully consider the investment considerations before buying any of the Public Issue, which are the subject of this Prospectus. The investment considerations that should be considered include, but have not limited to, the following: -

1. SUMMARY INFORMATION *(Cont'd)*

Item	Risk factors	Summary
(a)	Business Risks	As in any other business, Flonic is subject to risks inherent in the manufacturing industry. These may include shortages in skilled workforce, increase in labour cost and other operating cost, changes in general economic, business and credit conditions and changes in government policies.
(b)	Investment Activities Risks	The Company may from time to time invest in new ventures that are relatively new to the Malaysian and overseas markets. As such, there is a potential risk that these investments may have longer than expected gestation period or may not be entirely successful.
(c)	Financial Risks	Save as disclosed in section 9.4 of this Prospectus, the Group does not have any other borrowings and indebtedness in the form of borrowings. Given that the Company has borrowings and the payment of the loan interest is dependent on interest rate, future fluctuations of the interest rate could have material effects on the Company's interest and principal repayments.
(d)	New Products and Services	The risks that the Group exposed to not being able to complete the order in time, failure in testing of new products and technology obsolescence.
(e)	Industry Life-Cycle	The downturn of the economy may impact the operations of the Group as the demand for services of precision cleaning might decrease. However, based on the independent research done by Vital Factor Consulting Sdn Bhd, the machinery and equipment industry is in the growth stages of the industry life cycle and accordingly the chances of down turn is reduced.
(f)	Seasonality of Sales	Flonic Group experiences some seasonality in the demand for its Precision Cleaning Systems. Demand for these systems is generally stronger during the second half of the calendar year.
(g)	Dependence on Suppliers / Customers	The Group is not solely dependent on any major suppliers/customers, as the Company has established a wide network of suppliers/customers.
(h)	Foreign Currency Risk	For the latest 7 months period ended 31 August 2005, approximately 67.7% of the Group's products were sold overseas, mainly in Philippines, China, Belgium, Sri Lanka, the United States and Singapore. Although 93.9% of its raw materials are imported from Taiwan, Japan, Germany, Denmark, Portugal, China and United States, the Group purchased most of these imported raw materials from local stockists. As such, the increase in foreign currency rates may cause the local stockists to pass on the price increase to its customers or the stockists may absorb the price increase.

Item	Risk factors	Summary
(i)	Dependence on Key Personnel	The Group's success will depend to a significant extent upon the abilities and continued efforts of its existing Directors and key management.
(j)	Dependence on protection of intellectual property	The Group is to an extent dependent on the protection of its proprietary trademarks. As mentioned in Sections 1.3 and 4.2.5 of this Prospectus, the Group has applied for registration of its trademarks in order to protect the Group's proprietary trademarks.
(k)	Security and systems disruptions	The Group's factory and marketing sites are reasonably secured. There is always a risk of system disruption due to among others, blackouts, natural disasters and war. The management of the Group has taken all necessary precautions including scheduled maintenance, backups and offsite storage, updates and checks to ensure minimal interruption to its operation.
(l)	Breakout of fire, energy crisis and other emergencies	The Group's operations are dependent on regular and consistent supply of electricity from Tenaga Nasional Berhad.
(m)	Insurance Coverage on Assets/ Products	The Group is aware of adverse consequences arising from inadequate insurance coverage that could affect its business operation.
(n)	Rapid or over expansion	Over the years, the Group has expanded gradually to reach its current position. The Directors intend to continue its prudent approach in its expansion plans and will take the necessary measures and conduct feasibility studies prior to embarking on any major expansion.
(o)	Competition	The Group faces competition from both local and foreign competitors. However, the Group believes that it has the competitive edge over its competitors due to the quality of its production, its R&D capabilities and its technological skill acquired through years of research and experience.
(p)	Dependence on Particular Markets and Geographical Locations	The Group currently focuses on the markets in Malaysia, Philippines, China, Belgium, Sri Lanka, the United States and Singapore. Exports represented approximately 67.7% of the Group's turnover for the latest 7 months period ended 31 August 2005.
(q)	Control by Promoters / some shareholders	After the Public Issue, the Promoters collectively control 74% of Flonic's enlarged issued and paid up capital.

1. SUMMARY INFORMATION *(Cont'd)*

Item	Risk factors	Summary
(r)	Government Control or Regulation Considerations	Any business operations are subject to the jurisdiction of numerous governmental agencies or ministries. Adverse developments in political, economic, regulatory and environment conditions in Malaysia and other countries where the Group currently or may operate could materially and adversely affect the financial prospects of the Group.
(s)	Technology Used /to be Used	The Group's usage of technology is evident in its ability to continuously innovate and design new and improved versions of products on its own accord or upon customer's request.
(t)	Product Warranty Risk	The Group provides products warranty of approximately one (1) year for potential defects in design, fabrication, functionality and installation works. These warranties given are in the ordinary course of business of the Group. As the warranty covers a substantial period, the Group is exposed to the risk of products defects and systems failure.
(u)	Dependency on Key Components	The dependence on ultrasonic generator and the ultrasonic transducer, which are sourced overseas, is considered high as it is used in many of the Group's machines.
(v)	Increase in Raw Material Prices	Flonic utilises steel and stainless steel in the manufacture of Precision Cleaning Systems. As such, there is a risk that the increase in Stainless Steel prices may have a negative impact on Flonic's business.
(w)	Financial performance	Save as disclosed in Section 9.4 of this Prospectus, the Group does not have any material capital commitment and indebtedness.
(x)	Environmental Concerns	As mentioned in Section 4.4.6 of the Prospectus, there are strict rules and regulations on environmental protection set by the Malaysian Government for the manufacturing sector.
(y)	Uncertainties in the 5-Year Business Development Plan	There can be no assurance that Flonic will be able to successfully implement its business plan or that unanticipated expenses or problems or technical difficulties will not occur which could result in material delays in its implementation or even deviation from its original plan.
(z)	No Prior Market for Flonic's Shares	There can be no assurance of an active market for Flonic shares upon its listing on the MESDAQ Market of Bursa Securities.
(aa)	Failure/Delay In the Listing	The success of the listing exercise is also exposed to the risk that it may fail or be delayed should certain events occur.

Further details of the material risk factors are set out in Section 3 of this Prospectus.

1. SUMMARY INFORMATION *(Cont'd)*

1.7 PROFIT AND DIVIDEND RECORD

The Group had declared and paid a tax-exempt dividend of 50 sen or 50% per share amounting to RM750,000 to its then shareholders for the financial year ended 31 January 2005.

The Company's revenue, operating profits and dividends are difficult to forecast and could be adversely affected by many factors such as, but not limited to, those discussed in Section 3 of this Prospectus. As such, the forecast and future dividends of the Company are not disclosed in this Prospectus.

1.8 PROFORMA GROUP NTA AS AT 31 AUGUST 2005

	(1) Proforma Group NTA (RM'000)	NTA per ordinary Share (RM)
After adjusting for the Public Issue	17,998	0.26

Note: -

(1) After the Rights Issue and after deducting the estimated listing expenses of RM1,600,000. Please refer to Section 2.7 for details on the estimated listing expenses.

The above proforma consolidated NTA is based on the enlarged issued and paid-up share capital of RM7,000,000 comprising 70,000,000 ordinary shares of RM0.10 each in Flonic. Detailed calculations of the proforma consolidated NTA are set out in Section 9.5 of this Prospectus.

1.9 PRINCIPAL STATISTICS RELATING TO THE PUBLIC ISSUE

1.9.1 SHARE CAPITAL

The following statistics relating to the Public Issue are derived from the full text of the Prospectus and should be read in conjunction with the text.

	Number of ordinary share of RM0.10 each	Share capital (RM)
AUTHORISED SHARE CAPITAL	100,000,000	10,000,000
ISSUED AND FULLY PAID-UP SHARE CAPITAL:	51,800,000	5,180,000
• **New ordinary shares to be issued pursuant to the Public Issue**	18,200,000	1,820,000
ENLARGED SHARE CAPITAL	70,000,000	7,000,000

The Issue Price is RM0.60 per ordinary share payable in full upon application, subject to the terms and conditions of this Prospectus.

1.9.2 CLASS OF SHARES

There is only one class of shares in the Company namely ordinary shares of RM0.10 each, all of which rank pari passu with one another. The Public Issue Shares rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

1.10 PROPOSED UTILISATION OF PROCEEDS

The Rights Issue and the Public Issue are expected to raise gross proceeds of approximately RM1.10 million and RM10.92 million respectively which shall accrue to the Company. The total gross proceeds arising from the Rights Issue and the Public Issue will be utilised by the Group in the following manner: -

		Timeframe for utilisation (calendar year)	Amount (RM'000)
(i)	Acquisition of machinery	Within 2 years ending first quarter of 2007	1,146
(ii)	Overseas Expansion	Within 2 years ending first quarter of 2007	2,500
(iii)	R & D expenditure	Within 2 years ending first quarter of 2007	2,975
(iv)	Working capital	Within 1 year of listing	3,804
(v)	Estimated listing expenses	Upon listing	1,600
Total proceeds			**12,025**

Save for the estimated listing expenses which will be fully utilised upon the completion of the Public Issue, the timeframe for utilisation of the remaining proceeds is expected to be up to two (2) years from the listing date of Flonic.

Further details of the utilisation are set out in Section 2.7 of this Prospectus.

1.11 MATERIAL LITIGATION, BORROWINGS, CONTINGENT LIABILITIES AND COMMITMENT

(i) Material Litigation

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.

1. SUMMARY INFORMATION *(Cont'd)*

(ii) Borrowings

As disclosed in Section 9.4 of this Prospectus, 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: -

Borrowings	Amount (RM)
Short Term borrowings	
• Interest bearing	387,937
• Non-interest bearing	-
Total Borrowings	**387,937**

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 not defaulted on payments of either interest and/or principal sums in respect of any borrowings.

(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

Save as disclosed below and in Section 9.4, as at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), there is no material commitment 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:-

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

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.

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2. PARTICULARS OF THE PUBLIC ISSUE

This Prospectus is dated 28 October 2005.

A copy of this Prospectus has been registered with the SC. A copy of this prospectus, together with the form of application, has also been lodged with the CCM who takes no responsibility for its contents.

The approval of the SC obtained vide its letter dated 13 May 2005 shall not be taken to indicate that the SC recommends the Public Issue and that investors should rely on their own evaluation to assess the merits and risks of the Public Issue.

Approval in principle has been obtained from Bursa Securities on 17 October 2005 for admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Flonic on the MESDAQ of Bursa Securities. These Shares will be admitted to the Official List on the MESDAQ of Bursa Securities and official quotation will commence upon receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

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

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

The SC and Bursa Securities assume no responsibility for the correctness of any statements made or opinions or report expressed in this Prospectus. Admission to the Official List of the MESDAQ of the Bursa Securities is not to be taken as an indication of the merits of the Company or of its shares.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by Flonic. Neither the delivery of this Prospectus nor any Public Issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Flonic since the date hereof.

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

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

2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

2.1 SHARE CAPITAL

	Number of ordinary share of RM0.10 each	Share capital (RM)
AUTHORISED SHARE CAPITAL	100,000,000	10,000,000
ISSUED AND FULLY PAID-UP SHARE CAPITAL	51,800,000	5,180,000
NEW ORDINARY SHARES TO BE ISSUED PURSUANT TO THE PUBLIC ISSUE	18,200,000	1,820,000
ENLARGED SHARE CAPITAL	70,000,000	7,000,000

The Issue Price is RM0.60 per ordinary share payable in full upon application, subject to the terms and conditions of this Prospectus.

There is only one class of shares in the Company, namely, ordinary shares of RM0.10 each, all of which rank pari passu with one another. The Public Issue Shares will rank pari passu in all respects with the other existing issued ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

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

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorized representative shall have one vote for each ordinary share held.

2.2 OPENING AND CLOSING OF APPLICATION LISTS

The Applications for the Public Issue will open at 10.00 a.m. on 28 October 2005 and will close at 5.00 p.m. on 14 November 2005 or for such further period or periods as the Directors and/or Promoters of Flonic together with the Managing Underwriter in their absolute discretion may decide. Late applications will not be accepted.

2.3 CRITICAL DATES OF THE PUBLIC ISSUE

Events	Tentative Date
Opening Date of the Public Issue	28 October 2005
Closing Date of the Public Issue *	14 November 2005
Balloting of Applications	16 November 2005
Allotment Date	24 November 2005
Listing Date	25 November 2005

* Should the closing date of the aforesaid application be extended, the dates for the balloting of the applications, allotment and listing of Flonic's entire enlarged issued and paid-up share capital on the MESDAQ Market of Bursa Securities will be extended accordingly and changes to the application period for the public issue and offer for sale will be notified to the public via an advertisement in a widely circulated Bahasa Malaysia and English newspapers in Malaysia.

2.4 PRICING OF THE PUBLIC ISSUE

Prior to the Public Issue, there has been no public market for the Shares. The Issue Price of RM0.60 per share was determined and agreed upon by the Company and AmMerchant Bank as Adviser and Managing Underwriter based on various factors including the followings:-

(a) The Group's financial operating history and conditions and financial position as outlined in Section 9 of this Prospectus;

(b) The prevailing market conditions and the prospects of the industry in which the Group operates as outlined in Section 4.4 of this Prospectus;

(c) The Group's technology, estimates of business growth potential and revenue prospects for the Group, and an assessment of the Group's management as outlined in Sections 4.2.3, 4.7 and 4.2.15 of this Prospectus; and

(d) The Proforma Consolidated NTA of Flonic as at 31 August 2005 of RM0.26 per share as set out in Section 1.8 of this Prospectus.

2.5 DETAILS OF THE PUBLIC ISSUE

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

(i) Malaysian Public

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

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

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

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

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

2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

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

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

(iii) Placees

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

All the Public Issue Shares available for application by the Malaysian public and the eligible employees, Directors and/or business associates of the Group have been fully underwritten. The Public Issue Shares available for application by selected investors are not underwritten.

The Placement Agent has received irrevocable undertakings from the selected investors to take up the Public Issue Shares available for application under the private placement.

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

Any Public Issue Shares by Malaysian Public which are not taken up will be made available to selected investors via private placement if the private placement is oversubscribed and vice versa. Any further Public Issue Shares not subscribed for will be made available for subscription by the underwriters in the proportion specified in the Underwriting Agreement dated 19 October 2005.

2.6 PURPOSES OF THE PUBLIC ISSUE

The purposes of the Public Issue are as follows: -

(a) To raise funds for the Group's continued operation and expansion, details of which are elaborated in Section 2.7 "Utilisation of Proceeds" below;

(b) To facilitate the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Securities;

(c) To enable the Group to gain recognition and stature through its listing status and further enhance its corporate reputation and assist the Group in expanding its customer base;

(d) To enable the Group to have access to the capital market for its future expansion and growth; and

2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

(e) To provide the opportunity for the eligible employees and Directors of the Group and/or the business associates of the Group and the Malaysian investing public and institutions to participate in the equity and continuing growth of the Group.

2.7 UTILISATION OF PROCEEDS

The Rights Issue and the Public Issue are expected to raise gross proceeds of approximately RM1.10 million and RM10.92 million respectively which shall accrue to the Company.

The Company intends to utilise the proceeds raised in the following manner: -

		Timeframe for utilisation (calendar year)	Amount (RM'000)
(i)	Acquisition of machinery	Within 2 years ending first quarter of 2007	1,146
(ii)	Overseas Expansion	Within 2 years ending first quarter of 2007	2,500
(iii)	R & D expenditure	Within 2 years ending first quarter of 2007	2,975
(iv)	Working capital	Within 1 year of listing	3,804
(v)	Estimated listing expenses	Upon listing	1,600
Total proceeds			**12,025**

Save for the estimated listing expenses which will be fully utilised upon the completion of the Public Issue, the timeframe for utilisation of the remaining proceeds is expected to be up to two (2) years from the listing date of Flonic.

The Company will bear all expenses and fees incidental to the listing of and quotation for the entire issued and paid-up share capital of Flonic on the MESDAQ Market of the Bursa Securities, which include underwriting commission, placement fees, brokerage, professional fees, authorities fees, advertising and other fees. The aggregate is estimated to be RM1,600,000.

There is no minimum subscription to be raised from the Public Issue as the Public Issue Shares are fully underwritten or placed out.

Notes: -

(i) Acquisition of Machinery

The Group has allocated RM1.146 million of the total proceeds for acquisitions of machinery for the manufacture of precision cleaning machines. These capital expenditures are expected to increase capacity and efficiency of the operations of the Flonic Group.

(ii) Overseas Expansion

The Group intends to invest RM2.5 million to establish marketing offices in Philippines, China, Thailand and Belgium. The Group plans to utilise approximately RM790,000 to set up a factory in China in year 2006. This will enable the Group to source more potential customers and augurs well for the Group's performance.

(iii) R & D Expenditure

As part of the Group's ongoing efforts to acquire technological advantage, the Group has allocated RM2.975 million of the proceeds for the development of the existing facilities such as R&D team's salary cost, equipment, machinery and related overheads.

(iv) Working Capital

Of the total proceeds, RM3.804 million will be used as general working capital for the Group including purchase of raw materials and operating expenses such as maintenance of factory, salaries and utilities.

(v) Estimated Listing Expenses

The estimated listing expenses for the listing of and quotation for the enlarged share capital of 70,000,000 ordinary shares of RM0.10 each in Flonic on the MESDAQ Market of Bursa Securities are as follows: -

Estimated listing expenses	Amount (RM)
Fees to authorities	73,500
Professional fees #	971,450
Underwriting and brokerage fees	132,000
Printing, advertising and other miscellaneous expenses @	423,050
Total	**1,600,000**

Notes: -

\# Include fees for the Adviser, Reporting Accountants, Solicitors and other professional advisors.

@ Any unutilised amount shall be used for working capital purposes of the Group.

2.8 FINANCIAL IMPACT FROM UTILISATION OF PROCEEDS

The utilisation of the Rights Issue and the Public Issue proceeds by the Group is expected to have a financial impact on the Group as follows: -

(i) Increase production volume

Part of the proceeds of RM1.146 million is earmarked for acquisition of machinery that in turn would increase production volume. This would enable the Group to capitalise on the economies of scale and reduction in cost per unit of machine produced;

(ii) Increase efficiency in operations

With the employment of new machinery with better production rate, higher efficiency and less breakdown/maintenance time, it would also increase the Group's efficiency in its production operations. Higher efficiency will enable the Group to lower its cost of production.

2.9 UNDERWRITING COMMISSION AND BROKERAGE

The Underwriters as mentioned in the Corporate Directory of this Prospectus, have agreed to underwrite the 5,500,000 Public Issue Shares to be issued to the Malaysian public, the eligible employees, Directors and/or business associates of the Group. Underwriting commission is payable by the Company to the Underwriters based on the Issue Price of RM0.60 per Share at the rate of 2.0%.

Brokerage is payable by the Company in respect of the Public Issue made available for application by the Malaysian public at the rate of 1.0% of the Issue Price of RM0.60 per share in respect of successful applications which bear the stamp of AmMerchant Bank, member companies of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIH.

2.10 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

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

The following are some of the Clauses of the Underwriting Agreement dated 19 October 2005 ("Agreement"), including escape clauses, which may allow the underwriters to withdraw from obligations under the agreement after the opening of the offer: -

4. COVENANTS AND UNDERTAKINGS BY THE COMPANY

4.1 In consideration of the Underwriters agreeing, at the request of the Company, to underwrite the Underwritten Shares, the Company covenants and undertakes to the Underwriters as follows:-

(a) **Prospectus:** the Prospectus shall be in such form and substance satisfactory and acceptable to and approved by the SC and the Bursa Securities and shall not contain any untrue statement or omit to state a material fact required or necessary to be stated therein to make the statements therein true, accurate and not misleading, and the Company shall promptly furnish to the Underwriters as many copies of the Prospectus as the Underwriters shall reasonably request;

(b) **Revision of Prospectus:** if any event shall occur or condition exist as a result of which it is necessary, in the opinion of the Company, after consultation with the Underwriters, to further amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein true, accurate and not misleading in light of the circumstances existing at the time of issuance or if it shall be necessary to amend or supplement the Prospectus in order to comply with the requirements of the Securities Commission Act 1993 or such relevant guidelines issued by the relevant regulatory authorities, prompt notice shall be given without any delay, and confirmed in writing, to the Underwriters, and the Company shall prepare and file or register as soon as practicable such amendment or supplement to the Prospectus as may be necessary to correct such misstatement or omission or to make the Prospectus comply with such requirements and the Company shall furnish to the Underwriters, without charge, such number of copies of such amendment or supplement as the Underwriters may reasonably request. In this respect, the filing of any such amendment or supplement shall not constitute a waiver of any of the provisions set out in this Agreement;

(c) **Distribution of Prospectus:** the Company shall not distribute the Prospectus or any relevant application forms for the Issue Shares or other material in any country or jurisdiction other than Malaysia;

(d) **Compliance with Companies Act 1965 and the Securities Commission Act 1993 of Malaysia:** the Company shall comply with and procure that its directors comply with all relevant requirements and provisions of the Companies Act 1965 and the Securities Commission Act 1993 in relation to the Public Issue and the Prospectus;

(e) **Consents and Approvals:** all authorisations, approvals, consents or other orders required by the Company under the laws of Malaysia not already obtained by the Company for or in connection with the Public Issue shall be obtained and be in force and all other actions shall be taken by the Company to comply with all legal and other requirements necessary to ensure that the Public Issue shall not infringe any existing laws or terms of any such authorizations, approvals, consents or orders;

(f) **Listing on Bursa Securities and Compliance:** the Company shall make the relevant application to the Bursa Securities and obtain the approval of Bursa Securities for the Public Issue and the listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Securities and shall, at all times, maintain the said listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Securities, and shall comply with all conditions imposed by the SC and Bursa Securities, if any, in respect thereof and/or in respect of the Public Issue;

(g) **Public Issue:** the Public Issue shall be on the terms and conditions of the Prospectus and the Company shall apply the proceeds of the Issue Shares solely for the purposes set out in the letter of approval of SC dated 13 May 2005 and any subsequent variation in respect thereof;

(h) **Undertaking to Inform:** the Company shall promptly and without any delay notify the Underwriters of and provide the Underwriters with any facts, information, situations or circumstances which the Underwriters may reasonably need or require in relation to the Public Issue or which the Company believes may have or is likely to have a material adverse effect on the success of the Public Issue or on the sale of any Underwritten Shares and in particular and without prejudice to the generality of the foregoing, of any material adverse effect on the financial condition or business or operations of the Company, or on the prospects or future financial condition or business or operations of the Company or which affect any of the aforesaid representations or warranties at any time prior to the Closing Date or the Extended Closing Date, as the case may be, and take such steps as may be reasonably requested by the Underwriters to remedy and/or publicise the same;

(i) **Access to Information:** to give the Managing Underwriter any or all information which the Managing Underwriter may require in respect of the accounts or affairs of the Company or its subsidiaries or in connection with the Public Issue or the other proposals contained in the Prospectus and the documents (if any) attached thereto;

(j) **Notice of Certain Events**: Without prejudice to the generality of **Clause 4.1(h)**, the Company shall promptly and without any delay notify the Underwriters of the following:

(i) the transmittal to the SC for filing or registration of any supplement to the Prospectus;

(ii) the receipt of any comments from the SC with respect to the Prospectus or any supplement to the Prospectus;

(iii) any request by the SC for any amendment or supplement to the Prospectus or for additional information; and

(iv) the issuance by the SC of any order suspending the effectiveness of the listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Securities or the initiation of any proceedings for that purpose. In this respect, the Company shall make every reasonable effort to prevent the issuance of any such order and, if any such order is issued, to obtain the lifting thereof at the earliest possible time unless the Company shall, in consultation with the Underwriters, determine that it is not in its best interest to do so;

(k) **Costs:** the Company shall pay all and any stamp duties and other fees, taxes or duties, including any interest and penalties resulting from delay or omission on the part of the Company, payable in Malaysia on or in connection with the execution of this Agreement, the Public Issue and/or the creation, issue and allotment of the Issue Shares;

(l) **Further Assurance:** the Company shall execute and do and procure all other persons, if necessary, to execute and do all such further deeds, assurance, acts and things as may be reasonably required in order to implement and complete the Public Issue so that full effect may be given to the terms and conditions of this Agreement;

(m) **Delivery of Resolutions:** the Company shall deliver to the Underwriters, certified true copies of all relevant resolutions of the board of directors and shareholders of the Company relating to the Public Issue and this Agreement as the Underwriters may reasonably require; and

(n) **Conditions Precedent:** the Company shall use its best endeavours to procure the fulfillment of all the conditions precedent in **Clause 6.1.**

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5. INDEMNITY

5.1 The agreement of the Underwriters to underwrite the Underwritten Shares is entered into on the basis of the aforesaid representations, warranties, covenants and undertakings. Without prejudice to any other rights and remedies of the Underwriters, the Company undertakes with the Underwriters that it shall hold and keep the Underwriters fully and effectively indemnified and shall save them harmless against any and all damages, losses, liabilities, costs, claims, charges, proceedings, expenses, actions or demands (including but not limited to all costs, charges and expenses, and legal fees, paid or incurred in disputing or defending any such claim or action) which the Underwriters may incur or suffer or which may be brought against the Underwriters as a result of any misrepresentation by the Company or any breach on its part of such representations, warranties or undertakings or any failure by the Company to perform its obligations under this Agreement, in particular but not limited to the Company's failure to deposit the Underwritten Shares allotted to the Underwriters and/or its nominees pursuant to **Clause 12** into the securities accounts of the Underwriters (unless the Underwriters shall have been advised in writing of a change or termination of any of such representations, warranties or undertakings prior to the Closing Date, pursuant to **Clause 4.1(h)** above and the Underwriters shall have elected not to terminate this Agreement notwithstanding such advice) or any failure by the Company to perform its obligations herein which entitles the Underwriters to terminate this Agreement pursuant to the provisions of **Clause 13.1.**

5.2 The rights and remedies conferred upon the Underwriters in relation to the aforesaid representations, warranties, covenants and undertakings, and all other obligations of the Company, shall continue in full force and effect notwithstanding the implementation and completion of the Public Issue and notwithstanding any investigations by or on behalf of the Underwriters.

6. CONDITIONS PRECEDENT FOR UNDERWRITING

6.1 The obligations of the Underwriters under this Agreement shall be conditional upon the fulfilment and/or satisfaction of the following:-

(a) the Bursa Securities having agreed in principle on or prior to the Closing Date or the Extended Closing Date or such other date as may be agreed between the Managing Underwriter and the Company and in any event not later than forty five (45) days from the Closing Date or the Extended Closing Date, as the case may be, to the listing of and quotation for (on terms satisfactory to the Underwriters) the entire issued and paid-up share capital of the Company on the MESDAQ Market of the Bursa Securities;

(b) the issuance of and subscription for the Issue Shares pursuant to and in accordance with the provisions hereof and in the Prospectus not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any agency, legislative, executive or regulatory body or authority of Malaysia (including the Bursa Securities);

(c) the approval from the SC in respect of the Prospectus and registration of the Prospectus with the SC pursuant to the Securities Commission Act 1993 and subsequent lodgement of the Prospectus with the CCM;

(d) all other necessary approvals and consents required in relation to the Public Issue and the Issue Shares including but not limited to governmental approvals having been obtained and are in full force and effect;

(e) the issue of the Issue Shares having been approved by the shareholders of the Company in an extraordinary general meeting;

(f) the Managing Underwriter being satisfied that the Company have complied with and that the Public Issue is in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;

(g) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no event of default pursuant to the provisions herein contained, and no breach of any representation, warranty, covenant, undertaking or obligation of the Company in this Agreement or which is contained in any certificate, statement, or notice provided under or in connection with this Agreement or which proves to be incorrect in any material respect; and

(h) that the funds for placement placement referred to in **Recital B(c)** are deposited into the joint account that is opened under the name of the Company and the Managing Underwriter before the Registration of the Prospectus or such other extended date as agreed by the Managing Underwriter, but in no event later than the Closing Date;

(i) there having been, as at any time hereafter up to and including the Closing Date or the Extended Closing Date, as the case may be, no material adverse change, or any development involving a prospective material adverse change, in the financial condition or business or operations of the Company or business or operations of the Company or in the prospects or future financial condition or business or operations of the Company (which in the reasonable opinion of the Underwriters, is or will be material in the context of the Public Issue and the sale of any Underwritten Shares) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained.

(j) the delivery to the Underwriter prior to the date of the registration of the Prospectus of:-

    (i) a copy certified as true copy by the company secretary of the Company of the resolution of the directors of the Company approving this Agreement, the Prospectus, the Public Issue and the issuance of the Prospectus and the resolution of the shareholders in general meeting approving the Public Issue; and

    (ii) the relevant directors' report and responsibility statement signed by the relevant duly authorized directors of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 3.1(o) of this Agreement.

6.2 In the event any of the conditions set forth in **Clause 6.1** other than **Clause 6.1(a),** are not satisfied on or before the Closing Date or Extended Closing Date, as the case may be, and in the case of the condition referred to in Clause 6.1(a), the date stipulated therein, the Underwriters shall be entitled to forthwith terminate this Agreement by notice in writing and the following shall take place within seventy-two (72) hours of the receipt of such notice:

(a) the Company shall make payment of the Underwriting Commission to the Underwriters; and

(b) each party shall return all other moneys (in the case of the Underwriters, after deducting the Underwriting Commission due and owing to the Underwriters hereunder) paid to the other under this Agreement (except for monies paid by the Company for the payment of the expenses as provided hereunder);

and thereafter, this Agreement shall become null and void and of no further force and effect and none of the parties shall have a claim against the other save and except in respect of any antecedent breaches.

13. TERMINATION

13.1 Subject to **Clause 13(3)** below but notwithstanding anything herein contained, the Underwriters may, at any time, be entitled to terminate their obligations under this Agreement by notice in writing given to the Company, if in the reasonable opinion of the Underwriters, there shall have occurred, happened or come into effect, any of the following circumstances, on or before the Closing Date or the Extended Closing Date as the case may be, namely:-

(a) there is any material breach by the Company of any of the representations, warranties, covenants or undertakings contained in Clause 3 and 4 of this Agreement, which, if capable of remedy, is not remedied within such number of days as stipulated in the notice after notice of such breach has been given to the Company, which, in the opinion of the Underwriters, would have or can reasonably be expected to have, a material adverse effect on the business or operations of the Group, the success of the Public Issue, or the distribution or sale of the Public Issue Shares; or

(b) any change in law, regulation, directive, policy or ruling in any jurisdiction or any event or series of event beyond the reasonable control of the Underwriters (including without limitation, acts of Gods, act of terrorism, strikes, lock-outs, fire, explosion, flooding, civil commotion, sabotage, acts of war or accidents) which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market); or

(c) there shall have occurred, or happened any of the following circumstances:-

(i) any government requisition or other occurrence of any nature whatsoever which would or is likely to have a material adverse effect on the financial condition or business or operations of the Company or its subsidiaries; or

(ii) any change in national or international monetary, financial, political or economic conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regards to inter-bank offer or interest rates both in Malaysia and overseas) or foreign exchange control or currency exchange rates;

which would or is likely to have a material adverse effect on the success of the Public Issue and the distribution of the Issue Shares or the sale of any Underwritten Shares (whether in the primary or in respect of dealings on the secondary market); or

(d) any breach of any representation, warranty, covenant, undertaking or obligation of the Company in this Agreement or which is contained in any certificate, statement, or notice provided under or in connection with this Agreement, which is not capable of remedy or, if capable or remedy, is not remedied within such number days as stipulated in the notice (informing of such breach) given to the Company; or

(e) any failure on the part of the Company to perform any of its obligations herein contained or any of the conditions in **Clause 6** are not satisfied by the Closing Date; or

(f) the occurrence of any event or the discovery of any fact rendering inaccurate, untrue or incorrect to such extent which is or will be material in any of the representations, warranties, covenants and undertakings and obligations of the Company herein contained; or

(f) any withholding of information by the Company from the Underwriters of information of material nature which is required to be disclosed pursuant to this Agreement which in the opinion of the Underwriters, would have or can be reasonably be expected to have, a material adverse effect on the business or operations of the Company, the success of the Public Issue or the distribution of the Issue Shares.

13.2 Upon the delivery of such notice referred to in **Clause 13.1** by the Underwriters, the Managing Underwriter and/or the Underwriters shall be released and discharged of its obligations without prejudice to its rights and the following shall take place within seventy-two (72) hours of the receipt of such notice:

(a) the Company shall make payment of the Underwriting Commission to the Underwriters; and

(b) each party shall return all other moneys (in the case of the Underwriters, after deducting the Underwriting Commission due and owing to the Underwriters hereunder) paid to the other under this Agreement (except for monies paid by the Company for the payment of the expenses as provided hereunder);

and thereafter, this Agreement shall become null and void and of no further force and effect and none of the parties shall have a claim against the other save and except that the Company shall remain liable in respect of its obligations and liabilities under Clause 16 for the payment of all costs and expenses already incurred prior to or in connection with such termination and in respect of any antecedent breaches.

2. PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

13.3 The Underwriters and the Company may confer with a view to deferring the Public Issue or amending its terms or the terms of this Agreement and enter into a new underwriting agreement accordingly, but neither the Underwriters nor the Company shall be under any obligation to make a fresh agreement.

21. WITHDRAWAL OR NON-PROCUREMENT OF APPROVAL FOR LISTING BY BURSA SECURITIES

21.1 The Underwriters shall have the right to terminate this Agreement by notice in writing served by the Managing Underwriter on behalf of the Underwriter on the Company in the event that the approval of the Bursa Securities for the admission of the Company to the official list or for the listing of and quotation for the entire issued and paid-up share capital of the Company on the MESDAQ Market is withdrawn or not procured or procured but subject to conditions not acceptable to the Underwriters and upon such termination the liabilities of the Company, and the Underwriters shall become null and void and none of the parties shall have a claim against each other save that the Underwriters shall, on making a joint decision, be entitled to the cost under **Clause 16** and the return of the payment consideration for those Underwritten Shares within five (5) Market Days from the date of receipt of the notice given by the Managing Underwriter to the Company and the Company shall forthwith upon receipt by the Underwriters of the said payment consideration, be entitled to the return of those Underwritten Shares subscribed by the Underwriters.

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3. RISK FACTORS

In evaluating an investment in the Public Issue Shares, prospective applicants should carefully consider all information contained in this Prospectus including but not limited to the general and specific risks of the following investment considerations: -

(a) Business Risks

The Group is subject to certain risk inherent to the manufacturing industry. These may include shortage in skilled workforce, increase in cost of workforce and other operating cost, changes in general economic, business and credit conditions and changes in government policies.

The Company has in the past experienced some of the above business risk mentioned in the preceding paragraph. The Group has experienced significant increase in stainless steel price, however, it does not materially impact the performance of the Group as most of the purchase orders are project based which is short duration in nature, as such, the cost are passed on to the customers. In addition, the cost of stainless steel is only a small portion of the total cost involved.

The Group has taken steps to mitigate the risks through continuous effort to maintain and source for quality technical engineers, and a large pool of suppliers and customers. The Company also embraces new technology to continuously improve its products and services to meet customers' demands and expectations.

(b) Investment Activities Risk

The Company has neither invested in any new ventures nor identified any new ventures thus far. The Company may from time to time invest in new ventures that are relatively new to the Malaysian and overseas markets. There is a potential risk that these investments may have longer than expected gestation period or may not be entirely successful. In this event, the Company may take time to recover or be unable to recover its initial investments.

If appropriate opportunities present themselves, the Group intends to establish marketing offices that the Group believes will be in the interest of its shareholders particularly in China, Philippines, Thailand, Belgium, United States, Japan and Australia. There can be no assurance that the Group will be able to successfully identify, negotiate or finance such acquisitions and joint ventures, or to integrate such acquisitions and joint ventures with its current business. Acquisitions and joint ventures may cause the Group to seek additional capital, which may or may not be available on satisfactory terms.

The Company plans to mitigate this risk, together with other possible ventures risks in the future by exercising due care in the evaluation of such ventures. Nevertheless, there can be no assurance that such ventures, if any, will yield positive returns to the Company.

(c) Financial Risks

Save as disclosed in Section 9.4 (ii) of this Prospectus, the Company does not have any other borrowings and indebtedness in the form of borrowings. As at 30 September 2005 (being the latest practicable date prior to the printing of this Prospectus), the Company's total borrowings amounted to approximately RM387,937.

Some of the Company's working capital requirements are met partially by borrowings and internally generated funds. Given that the Company has borrowings and the payment of the loan interest is dependent on interest rate, future fluctuations of the interest rate could have material effects on the Company's interest and principal repayments.

(d) New Products and Services

The new products and services of the Company are set out in Section 4.2.9 of this Prospectus. The risks that the Group exposed to not being able to complete the order in time, failure in testing of new products and technology obsolescence.

The Group's future depends substantially upon its ability to further reduce and control production cost, provide higher quality products and to address the increasingly sophisticated needs of its customers. There are numerous technology breakthroughs in precision cleaning, and the Group strives to be in the forefront of these breakthroughs.

As a mitigating factor, the Group carries out research and development and attends exhibitions to keep up to date on the latest development in the industry. In addition, the Group only works based on confirmed orders and after testing and prototyping has been carried out.

(e) Industry Life-Cycle

The downturn of the economy may impact the precision cleaning industry as the demand for services of precision cleaning might decrease. However, based on the independent research done by Vital Factor Consulting Sdn Bhd, the machinery and equipment industry is in the growth stages of the industry life cycle and the chances of down turn is reduced. The growth phase of the life-cycle of the machinery and equipment industry will continue to be fuelled as the Government has identified the machinery and equipment industry as one of the key areas for growth and development. Since the machinery and equipment industry serves many user-industry sectors with a proliferation of usages and applications, growth in the user industry sectors will continue to generate demand for machinery and equipment, including Precision Cleaning Machines. *(Source: Assessment of the Machinery and Equipment Industry focusing on Precision Cleaning Machines, prepared by Vital Factor Consulting Sdn Bhd)*

Nonetheless, no assurance can be given that any change to these factors will not have any material adverse impact on the Group's business.

(f) Seasonality of Sales

Flonic Group experiences some seasonality in the demand for its Precision Cleaning Systems. Demand for these systems is generally stronger during the second half of the calendar year. Management believes that this may be due to the expected increase in production to meet the Christmas season demands that prompts clients to place orders for Precision Cleaning Systems.

The Group believes that new products and services under development will mitigate this seasonality in several ways. The development of the Group's contract precision cleaning service is expected to generate a relatively constant stream of revenue throughout the year, as the object to be cleaned is used throughout the year. In addition, the new range of precision cleaning systems, particularly those targeted towards manufacturers of industrial and non-consumer based products, may help to mitigate the seasonality of demand. Expansion of the Group's market into new countries and regions may also reduce seasonality by widening the geographic scope of the Group's client base.

Nonetheless, no assurance can be given that any change in these factors will not have any material adverse impact on the Group's business.

(g) Dependence on Suppliers/Customers

As mentioned in Section 4.6 of this Prospectus, the Company is not solely dependent on any major suppliers, as the Company has established a wide network of suppliers. Such network is established through long-term relationships with most of its suppliers.

The Company adopts various measures to minimize risk of dependency on certain suppliers as follows: -

- The Company selects suppliers by getting their quotations and after due consideration of their experience, track record and qualification; and

- The Company ensures that suppliers are not awarded with orders more than they are capable of undertaking. Under such circumstances, the Company continuously reviews and evaluates the work in progress and performance quality of each of the orders awarded to ensure prompt completion and reasonable quality attained.

As mentioned in Section 4.5 of this Prospectus, the top three customers of the Group represented 51.09% of the total turnover based on the audited financial statements for the 7 months period ended 31 August 2005. Over the years, the Group has taken effort to diversify its customer base and established a wide network of customers, and since inception, the Group has established a customer base of approximately 175 customers. In addition, the Group has established a stable relationship with its customers whereby 50% of its top ten customers have been dealing with the Group for 3 or more years.

(h) Foreign Currency Risk

Based on the audited financial statements for the 7 months period ended 31 August 2005, approximately 67.7% of the Group's products were sold overseas, mainly in Philippines, China, Belgium, Sri Lanka, the United States, and Singapore.

Although 93.9% of its raw materials are imported from Taiwan, Japan, Germany, Denmark, Portugal, China and United States, the Group purchased most of these imported raw materials from local stockists. As such, the increase in foreign currency rates might cause the local stockists to pass on the price increase to its customers or the stockists may absorb the price increase.

As most of the raw materials were purchased from local stockists, only 15.5% of the raw materials were imported directly from overseas suppliers based on the purchases for the latest 7 months period ended 31 August 2005. Settlement of purchases from overseas suppliers is usually made in USD. This exposes the Group to foreign currency risk. Any fluctuations in these currencies against the RM due to timing differences of these settlements could have a material effect on the Group's financial results.

With the removal of the pegging of the RM against the USD, no assurance can be given that any adverse movement in the foreign currency rate(s) will not have an adverse impact on the Group's business.

(i) Dependence on Key Personnel

The Group believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its existing Directors and key management. The Group will strive to continue attracting and retaining skilled personnel to support its business operation and has made efforts to train its staff. As a result, the Group has enjoyed the support of the Directors as evidenced by their long-term service.

The Group is managed by an experienced and dedicated management team. The Group's Directors have been in the industry for more than 10 years. They are trained and possess relevant knowledge and experience for the right business opportunities, which can provide synergy and growth to the Group.

The success of the Group's business was achieved through the deliberate and careful planning of the Directors with the support of the Group's key management team. The Group recognizes the need to ensure continuity of its management in order to maintain the Group's competitive edge over its competitors. The Board believes that the continued success of the Group depends, amongst others, on the support and dedication of its management personnel.

The loss of any key personnel of the Group may adversely affect the Group's performance. In view thereof, the Group has made efforts to motivate and retain its staff through performance-based incentives, and to enhance their skills and competencies by continuously providing training. In this regard, the Group continuously trains its employees by providing its employees with on-the-job training and conducting in-house training in order for them to acquire and enhance their skills and competencies (both functional and development) in line with the Group's business objectives. The on-the-job training will also assist in the transfer of knowledge from the senior employees to the new or junior employees. This investment not only increases the technical competency of its existing employees but also serves to groom the lower and middle management staff to progressively assume the responsibilities of the senior management.

(j) Dependence on protection of intellectual property

The Group is to an extent dependent on the protection of its proprietary trademarks. As mentioned in Sections 1.3 and 4.2.5 of this Prospectus, the Group has applied for registration of its trademarks in order to protect the Group's proprietary trademarks.

The Group also recognises the importance of registering its patents as a substantial portion of its revenue will be derived from its own developed proprietary machines, which take time and resources to develop. As such, the Group will be taking necessary steps to apply for registration of patents.

However, there can be no assurance that its trademarks will in fact be registered or that its in-house developed machines are patentable. Further, these intellectual property rights can allow only limited protection and there is no guarantee that they will protect against unauthorised third party copying, use or exploitation, any of which could have a material adverse effect on the Group's business, operating results and financial conditions.

(k) Security and systems disruptions

The Group's factory and marketing sites are reasonably secured. There is always a risk of system disruption due to among others, blackouts, natural disasters and war. The management of the Group has taken all necessary precautions including scheduled maintenance, backups and offsite storage, updates and checks to ensure minimal interruption to its operations.

The Group has not experienced any major system disruption to its operations and the Group will continue to ensure the viability of these services by taking the necessary preventive measures as mentioned above.

(l) Breakout of fire, energy crisis and other emergencies

The Group's operations are dependent on regular and consistent supply of electricity from Tenaga Nasional Berhad. In addition, the Group also regularly trains its employees to manage and impede any fire breakout. Save as explained above, the management believes that the Group's operations are not prone to other critical emergencies.

Although the Group has not experienced any breakout of fire, energy crisis and/or other emergencies, no assurance can be given that the happening of any of these events will not have an adverse impact on the Group's business.

(m) Insurance Coverage on Assets/Products

The Group is aware of adverse consequences arising from inadequate insurance coverage that could affect its business operation. In ensuring such risks are kept to the minimum, the Group reviews and ensures adequate coverage for its assets and development projects on a continuous basis. The delivery of the products overseas or locally is insured either by the Group or the customers.

As the Group has not purchased any product liability insurance, there is a risk that the Group's interests may not be adequately protected in the event of litigation. However, to date, the Group has not experienced any material product liability claims.

For the Group's operations, all assets such as buildings, machineries, inventory, office equipment and furniture and fitting are sufficiently insured under fire and other insurance policies.

(n) Rapid or over expansion

Over the years, the Group has expanded gradually to reach its current position. The Directors intend to continue its prudent approach in its expansion plans and will take the necessary measures and conduct feasibility studies prior to embarking on any major expansion.

Although the Group has not undergone any rapid or over expansion of its operations, no assurance can be given that the Group will not undertake any major expansion in its future undertaking.

(o) Competition

The Group faces competition from both local and foreign competitors. However, the Group believes that it has the competitive edge over its competitors due to the quality of its production, its R&D capabilities and its technological skill acquired through years of research and experience. The Group has taken pro-active measures to mitigate the competitive risks, which include, inter alia, constant review of its development and marketing strategies in response to the ever-changing economic conditions and market demands, and the adoption of different development concepts and marketing strategies that will correctly position its products and services to serve the needs of the target market.

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

Nonetheless, no assurance can be given that any change to these factors will not have any material adverse impact on the Group's business.

(p) Dependence on Particular Markets and Geographical Locations

As disclosed in Section 4.2.10 of this Prospectus, the Group currently focuses on markets in Malaysia, Philippines, China, Belgium, Sri Lanka, the United States and Singapore. Exports represented approximately 67.7% of the Group's turnover based on the audited financial statements for the 7 months period ended 31 August 2005.

Other than Malaysia, China and Philippines, the Group is not overly dependent on any particular markets and geographical locations, as the Group further develops the domestic and export markets in Europe, United States and other Asian countries.

(q) Control by Promoters / some shareholders

After the Public Issue, the Promoters as set out in Section 5.1 of this Prospectus will collectively control 74% of Flonic's enlarged issued and paid up capital. As a result, these Promoters will be able to exercise to some extent influence on the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law, covenants and/or by the relevant authorities.

(r) Government Control or Regulation Considerations

Any business operations are subject to the jurisdiction of numerous governmental agencies or ministries. Adverse developments in political, economic, regulatory and environment conditions in Malaysia and other countries where the Group currently or may operate could materially and adversely affect the financial prospects of the Group. As disclosed in Sections 4.2.4 and 4.4.6 of this Prospectus, the Group's business is subjected to certain rules and regulations.

(s) Technology Used / to be Used

The Group's usage of technology is evident in its ability to continuously innovate and design new and improved versions of products on its own accord or upon customer's request. Although the Group's manufacturing plant is well equipped and able to meet its current production requirements, the Group believes in searching for an innovative manufacturing process and continues to explore areas of technological improvements. Generally, the risk relating to technology used is high as the Group is facing high investment cost, the systems not working, technology obsolescence and defective product. The risks could be mitigated through breakthroughs of R&D and testing of products. Details of the technology used in the Group's operations are set out in Section 4.2.3 of this Prospectus.

(t) Product Warranty Risk

The Group provides products warranty of approximately one (1) year for potential defects in design, fabrication, functionality and installation works. These warranties given are in the ordinary course of business of the Group. As the warranty covers a substantial period, the Group is exposed to the risk of products defects and systems failure.

In view of the importance of the quality of its products, the Group has obtained back-to-back guarantees from its suppliers in respect of the raw materials purchased to ensure that only quality raw materials are used. However, the Group does not have any product warranty insurance.

(u) Dependency on Key Components

The high-frequency waves employed in Ultrasonic Cleaning Systems are generated by two pieces of equipment working together, i.e. the ultrasonic generator and the ultrasonic transducer, which are the most basic components in Ultrasonic Cleaning Systems. The dependence of these key components, which are sourced overseas, is considered high as it is used in many of the Group's machines.

In view of the importance of these components to the Group's business, the Group has managed to source these components worldwide. The Group intends to make these key components themselves in the near future.

(v) Increase in Raw Material Prices

The market price of stainless steel has increased substantially since early 2003, due primarily to an increase in the demand for iron and steel in China. The monthly average world price of 304-grade cold rolled stainless steel coil increased from approximately US$1,700 per tonne in April 2003 to approximately US$,2,800 per tonne in March 2005, an increase of 65%. The monthly average world price of cold rolled steel increased from approximately US$430 per tonne in April 2003, to approximately US$750 per tonne in March 2005, an increase of 74%.

Flonic utilises steel and stainless steel in the manufacture of Precision Cleaning Systems. Purchases of stainless steel, steel and hardware totalled RM0.941 million for the 7 months period ended 31 August 2005, or 31.48% of total raw material purchases.

In mitigation, Flonic is able to pass on any increase in the price of steel and stainless steel to its customers, as it manufactures Precision Cleaning Systems on a project basis. Each project is relatively short term commonly requiring approximately three months to complete. Furthermore, Flonic can vary the price with which it enters into future contracts to supply Precision Cleaning Systems in accordance with fluctuations in the market price for steel and stainless steel.

As the market price of steel and stainless steel affects all manufacturers of Precision Cleaning Systems, it is unlikely that any of Flonic's competitors will be able to utilise these fluctuations to gain a competitive advantage.

(w) Financial Performance

Restrictive Covenants

Pursuant to credit facility agreements entered into by the Group with banks or financiers, the Group is bound by certain positive and negative covenants, which may limit its operating and financial flexibility. The aforesaid covenants are of a nature, which is commonly contained in credit facility agreements in Malaysia. Any act by the Group falling within the ambit or scope of such covenants will require the consent of the relevant bank/ financier. Breach of such covenants may give rise to a right by the bank/ financier to terminate the relevant credit facility and/ or enforce any security granted in relation to that credit facility. The Board is aware of such covenants and shall take all precautions necessary to prevent any such breach.

Indebtedness

As disclosed in Section 9.4 (ii) of this Prospectus, the Group's level of gearing is 0.02 times, which is within the manageable level and would not have an adverse financial impact on the Group.

(x) Environmental Concerns

There are strict rules and regulations on environmental protection set by the Malaysian Government for the manufacturing sector.

The Group is committed to environmentally sound business practices in all its operations. The manufacturing processes of the Group do not have any significant impact on the environment. The Group constantly monitors and checks its manufacturing facilities to ensure compliance with the environmental laws and it is the policy of the Group to fully comply with legislations. However, no assurance can be made that any change in the policies of the Malaysian Government will not materially and adversely affect the operations and profitability of the Group.

(y) Uncertainties in the 5-Year Business Development Plan

The success of Flonic's 5-Year Business Plan will depend upon:-

(i) the acceptability of the Group's products by the market;
(ii) its marketing strategies;
(iii) its R & D activities;
(iv) the ability to further develop and commercialise new products; and
(v) the ability to hire and retained skilled management as well as financial, technical, marketing and other personnel.

There can be no assurance that Flonic will be able to successfully implement its business plan or that unanticipated expenses or problems or technical difficulties will not occur which could result in material delays in its implementation or even deviation from its original plan. In addition, the actual results may deviate from the business plan due to rapid technological changes, market as well as competitive pressures.

(z) No Prior Market for Flonic's Shares

Prior to this Public Issue, there has been no public market for Flonic's shares. There can be no assurance that an active market for Flonic's shares will develop and continue to develop upon or subsequent to its listing on the MESDAQ Market of Bursa Securities or, if developed, such a market will be sustained. The Issue Price of RM0.60 for the Public Issue has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial and operating history and condition, its prospects and the prospects of the industry in which the Company operates, the management of the Company, the market prices for shares of companies engaged in business similar to that of the Company and the prevailing market. There can be no assurance that the Issue Price will correspond to the price at which Flonic's shares will trade on the MESDAQ Market of Bursa Securities upon or subsequent to its listing.

(aa) Failure/Delay In The Listing

The success of the listing exercise is also exposed to the risk that it may fail or be delayed should any of the following event occurs:

(i) The underwriters of the Public Issue fail to honour their obligations under the underwriting agreements; and

(ii) Flonic is unable to meet the public spread requirements i.e. at least 25% of the issued and paid-up capital of Flonic must be held by a minimum of 200 public shareholders holding no less than 100 ordinary shares in Flonic each of which at least 200 shareholders are members of the public who are not employees of the Group at the time of Listing.

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