

1. CORPORATE INFORMATION

BOARD OF DIRECTORS

Directors	Address	Occupation	Nationality
Seah Bak Kheow <i>Executive Chairman / Chief Executive Officer</i>	No. 2, West Coast Way Singapore 126986	Company Director	Singaporean
Seah Bak Seng <i>Executive Director</i>	409, Pandan Gardens #02-66 Singapore 600409	Company Director	Singaporean
Cheng Joo Wan <i>Executive Director</i>	Blk 651 #03-02, Jalan Tenaga Singapore 410651	Company Director	Singaporean
Masato Ikeuchi <i>Executive Director</i>	4-7-55-2302 Kohnan Minato-ku Tokyo 108-0075 Japan	Company Director	Japanese
Yutaka Watanabe <i>Alternate Director to Masato Ikeuchi</i>	5-6-24-102, Yashio 5 Chome Shinagawa-Ku Tokyo 140-0003 Japan	Company Director	Japanese
Ng Kwok Leung, George <i>Executive Director</i>	22F, Flat C Braemar Hill Mansion 43, Braemar Hill Road North Point Hong Kong	Company Director	Canadian
Koh Poh Jin <i>Executive Director</i>	Blk 719 Hougang Ave 2 #08-339 Singapore 530719	Company Director	Singaporean
Yong Kit Fai <i>Executive Director</i>	38, Jalan 2/151A Taman Suria 58200 Kuala Lumpur Malaysia	Company Director	Malaysian
Dato' Sim Bee Ming <i>Non-Independent Non- Executive Director</i>	21, Lorong Palas Southern Park 41200 Klang Selangor Darul Ehsan Malaysia	Company Director	Malaysian
Yuen Kin Pheng <i>Independent Non- Executive Director</i>	39, Begonia Rd Singapore 809897	Company Director	Singaporean

1. CORPORATE INFORMATION (cont'd)

Directors	Address	Occupation	Nationality
Patrick Bouju <i>Independent Non-Executive Director</i>	Le Boisniard 85 500 CChambretaud France	Company Director	French
Benoit Jean-Marie Mauffrey <i>Independent Non-Executive Director</i>	33, South Bay Close 7-2A South Bay Garden Hong Kong	Company Director	French
Yeo Toon Mok, Albert <i>Independent Non-Executive Director</i>	27, Mount Faber Road #07-13 Singapore 099200	Advocate & Solicitor	Singaporean

AUDIT COMMITTEE

Name	Designation	Directorship
Yeo Toon Mok, Albert	Chairman	Independent Non-Executive Director
Yong Kit Fai	Member	Executive Director
Benoit Jean-Marie Mauffrey	Member	Independent Non-Executive Director

JOINT COMPANY SECRETARIES	:	Chua Siew Chuan (<i>MAICSA 0777689</i>) No. 6, Jalan SS 14/8E Subang Jaya 47500 Petaling Jaya Selangor Darul Ehsan Malaysia
		Kang Ching Hong (<i>MIA 8723</i>) 103 Jalan SS 5/1 47301 Petaling Jaya Selangor Darul Ehsan Malaysia

REGISTERED OFFICE	:	Level 7, Menara Milenium Jalan Damanlela Pusat Bandar Damansara Damansara Heights 50490 Kuala Lumpur Malaysia Tel : 03-20849000
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1. CORPORATE INFORMATION (cont'd)

HEAD/MANAGEMENT OFFICE	<p>: No. 16, Jalan 227 Section 51A 46100 Petaling Jaya Selangor Darul Ehsan Malaysia Tel : 03-78735927</p> <p>Website: www.fotronics.com E-mail: mail@fotronics.com</p>
AUDITORS	<p>: Deloitte & Touche (AF 0834) Chartered Accountants Level 19, Uptown 1 1, Jalan SS 21/58 Damansara Uptown 47400 Petaling Jaya Selangor Darul Ehsan Malaysia Tel : 03-77236500</p>
REPORTING ACCOUNTANTS	<p>: Deloitte KassimChan (AF 0080) Chartered Accountants Level 19, Uptown 1 1, Jalan SS 21/58 Damansara Uptown 47400 Petaling Jaya Selangor Darul Ehsan Malaysia Tel : 03-77236500</p>
SOLICITORS	<p>: Mazlan & Associates Advocates & Solicitors Level 3A, Wisma E&C 2, Lorong Dungun Kiri Damansara Heights 50490 Kuala Lumpur Malaysia Tel : 03-27158802</p>
PRINCIPAL BANKERS	<p>: RHB Bank Berhad (6171-M) 1, 3 & 5, Jalan 52/18 46200 Petaling Jaya Selangor Darul Ehsan Malaysia Tel : 03-26931722</p> <p>Bumiputra-Commerce Bank Berhad (13491-P) Business Centre KL 3 Centre Head Office, 19th Floor 6, Jalan Tun Perak 50050 Kuala Lumpur Malaysia Tel : 03-26931722</p>

1. CORPORATE INFORMATION *(cont'd)*

		The Hongkong and Shanghai Banking Corporation Limited 21, Collyer Quay #08-01 HSBC Building Singapore 049320 Tel : 02-65305000
ISSUING HOUSE	:	MIDF Consultancy and Corporate Services Sendirian Berhad <i>(11324-H)</i> 12 th Floor, MIDF Building 195A, Jalan Tun Razak 50400 Kuala Lumpur Malaysia Tel : 03-21613355
SHARE REGISTRAR	:	Securities Services (Holdings) Sdn Bhd <i>(36869-T)</i> Level 7, Menara Milenium Jalan Damanlela Pusat Bandar Damansara Damansara Heights 50490 Kuala Lumpur Malaysia Tel : 03-20849000
ADVISER, SPONSOR, PLACEMENT AGENT AND UNDERWRITER	:	Avenue Securities Sdn Bhd <i>(682-X)</i> Ground Floor & Level 1, THB Satu Jalan Damansara Endah Damansara Heights 50490 Kuala Lumpur Malaysia Tel : 03- 27118798
INDEPENDENT INDUSTRY RESEARCH CONSULTANT	:	Business Economic Research <i>(001368812-T)</i> Unit 1107, Livillas 11 th Floor, Jalan 16/20 46350 Petaling Jaya Selangor Darul Ehsan Malaysia Tel : 03-79582163
STOCK EXCHANGE LISTING SOUGHT	:	MESDAQ Market
SYARIAH STATUS	:	Approved by the SAC of the SC

2. SUMMARY OF INFORMATION

The summary of information is only a summary of the salient information on the Fotronics Group and the Public Issue. Investors should read and understand the whole of this Prospectus prior to making an investment decision. The following summary of information is qualified in its entirety and should be read in conjunction with the more detailed information and financial statements appearing elsewhere in this Prospectus.

2.1 HISTORY AND BUSINESS

Fotronics was incorporated in Malaysia under the Act on 20 January 2004 as a public limited company under the name of Fotronics Corporation Berhad.

Fotronics is principally an investment holding company with six (6) other subsidiary companies in Malaysia, Singapore, China and Hong Kong as set out below:

Company	Date/country of incorporation	Effective equity interest (%)	Issued and paid-up capital	Principal activities
<i>Subsidiary companies of Fotronics</i>				
FMSB	27 June 1988 Malaysia	100	RM6,000,000	Precision assembly of magnetic recording heads and drums and assembly of AV equipment
MPC	4 December 2000 Singapore	100	SGD5,000,000	Precision manufacture and assembly of parts and components for the AV, computer and aerospace industries
Vtrek (HK)	21 May 1992 Hong Kong	60	HKD5,510,000	Investment holding
FIPL	8 April 2003 Singapore	100	SGD2	Precision assembly of parts and components for the telecommunications and digital imaging industries
<i>Subsidiary company of FMSB</i>				
FTSB	2 March 1987 Malaysia	100	RM500,000	Marketing and distribution of AV equipment and parts
<i>Subsidiary company of Vtrek (HK)</i>				
Vtrek (China)	20 August 2001 China	60	USD1,914,823*	Precision assembly of micro-optic components for the digital imaging and optical data storage industries

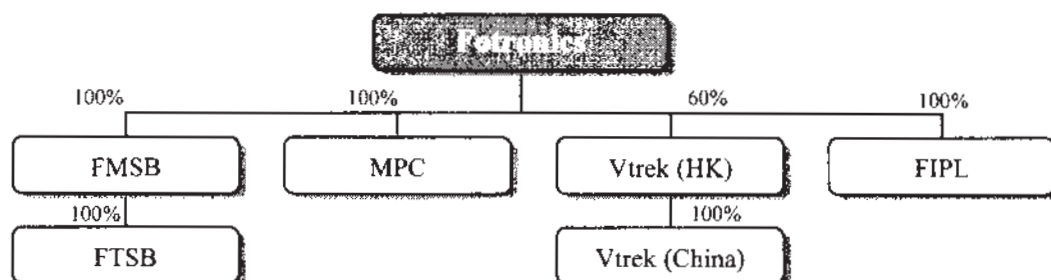
Note:

* The issued and paid-up registered capital of Vtrek (China) of USD1,914,823 in cash is as per the Capital Verification Report issued by Guangzhou Decent Certified Public Accountants Co., Ltd dated 25 April 2002, 9 April 2003 and 24 December 2003 respectively.

Further details on the Fotronics Group are set out in Section 5 of this Prospectus.

2. SUMMARY OF INFORMATION *(cont'd)*

The Group's corporate structure is represented below:



The Fotronics Group is a technology design house with precision manufacture and assembly expertise. It presently has operations in Malaysia, Singapore, Hong Kong and China.

The Group's current principal activities are:

- R&D in process technology;
- precision assembly of magnetic recording heads and drums and assembly of AV equipment;
- precision manufacture and/or assembly of parts and components for the AV, computer, telecommunications, digital imaging, optical data storage and aerospace industries; and
- marketing and distribution of AV equipment and parts.

The Group's history can be traced back to FInc, which was established in 1978 to manufacture VCR magnetic recording heads and to provide engineering design services. On 27 June 1988, FMSB was incorporated to undertake the manufacturing of VCR magnetic recording heads. Subsequently, it expanded downstream to include the assembling of VCR drumheads.

On 4 December 2000, MPC was incorporated and subsequently, it acquired a fully automated precision engineering plant in Singapore which combines robotics with CNC machines for its manufacturing operations of drums.

Recognising the introduction of digital technology and the convergence of electronics, optics and telecommunications technologies in the mid-1990s as the driving force in the second ICT revolution, the Group further expanded into the precision micro assembly of OPU and AIS lenses through the establishment of Vtrek (China) on 20 August 2001. The OPU and AIS lenses are assembled at the Group's manufacturing facility in Guangzhou, China under industrial clean room environment.

In R&D terms, the Fotronics Group has been undertaking R&D in product and process developments and improvements throughout the years. Due to continuous efforts in innovation and development, the Group has expanded from manufacturing magnetic recording technology products to other high technology areas in the last three (3) to four (4) years. These include areas in photonics, optoelectronics, telecommunications and aerospace which are made possible due to the Group's ability to apply its precision engineering expertise to product and process innovation and development. In addition, Fotronics has also entered into the Technical Assistance and Know-How Agreement with FInc to enhance Fotronics' R&D expertise. Pursuant to the Technical Assistance and Know-How Agreement, FInc shall provide amongst others, support for the R&D requirements of the Fotronics Group and to transfer certain technical knowledge and know-how to the Group on an exclusive basis. Further information on the Technical Assistance and Know-How Agreement is set out in Section 5.4.11 of this Prospectus.

2. SUMMARY OF INFORMATION *(cont'd)*

By complementing Japanese engineering capabilities with cost effective production platforms in South-East Asia and China, the Fotronics Group today supports major multinational corporations. These include Sony Corporation, JVC Corporation, TEAC Corporation, Mitsumi Electric Co. Ltd, Alps Electric Co Ltd, Enplas Corporation and Honeywell International Inc..

2.2 INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY MANAGEMENT OR KEY TECHNICAL PERSONNEL

The beneficial interests, direct and indirect of the Promoters, substantial shareholders, Directors, key management or key technical personnel of Fotronics Shares after the Public Issue are as follows:

2.2.1 Promoters

Promoter	< ----- Direct ----- >		< ----- Indirect ----- >	
	No. of Fotronics Shares held	% held	No. of Fotronics Shares held	% held
Memcorp	91,980,755	45.32	12,856,650 ^a	6.33
FInc	12,856,650	6.33	-	-
Seah Bak Seng	4,660,000	2.30	-	-
Ng Kwok Leung, George	13,043,569	6.43	-	-
YEPL	5,480,295	2.70	-	-

Note:

a Deemed interested by virtue of its substantial shareholding in FInc.

The above shareholdings take into consideration the Public Issue Shares entitled for subscription by the eligible Directors and employees of the Fotronics Group but do not take into consideration the allocation of the Options under the ESOS.

2.2.2 Substantial Shareholders

Substantial shareholder	< ----- Direct ----- >		< ----- Indirect ----- >	
	No. of Fotronics Shares held	% held	No. of Fotronics Shares held	% held
Memcorp	91,980,755	45.32	12,856,650 ^a	6.33
FInc	12,856,650	6.33	-	-
Seah Bak Kheow	60,000	0.03	104,837,405 ^b	51.65
Yip Yan Foon	-	-	104,837,405 ^c	51.65
Ng Kwok Leung, George	13,043,569	6.43	-	-
Seah Wee Kiat, Willie	60,000	0.03	104,837,405 ^d	51.65
Seah Wee Ping	60,000	0.03	104,837,405 ^d	51.65
Seah Sze Wei, Cheryl	-	-	104,837,405 ^d	51.65
Seah Sze Min, Charmaine	-	-	104,837,405 ^d	51.65

2. SUMMARY OF INFORMATION (cont'd)

Notes:

- a Deemed interested by virtue of its substantial shareholding in FInc.
- b Deemed interested by virtue of his spouse's and children's substantial shareholdings in Memcorp and Memcorp's substantial shareholding in FInc.
- c Deemed interested by virtue of her substantial shareholding, her children's substantial shareholdings in Memcorp and Memcorp's substantial shareholding in FInc.
- d Deemed interested by virtue of his/her substantial shareholding in Memcorp, his/her mother's substantial shareholding in Memcorp and Memcorp's substantial shareholding in FInc.

Seah Bak Kheow is the spouse of Yip Yan Foon. Seah Wee Kiat, Willie, Seah Wee Ping, Seah Sze Wei, Cheryl and Seah Sze Min, Charmaine are the children of Seah Bak Kheow and Yip Yan Foon.

The above shareholdings take into consideration the Public Issue Shares entitled for subscription by the eligible Directors and employees of the Fotronics Group but do not take into consideration the allocation of the Options under the ESOS.

2.2.3 Directors

Director	< ----- Direct ----- >		< ----- Indirect ----- >	
	No. of Fotronics Shares held	% held	No. of Fotronics Shares held	% held
Seah Bak Kheow	60,000	0.03	104,837,405 ^a	51.65
Seah Bak Seng	4,660,000	2.30	-	-
Cheng Joo Wan	60,000	0.03	-	-
Masato Ikeuchi	60,000	0.03	-	-
Yutaka Watanabe	60,000	0.03	-	-
Ng Kwok Leung, George	13,043,569	6.43	-	-
Koh Poh Jin	60,000	0.03	-	-
Yong Kit Fai	60,000	0.03	-	-
Dato' Sim Bee Ming	60,000	0.03	-	-
Yuen Kin Pheng	60,000	0.03	-	-
Patrick Bouju	60,000	0.03	-	-
Benoit Jean-Marie Mauffrey	60,000	0.03	-	-
Yeo Toon Mok, Albert	60,000	0.03	-	-

Note:

- a Deemed interested by virtue of his spouse's and children's substantial shareholdings in Memcorp and Memcorp's substantial shareholding in FInc.

Seah Bak Seng is the brother of Seah Bak Kheow.

The above shareholdings take into consideration the Public Issue Shares entitled for subscription by the eligible Directors and employees of the Fotronics Group but do not take into consideration the allocation of the Options under the ESOS.

2. SUMMARY OF INFORMATION *(cont'd)*

2.2.4 Key Management or Key Technical Personnel

Key management or key technical personnel	Designation	< ----- Direct ----- >		< ----- Indirect ----- >	
		No. of Fotronics Shares held	% held	No. of Fotronics Shares held	% held
Seah Bak Kheow	Executive Chairman / Chief Executive Officer	60,000	0.03	104,837,405 ^a	51.65
Seah Bak Seng	Executive Director	4,660,000	2.30	-	-
Cheng Joo Wan	Executive Director	60,000	0.03	-	-
Masato Ikeuchi	Executive Director	60,000	0.03	-	-
Yutaka Watanabe	Alternate Director to Masato Ikeuchi/ Business Development Director of FIPL	60,000	0.03	-	-
Ng Kwok Leung, George	Executive Director	13,043,569	6.43	-	-
Koh Poh Jin	Executive Director	60,000	0.03	-	-
Yong Kit Fai	Executive Director	60,000	0.03	-	-
Niam Chong Loong	Chief Operating Officer of FIPL	40,000	0.02	-	-
Makoto Nomoto	Chief Engineer of the Fotronics Group	40,000	0.02	-	-
Muthan Vivekanandhan	Chief Quality Assurance Engineer of the Fotronics Group	40,000	0.02	-	-
Tetsuo Ikeda	Chief Production Planning Controller of the Fotronics Group and Director of Vtrek (China)	60,000	0.03	-	-
Tan Eng Kiat	Chief Strategic Planner of the Fotronics Group	40,000	0.02	-	-
Ng Kim Lam	Director and General Manager of FMSB and FTSB	60,000	0.03	-	-

2. SUMMARY OF INFORMATION (cont'd)

Key management or key technical personnel	Designation	< ----- Direct ----- >		< ----- Indirect ----- >	
		No. of Fotronics Shares held	% held	No. of Fotronics Shares held	% held
Seah Li Shan, Susanah	Senior Manager, Human Resource and Management ISO representative of the Fotronics Group	40,000	0.02	-	-

Note:

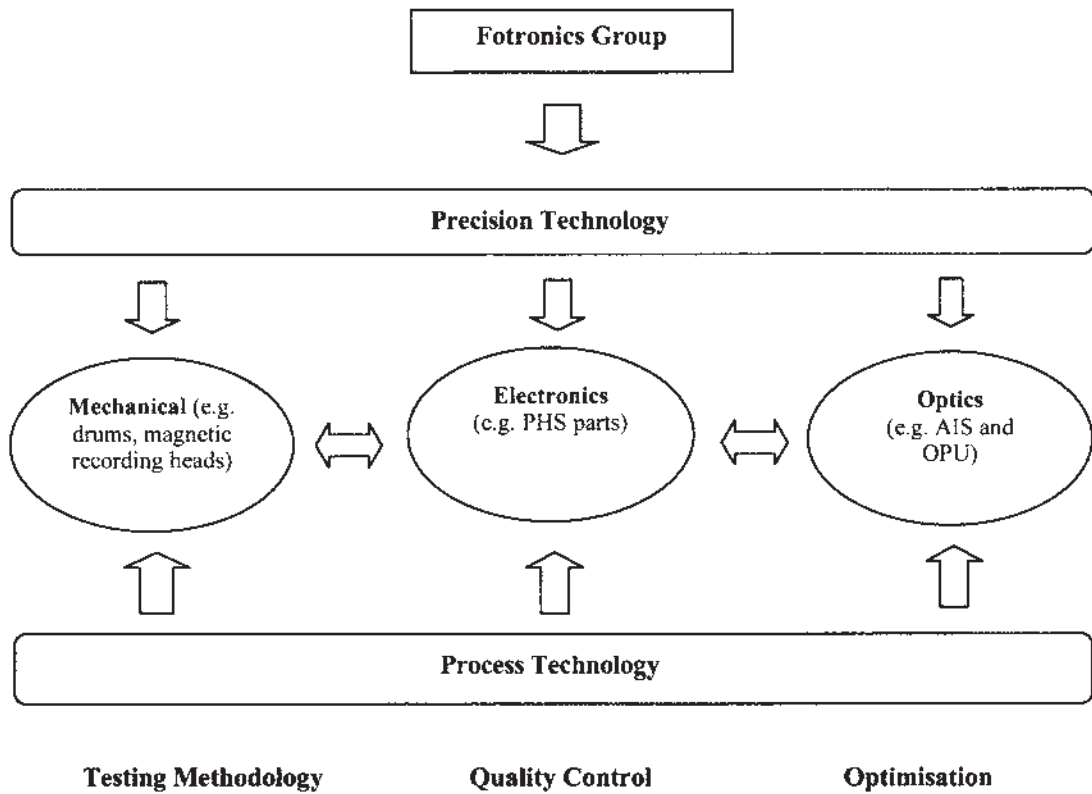
a Deemed interested by virtue of his spouse's and children's substantial shareholdings in Memcorp and Memcorp's substantial shareholding in FInc.

Seah Bak Seng is the brother of Seah Bak Kheow. Seah Li Shan, Susanah is the daughter of Seah Bak Seng and niece of Seah Bak Kheow.

The above shareholdings take into consideration the Public Issue Shares entitled for subscription by the eligible Directors and employees of the Fotronics Group but do not take into consideration the allocation of the Options under the ESOS.

Further information on the Promoters, substantial shareholders, Directors, key management or key technical personnel of the Fotronics Group is set out in Section 6 of this Prospectus.

2.3 TECHNOLOGY APPLICATION



2. SUMMARY OF INFORMATION *(cont'd)*

The Fotronics Group's core competencies are in precision and process technologies. The Group applies precision and process technologies in conjunction with technical know-how on magnetic recording, mechanical, electrical and electronics, optoelectronics and computer programming technologies to develop many of its products. As a consequence, the Group's precision technology enables them to manufacture and assemble various products at the micron (drums and magnetic heads), sub-micron (PHS parts) and nanometre levels (OPU and AIS). Meanwhile, the Group's knowledge in process technology is applied to testing methodologies, quality control and the optimisation of manufacturing processes. Process technology is used to ensure enhancement in quality, cost control, competitiveness, stage processing effectiveness, wastage reduction, accuracy and precision in the production processes of all the products manufactured.

The strong engineering capabilities possessed by the Fotronics Group have enabled the Group to specialise in the manufacture and assembly of magnetic recording and photonic products. The Fotronics Group is one of the pioneers in magnetic recording technology and through its expertise, has developed highly specialised products for the AV, computer data storage, aviation and aerospace industries. The Group's expertise in photonics technology has enabled them to assemble micro-optic lenses, penetrating the optics industry.

As a technology design house, the Fotronics Group is committed to provide continuing R&D efforts to keep abreast with market developments as well as to enable it to tap into new markets. As part of the Group's efforts in undertaking R&D, the Fotronics Group utilises modern machines such as CNC machines, advance and high technology test measurement machines and instruments and CAD/CAM software. The Group's engineers require a high level of knowledge and expertise to design new products using the CAD/CAM software, configure CNC machines, conduct analyses on test measurement machines as well as interpret results from these machines. As a technology design house, the technology used by the Group is not only limited to high technology machines, systems and software but also includes the expertise and skill in designing, re-engineering and enhancing the manufacture and assembly processes.

2.4 FINANCIAL HIGHLIGHTS

2.4.1 Proforma Consolidated Results

The following table sets out a summary of the proforma consolidated results of the Fotronics Group for the past five (5) financial years ended 31 March 2000 to 2004 and for the four (4)-month financial period ended 31 July 2004, prepared on the assumption that the current Fotronics Group structure has been in existence throughout the years under review. The proforma consolidated profit records should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report set out in Section 12 of this Prospectus.

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2. SUMMARY OF INFORMATION (cont'd)

	<-----Year ended 31 March----->					4-month period ended 31 July 2004
	2000	2001	2002	2003	2004	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	4,593	5,283	34,095	55,473	38,063	14,286
Profit/(loss) before interest, taxation, depreciation and amortisation	(68)	(62)	932	2,696	14,137	9,133
Depreciation	(107)	(109)	(1,027)	(1,654)	(2,591)	(1,177)
Amortisation of goodwill	(11)	(11)	(11)	(11)	-	-
Interest expense	-	(9)	(455)	(519)	(335)	(79)
Profit/(loss) before taxation and minority interests	(186)	(191)	(561)	512	11,211	7,877
Tax credit/(expense)	43	55	43	(63)	(395)	(77)
Profit/(loss) after taxation but before minority interests	(143)	(136)	(518)	449	10,816	7,800
Minority interests	(1)	1	8	(11)	(3,697)	(2,642)
Profit/(loss) after taxation and minority interests	(144)	(135)	(510)	438	7,119	5,158
No. of ordinary shares assumed to be in issue (‘000) ¹	152,234	152,234	152,234	152,234	152,234	152,234
Gross EPS/(loss per share) (sen) ²	(0.12)	(0.13)	(0.37)	0.34	7.36	5.17
Net EPS/(loss per share) (sen) ³	(0.09)	(0.09)	(0.34)	0.29	4.68	3.39

Notes:

¹ Based on the number of shares assumed in issue after the Acquisitions but before the Public Issue.

² The gross EPS/(loss per share) is computed based on the consolidated profit/(loss) before taxation and minority interests.

³ The net EPS/(loss per share) is computed based on the consolidated profit/(loss) after taxation and minority interests.

There were no exceptional or extraordinary items in the financial years and the financial period under review.

2. SUMMARY OF INFORMATION *(cont'd)*

2.4.2 Proforma Consolidated Balance Sheets

The following table sets out the summary of the proforma consolidated balance sheet of the Fotronics Group as at 31 July 2004 as if the Acquisitions, Public Issue and utilisation of proceeds had been effected on that date. A detailed proforma consolidated balance sheet of the Group is set out in Section 11.5 of this Prospectus:

	Audited consolidated financial statements as of 31 July 2004 RM'000	Proforma I After Acquisitions RM'000	Proforma II After Proforma I and Public Issue and utilisation of proceeds RM'000
Property, plant and equipment	-	15,684	45,904
Deferred tax assets	-	1,431	1,431
Current Assets			
Inventories	-	2,271	2,271
Trade receivables	-	5,634	5,634
Other receivables, deposits and prepayment	1,456	2,135	2,135
Cash and bank balances	886	15,130	25,691
	2,342	25,170	35,731
Current Liabilities			
Trade payables	-	3,940	2,980
Other payables and accruals	2,466	2,075	2,075
Amount owing to a shareholder of a subsidiary company	-	138	138
Amount owing to a director of a subsidiary company	91	291	291
Hire-purchase payables – current portion	-	34	34
Bank borrowings	-	2,005	-
Tax liabilities	-	434	434
	2,557	8,917	5,952
Net Current (Liabilities) / Assets	(215)	16,253	29,779
LONG TERM AND DEFERRED LIABILITIES			
Hire-purchase payables – non-current portion	-	42	42
Deferred tax liabilities	-	23	23
	-	(65)	(65)
Minority interests	-	(7,403)	(7,403)
Net (Liabilities) / Assets	(215)	25,900	69,646

2. SUMMARY OF INFORMATION (cont'd)

	Audited consolidated financial statements as of 31 July 2004 RM'000	Proforma I After Acquisitions RM'000	Proforma II After Proforma I and Public Issue and utilisation of proceeds RM'000
Represented by:			
Issued capital	- ^a	15,223	20,298
Share premium	-	-	42,671
Translation reserve	2	2	2
Reserve on consolidation	-	10,892	10,892
Accumulated loss	(217)	(217)	(4,217)
(Capital Deficiency) / Shareholders' fund	(215)	25,900	69,646
Number of shares in issue ('000)	- ^b	152,234	202,979
NTA per ordinary share RM0.10 each (sen)	-	16.1	33.6

Notes:

a This represents RM2.

b Comprising 20 Fotronics Shares.

2.4.3 Auditors' Qualifications

The financial statements of Fotronics for the financial periods 20 January 2004 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004 were not subject to any qualification.

The financial statements of FIPL for the financial periods 8 April 2003 (date of incorporation) to 31 March 2004 and 1 April 2004 to 31 July 2004 were not subject to any qualification except for an emphasis of matter on the capital deficiency position as of 31 March 2004 and 31 July 2004. However, Fotronics will continue to give financial support to the company. FIPL has not commenced operations.

The financial statements of FMSB and FTSB for the financial years ended 31 March 2000 to 2004 and financial period 1 April 2004 to 31 July 2004 were not subject to any qualification.

The financial statements of MPC for the financial period 4 December 2000 (date of incorporation) to 31 March 2002, financial years ended 31 March 2003 and 2004 and financial period 1 April 2004 to 31 July 2004 were not subject to any qualification.

The financial statements of Vtrek (HK) for the financial years ended 31 December 1999 to 2001 were not subject to any qualification. The consolidated financial statements of Vtrek (HK) Group, for the financial year ended 31 December 2002, financial periods 1 January 2003 to 31 March 2004 and 1 April 2004 to 31 July 2004 were not subject to any qualification.

2. SUMMARY OF INFORMATION *(cont'd)*

2.5 RISK FACTORS

There are a number of risk factors (which may not be exhaustive), both specific to the Fotronics Group and relating to the general business environment, which may impact the operating performance and financial position of the Group. To appreciate the risk factors associated with an investment in Fotronics, this Prospectus should be read in its entirety. Details of the risk factors, of which investors should be aware of are set out in Section 4 of this Prospectus:

- (i) No prior market for Fotronics Shares;
- (ii) Delay in or failure of the Listing;
- (iii) Delay between settlement and trading of Fotronics Shares;
- (iv) Company's share price may be volatile;
- (v) Investors in this Public Issue will suffer immediate dilution;
- (vi) Business risks;
- (vii) Operational risks;
- (viii) Competition;
- (ix) Dependence on a major customer;
- (x) Disruption in automation;
- (xi) Rapid technological changes;
- (xii) Dependence on technology provider;
- (xiii) Delay in R&D;
- (xiv) Dependence on Directors, key management and/or key technical personnel;
- (xv) Global political and economic considerations;
- (xvi) Significant influence by Promoters;
- (xvii) Shareholding in Vtrek (HK) and Vtrek (China);
- (xviii) Registered capital requirements of Vtrek (China);
- (xix) Foreign exchange risk;
- (xx) Foreign operations;
- (xxi) Insurance risks;
- (xxii) Profit estimate; and
- (xxiii) Disclosure of forward looking statements.

2. SUMMARY OF INFORMATION *(cont'd)*

2.6 PRINCIPAL STATISTICS RELATING TO THE PUBLIC ISSUE

2.6.1 Share Capital of Fotronics

Authorised	RM
1,000,000,000 ordinary shares of RM0.10 each	100,000,000
Issued and fully paid-up as at the date of this Prospectus	
152,233,600 ordinary shares of RM0.10 each	15,223,360
To be issued and credited as fully paid-up pursuant to the Public Issue	
50,745,000 ordinary shares of RM0.10 each	5,074,500
Enlarged issued and paid-up share capital	20,297,860

Fotronics has established the ESOS which entitles the Company to grant Options of up to ten percent (10%) of the issued and paid-up share capital of the Company at any time to offer to its employees and Directors. The approval of the existing shareholders of Fotronics has been obtained for the ESOS and grant of Options to the Directors of the Company, subject to the terms of the Bye-Laws. The Bursa Securities had on 20 July 2004 approved the establishment and implementation of the ESOS of up to ten percent (10%) of the enlarged issued and paid-up share capital of Fotronics for a duration of five (5) years and listing for and quotation of any new Fotronics Shares that may be issued pursuant to the exercise of Options. The Directors of Fotronics only intend to implement the ESOS subsequent to the Listing.

2.6.2 Issue Price per Share **RM1.00**

2.6.3 Proforma Consolidated NTA as at 31 July 2004

	NTA	NTA per
	RM'000	Share
		RM
Proforma consolidated NTA after the Acquisitions	24,469	0.16 ^a
Proforma consolidated NTA per share after the Acquisitions, Public Issue and utilisation of proceeds	68,215	0.34 ^b

Notes:

a Based on the enlarged issued and paid-up share capital of 152,233,600 Fotronics Shares after the Acquisitions.

b Based on the enlarged issued and paid-up share capital of 202,978,600 Fotronics Shares after the Acquisitions, Public Issue, utilisation of proceeds and after deducting listing expenses.

The detailed calculations of the proforma consolidated NTA of the Fotronics Group are set out in Section 11.5 of this Prospectus.

2. SUMMARY OF INFORMATION *(cont'd)*

2.6.4 Classes of Shares and Ranking

There is only one class of shares in Fotronics, 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 and fully paid-up ordinary shares of the Company and shall carry entitlement to voting rights and rights to all dividends and distributions that may be declared on the shares of the Company, the entitlement date of which is on or after the date of issue of the Public Issue Shares. Subject to any special rights attaching to any shares which may be issued by Fotronics 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. In respect of the whole of any surplus in the event of winding up of the Company, such surplus shall be distributed among the members in proportion to the paid-up share capital at the commencement of the winding up, in accordance with the Articles of Association of Fotronics.

At any general meeting of Fotronics, each shareholder shall be entitled to vote 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 by other duly authorised representative shall have one vote for each ordinary share held. A proxy may, but need not be, a member of the Company.

2.6.5 Consolidated Profit Estimate

The consolidated profit estimate of Fotronics for the financial year ending 31 March 2005 is as follows:

Financial year ending 31 March 2005	Estimate RM'000
Revenue	101,609
Consolidated profit before taxation and pre-acquisition profit	20,222
Less: Taxation	(2,986)
Consolidated profit after taxation but before pre-acquisition profit and minority interests	17,236
Less: Minority interests	(3,719)
Consolidated profit after taxation but before pre-acquisition profit	13,517
Less: Pre-acquisition profit ^a	(5,349)
Consolidated profit attributable to shareholders	8,168
Less: Dividend ^b	(2,030)
Unappropriated profit	6,138
<i>Based on enlarged issued and paid-up share capital:</i>	
Net EPS ^c (sen)	6.66
Net PE Multiple (based on issue price of RM1.00 per Share) (times)	15.02
<i>Based on weighted average number of shares in issue^d</i>	
Net EPS ^c (sen)	13.20
Net PE Multiple (based on issue price of RM1.00 per Share) (times)	7.58

Notes:

The consolidated profit estimate has been prepared on bases and accounting policies consistent with those previously adopted by the Fotronics Group.

a Fotronics was incorporated on 20 January 2004 and the Acquisitions were completed on 20 August 2004. Therefore, the pre-acquisition profit relates to the period from 1 April 2004 to 19 August 2004.

b Proposed tax-exempt dividends of RM0.01 per ordinary share based on the enlarged issued and paid-up share capital of Fotronics of RM20,297,860 comprising 202,978,600 Fotronics Shares.

2. SUMMARY OF INFORMATION *(cont'd)*

- c* Based on the consolidated profit after taxation but before pre-acquisition profit and the enlarged issued and paid-up share capital of 202,978,600 Fotronics Shares.
- d* On the assumption that the Public Issue will be completed by end January 2005.
- e* Based on the consolidated profit after taxation but before pre-acquisition profit and the weighted average number of shares in issue of 102,334,894 Fotronics Shares.

2.6.6 Dividend Estimate

The dividend estimate for the financial year ending 31 March 2005 is as follows:

Financial year ending 31 March 2005	Estimate RM'000
Consolidated profit after taxation	8,168
Less: Proposed final tax exempt dividend	<u>(2,030)</u>
Profit retained for the financial year	<u>6,138</u>
Gross dividend per Share (sen)	1.00
Net dividend per Share (sen)	1.00
Gross dividend yield based on the issue price of RM1.00 per Share (%)	1.00
Net dividend yield based on the issue price of RM1.00 per Share (%)	1.00
Net dividend cover (times)	6.66

Detailed information on the dividend policy of the Fotronics Group is set out in Section 11.3.3 of this Prospectus.

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2. SUMMARY OF INFORMATION *(cont'd)*

2.7 UTILISATION OF PROCEEDS

The total gross proceeds for the Public Issue amounting to RM50,745,000 will be utilised by the Group in the following manner:

Purpose	RM'000	Expected timeframe for proposed utilisation
Capital expenditure	25,120	Within 36 months from date of listing of the Fotronics Shares
Repayment of bank borrowings	4,000	Within 6 months from date of listing of the Fotronics Shares
R&D expenditure	9,100	Within 36 months from date of listing of the Fotronics Shares
Working capital	9,525	Within 24 months from date of listing of the Fotronics Shares
Estimated listing expenses	3,000	Within 6 months from date of listing of the Fotronics Shares
	<u>50,745</u>	

The financial impact on the Fotronics Group from the utilisation of proceeds is set out in Sections 2.4.2 and 11.5 of this Prospectus.

Further information on the utilisation of proceeds is set out in Section 3.7 of this Prospectus.

2.8 MATERIAL LITIGATION, MATERIAL COMMITMENT, INDEBTEDNESS AND CONTINGENT LIABILITIES

2.8.1 Material Litigation

As at 23 December 2004 (being the latest practicable date prior to the registration of this Prospectus), neither Fotronics nor its subsidiary companies are engaged in any material litigation either as plaintiff or defendant which has a material effect on the financial position of Fotronics or any of its subsidiary companies and the Directors of the Company have no knowledge of any proceedings pending or threatened against the Company and its subsidiary companies or of any facts likely to give rise to any proceedings which might materially affect the position and business of the Company and its subsidiary companies.

2.8.2 Material Commitment

As at 23 December 2004 (being the latest practicable date prior to the registration of this Prospectus), the Group does not have any capital commitment in respect of acquisition of land and building, plant and machinery and other fixed assets.

2. SUMMARY OF INFORMATION *(cont'd)*

2.8.3 Indebtedness

As at 23 December 2004 (being the latest practicable date prior to the registration of this Prospectus), the total outstanding borrowings of the Fotronics Group from financial institutions amounted to approximately RM2.74 million comprising the following:

Subsidiary company	Facility	Limit	Amount outstanding
FMSB	Short term (interest bearing)	RM	RM
	<i>Bumiputra-Commerce Bank Berhad</i>		
	Trust Receipt / Bank Acceptance	1,600,000	1,538,092
	Overdraft	400,000	-
		<u>2,000,000</u>	<u>1,538,092</u>
MPC	Short term (interest bearing)	RM	RM
	<i>Citibank (Singapore)</i>		
	Trust Receipt	2,736,000	509,470
	<i>The Hong Kong and Shanghai Banking Corporation Limited</i>		
	Overdraft	690,000	690,000
	Letter of Credit	5,700,000	-
		<u>9,126,000</u>	<u>1,199,470</u>
	Total	<u>11,126,000</u>	<u>2,737,562</u>

2.8.4 Contingent Liabilities

As at 23 December 2004 (being the latest practicable date prior to the registration of this Prospectus), the Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

2.9 SYARIAH STATUS

Fotronics has voluntarily submitted an application to the SC for the Syariah compliance review to be carried out by the SAC of the SC as part of the process to obtain its Syariah status at the Public Issue stage.

The SAC of the SC has classified this company as Syariah-approved based on the latest 12-month audited financial year and the Syariah criteria adopted by the SAC of the SC.

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3. PARTICULARS OF THE PUBLIC ISSUE

This Prospectus is dated 5 January 2005.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus together with the Application Form has also been lodged with the ROC, who takes no responsibility for its contents.

Approvals from the SC and Bursa Securities have been obtained for the Public Issue on 16 July 2004 and 20 July 2004 respectively. Approval from Bursa Securities has been obtained for admission to the Official List of the MESDAQ Market and for permission to deal in and for the listing of and quotation for the entire issued and paid-up share capital of Fotronics including the Public Issue Shares which are the subject to this Prospectus. These ordinary shares will be admitted to the Official List of the MESDAQ Market and official quotation will commence after receipt of confirmation from the Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment will be despatched to all successful applicants.

Pursuant to the Listing Requirements, the Company needs to have at least 25% but not more than 49% of the total number of shares for which listing is sought, in the hands of a minimum number of 200 public shareholders upon admission to the MESDAQ Market. The Company is expected to achieve this at the point of Listing. However, in the event the above requirement is not met pursuant to the Public Issue, the Company may not be allowed to proceed with the Listing. In the event thereof, monies paid in respect of all applications will be returned without interest.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act 1991, Bursa Securities has prescribed the Fotronics Shares as a prescribed security. In consequence thereof, the Public Issue Shares offered through this Prospectus will be deposited directly with the Depository and any dealings in Fotronics Shares will be carried out in accordance with the aforesaid act and the Rules of the Depository. No share certificates will be issued to successful applicants.

To apply for the Public Issue Shares, an applicant must have a CDS account. Applicants using Application Forms should state his/her CDS account number in the space provided in the Application Form and he/she shall be deemed to have authorised the Depository to disclose information pertaining to the CDS account to MIDFCCS/Fotronics for the purpose of crediting the Public Issue Shares allotted to him/her into his/her CDS account. In the case of an application by way of Electronic Share Application, the applicant shall furnish his CDS account number to the Participating Financial Institution by way of keying his/her CDS account number according to the instructions on the ATM screen at which he/she enters his/her Electronic Share Application. A corporation/institution cannot apply for the Public Issue Shares by way of Electronic Share Application.

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 be relied upon as having been authorised by Fotronics and/or Avenue. Neither the delivery of this Prospectus nor any issue made in connection with this Prospectus shall, under any circumstances, constitute a representation or create an implication that there has been no change in the affairs of the Fotronics Group since the date hereof.

The distribution of this Prospectus and the sale of the Public Issue Shares are subject to Malaysian law and Avenue and the Company take no responsibility for the distribution of this Prospectus and/or sale of the Public Issue Shares outside Malaysia, which may be restricted by law in other jurisdictions. This Prospectus will not be registered under any securities legislation of any jurisdiction except Malaysia and the Public Issue Shares will not be sold in any country other than Malaysia. Persons who may be in 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 offer to sell or an invitation of an offer to buy any 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.

3. PARTICULARS OF THE PUBLIC ISSUE (cont'd)

Investors should rely on their own evaluation to assess the merits and risks of the investment. In considering the investment, investors who are in any doubt as to the action to be taken should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

3.1 OPENING AND CLOSING OF APPLICATION LISTS

The Application for the Public Issue will open at 10.00 a.m. on 5 January 2005 and will remain open until 5.00 p.m. on 17 January 2005 or for such further period or periods as the Directors and/or Promoters of Fotronics and the Underwriter/Placement Agent in their absolute discretion may mutually decide. Late applications will not be accepted.

3.2 DATES OF SPECIAL EVENTS

The important events and their dates or tentative dates are as follows:

Event	Date
Date of Prospectus	5 January 2005
Opening date of application for the Public Issue Shares	5 January 2005
Closing date of application for the Public Issue Shares*	17 January 2005

Event	Tentative Date
Date of balloting of application	19 January 2005
Despatch of notices of allotment for the Fotronics Shares to successful applicants	25 January 2005
Listing of and quotation for Fotronics' entire issued and paid-up share capital on the MESDAQ Market	31 January 2005

Note:

- * *The Directors and/or Promoters of Fotronics and the Underwriter/Placement Agent may in their absolute discretion mutually extend the closing date of the application to a further date or dates. Should the closing date of the application be extended, the dates for the balloting, allotment and listing of Fotronics' entire issued and paid-up share capital on the MESDAQ Market would be extended accordingly. Fotronics will notify the parties via an advertisement in a widely circulated Bahasa Malaysia and English newspaper in Malaysia in the event there is an extension of time on the closing date of the application.*

3. PARTICULARS OF THE PUBLIC ISSUE *(cont'd)*

3.3 PURPOSES OF THE PUBLIC ISSUE

The purposes of the Public Issue are as follows:

- (i) To raise funds for the Fotronics Group's business operations and expansion, details of which are elaborated in Section 3.7 on "Utilisation of Proceeds";
- (ii) To enable the Fotronics Group to gain access to the capital markets to raise funds for future expansion and continued growth of the Fotronics Group;
- (iii) To provide an opportunity for the eligible Directors, employees, customers and suppliers of the Fotronics Group as well as the Malaysian public to participate in the continuing growth of the Fotronics Group by way of equity participation; and
- (iv) To obtain the listing of and quotation for the entire issued and paid-up share capital of 202,978,600 Fotronics Shares on the MESDAQ Market, which is expected to enhance the business, profile and future prospects of the Fotronics Group.

3.4 NUMBER AND TYPES OF SECURITIES TO BE ISSUED

	RM
Authorised	
1,000,000,000 ordinary shares of RM0.10 each	<u>100,000,000</u>
Issued and fully paid-up as at the date of this Prospectus	
152,233,600 ordinary shares of RM0.10 each	15,223,360
To be issued and credited as fully paid-up pursuant to the Public Issue	
50,745,000 ordinary shares of RM0.10 each	<u>5,074,500</u>
Enlarged issued and paid-up share capital	<u>20,297,860</u>
Issue Price	1.00

Fotronics has established the ESOS which entitles the Company to grant Options of up to ten percent (10%) of the issued and paid-up share capital of the Company at any time to offer to its employees and Directors. The approval of the existing shareholders of Fotronics has been obtained for the ESOS and grant of Options to the Directors of the Company, subject to the terms of the ESOS Bye-Laws. The Bursa Securities had on 20 July 2004 approved the establishment and implementation of the ESOS of up to ten percent (10%) of the enlarged issued and paid-up share capital of Fotronics for a duration of five (5) years and listing for and quotation of any new Fotronics Shares that may be issued pursuant to the exercise of Options. The Directors of Fotronics only intend to implement the ESOS subsequent to the Listing.

3. PARTICULARS OF THE PUBLIC ISSUE *(cont'd)*

There is only one class of shares in Fotronics, 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 and fully paid-up ordinary shares of the Company and shall carry entitlement to voting rights and rights to all dividends and distributions that may be declared on the shares of the Company, the entitlement date of which is on or after the date of issue of the Public Issue Shares. Subject to any special rights attaching to any shares which may be issued by Fotronics 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. In respect of the whole of any surplus in the event of winding up of the Company, such surplus shall be distributed among the members in proportion to the paid-up share capital at the commencement of the winding up, in accordance with the Articles of Association of Fotronics.

At any general meeting of Fotronics, each shareholder shall be entitled to vote 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 by other duly authorised representative shall have one vote for each ordinary share held. A proxy may, but need not be a member of the Company.

3.5 DETAILS OF THE PUBLIC ISSUE

The Public Issue Shares issued at an issue price of RM1.00 per Share are payable in full upon application. The Public Issue is subject to the terms and conditions of this Prospectus and upon acceptance, the Public Issue Shares will be allocated in the following manner:

(i) Malaysian Public

2,500,000 of the Public Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions to be allocated via ballot.

(ii) Eligible Directors, Employees, Customers and Suppliers of the Fotronics Group

2,500,000 of the Public Issue Shares have been made available for application by the eligible Directors, employees, customers and suppliers of the Fotronics Group. Any Public Issue Shares not allocated to or subscribed by the eligible Directors, employees, customers and suppliers of the Fotronics Group, will be made available for Private Placement to identified investors.

The abovementioned Public Issue Shares were allocated based on the following criteria:

(a) Directors

All Directors of the Fotronics Group are entitled to 60,000 Fotronics Shares each.

(b) Employees

Eligible employees must be at least 18 years of age and must be confirmed in service. Allocations for eligible employees are based on job grades, with the allocation ranging from 5,000 Fotronics Shares for operator to 60,000 Fotronics Shares for senior management. The total number of employees entitled for the pink form is 93.

3. PARTICULARS OF THE PUBLIC ISSUE *(cont'd)*

(c) Customers and Suppliers

Based on the length of relationship and contribution to the success of the Fotronics Group.

(iii) Identified Investors

45,745,000 of the Public Issue Shares made available for Private Placement to identified investors.

2,500,000 of the Public Issue Shares to be made available to the Malaysian public referred to in sub-section (i) above have been fully underwritten at an underwriting commission of two percent (2.0%) of the issue price of RM1.00 per Share.

45,745,000 of the Public Issue Shares made available for Private Placement referred to in sub-section (iii) above will not be underwritten. The potential investors will be pre-identified by the Placement Agent to take up the said Public Issue Shares.

3.6 BASIS OF ARRIVING AT THE ISSUE PRICE

The issue price of RM1.00 per Share was determined and agreed upon by the Company and Avenue, as the Adviser and Underwriter, based on various factors after taking into account, inter-alia, the following factors:

- (i) The Fotronics Group's financial operating history and conditions and financial position as outlined in Section 11 of this Prospectus;
- (ii) The prospects of the industry in which the Fotronics Group operates as outlined in Section 5.6 of this Prospectus;
- (iii) The Fotronics Group's technology, business growth potential and revenue prospects; and
- (iv) The proforma consolidated NTA of the Fotronics Group as at 31 July 2004 of RM0.34 per Share, based on the enlarged issued and paid-up share capital of 202,978,600 Fotronics Shares.

However, investors should also note that the market price of the Fotronics Shares upon and subsequent to the Listing are subject to the vagaries of market forces and other uncertainties, which may affect the price of the Fotronics Shares being traded. Investors should bear in mind the risk factors as set out in Section 4 of this Prospectus and form their own views on the valuation of the Public Issue Shares before deciding on whether or not to invest in the Public Issue Shares.

3. PARTICULARS OF THE PUBLIC ISSUE (cont'd)

3.7 UTILISATION OF PROCEEDS

The total gross proceeds for the Public Issue amounting to RM50,745,000 will be utilised by the Group in the following manner:

Purpose	Notes	RM'000	Expected timeframe for proposed utilisation
Capital expenditure	1	25,120	Within 36 months from date of listing of the Fotronics Shares
Repayment of bank borrowings	2	4,000	Within 6 months from date of listing of the Fotronics Shares
R&D expenditure	3	9,100	Within 36 months from date of listing of the Fotronics Shares
Working capital	4	9,525	Within 24 months from date of listing of the Fotronics Shares
Estimated listing expenses	5	3,000	Within 6 months from date of listing of the Fotronics Shares
		<u>50,745</u>	

Notes:

- This will be utilised for the expansion of its existing business in Malaysia, Singapore and China as well as setting-up of the Group's operations in Ningbo, China. RM16.72 million out of the total capital expenditure of RM25.12 million is earmarked for the purchase of machinery/production lines. This is in line with the Fotronics Group's expansion plan to increase its production capacity in the assembly of camera modules and manufacture of aerospace parts and components. RM2.2 million of the purchased machinery/production lines will be earmarked for the repayment of the unpaid registered capital of Vtek (China) as detailed in Section 4.18 of this Prospectus.*
- As at 23 December 2004, FMSB's and MPC's total bank borrowings is approximately RM2.74 million. The Fotronics Group anticipates a further drawdown of its respective bank borrowings by approximately RM1.26 million by end of January 2005. The Group intends to utilise approximately RM2.74 million for the repayment of bank borrowings to Bumiputra-Commerce Bank Berhad, Citibank (Singapore) and HSBC Bank (Singapore), which will result in total interest savings of approximately RM150,000 per annum. In addition, the Group intends to utilise the remaining RM0.80 million and RM0.46 million for the repayment of the further drawdown of bank borrowings from HSBC Bank (Singapore) and Bumiputra-Commerce Bank Berhad respectively which will result in interest savings of RM88,600. Set out below are the details of repayment of bank borrowings:*

	Amount to be repaid RM'000	Interest savings per annum RM'000
FMSB		
<i>Bumiputra-Commerce Bank Berhad</i>		
Bank Acceptance / Trust Receipt	1,538	64
MPC		
<i>Citibank (Singapore)-Trust Receipt</i>	509	38
<i>HSBC Bank (Singapore)-Overdraft</i>	690	48
	<u>2,737</u>	<u>150</u>

3. PARTICULARS OF THE PUBLIC ISSUE (cont'd)

- 3 An allocated sum of RM9.1 million will be utilised by the Group towards R&D expenditure which involves R&D in emerging technologies and technology process flow. The R&D expenditure encompasses the purchase of R&D equipment (including computer, computer software, measurement and test equipment), salaries of R&D staff and development cost. Key areas of development in the Fotronics Group's R&D are on micro-optic precision, module assembly and precision manufacturing process. Set out below are the details of the R&D expenditure:

		RM'000
R&D machinery and equipment	Note (i)	5,100
R&D staff cost	Note (ii)	4,000
		<u>9,100</u>

Note (i):

	RM'000
Micro-optic precision*	1,000
Module assembly	1,100
Precision manufacturing process	3,000
	<u>5,100</u>

* Will be earmarked for the repayment of the unpaid registered capital of Vtrek (China) as detailed in Section 4.18 of this Prospectus.

Note (ii):

	RM'000
R&D personnel for precision manufacturing process	660
R&D personnel for micro-optic precision and module assembly	3,340
	<u>4,000</u>

- 4 The allocated sum of RM9.525 million will be utilised to fund the working capital requirements of the Fotronics Group as categorised by subsidiary company set out below. In view of the Fotronics Group's plan to expand both its local and overseas operations, the Fotronics Group anticipates high working capital will be required to carry out its expansion plan.

	RM'000
Fotronics / FMSB	6,000
MPC	2,000
FIPL	1,525
	<u>9,525</u>

- 5 Set out below is the breakdown of the estimated listing expenses:

	RM'000
Professional fees	1,200
Fees of the authorities	50
Underwriting commission ^a	50
Placement fee ^b	500
Brokerage fees ^c	25
Printing and advertising fees	500
Issuing house	50
Miscellaneous expenses	625
	<u>3,000</u>

Notes:

- a Based on an underwriting commission of two percent (2.00%) on 2,500,000 of the Public Issue Shares available for application by the Malaysian public at RM1.00 per Share.
- b Based on the placement fee of one percent (1.00%) on 45,745,000 of the Public Issue Shares available for private placement to the identified investors at RM1.00 per Share.
- c Assuming brokerage fees of one percent (1.00%) on 2,500,000 of the Public Issue Shares available for application by the Malaysian public at RM1.00 per Share.

3. PARTICULARS OF THE PUBLIC ISSUE *(cont'd)*

The minimum number of Fotronics Shares to be subscribed pursuant to the Public Issue is 50,745,000 Fotronics Shares, being 100% of the Shares available under the Public Issue.

The financial impact on the Fotronics Group from the utilisation of proceeds is set out in Sections 2.4.2 and 11.5 of this Prospectus.

3.8 BROKERAGE, UNDERWRITING COMMISSION AND PLACEMENT FEE

The Underwriter has agreed to underwrite the 2,500,000 of the Public Issue Shares to be issued to the Malaysian public. Underwriting commission is payable by the Company in respect of the Public Issue Shares at the rate of two percent (2.0%) of the total underwritten shares at the Issue Price of RM1.00 per Share.

Brokerage relating to the 2,500,000 of the Public Issue Shares made available for application by the Malaysian public is payable by the Company at the rate of one percent (1.0%) of the Issue Price of RM1.00 per Share in respect of successful applications which bear the stamp of Avenue, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

Placement fee is payable by the Company to Avenue in respect of the 45,745,000 for the Public Issue Shares to be placed out by the Placement Agent at the rate of one percent (1.0%) of the Issue Price of RM1.00 per Share.

3.9 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

The following are extracts of some of the salient terms contained in the underwriting agreement dated 22 December 2004 ("Underwriting Agreement") including terms which allow the Underwriter to withdraw from the underwriting obligation after the opening of the Public Issue:

- (i) The obligations of the Underwriter under this Underwriting Agreement shall be conditional upon:
 - (a) the SC having approved the Prospectus and Bursa Securities having agreed in principle on or prior to the listing of and quotation for all the issued share capital of the Company on the MESDAQ Market on terms satisfactory to the Underwriter and the Underwriter being reasonably satisfied that such listing and quotation will be granted two (2) Market Days (defined as which Bursa Securities is opened for business) (or such other period as Bursa Securities may permit) after Bursa Securities has received all the necessary supporting documents and receipt of confirmation from the Depository that all CDS accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants;
 - (b) the issue of the Public Issue Shares having been approved by the shareholders of the Company in an extraordinary general meeting;

3. PARTICULARS OF THE PUBLIC ISSUE *(cont'd)*

- (c) there having been, as at any time hereafter up to and including the Closing Date (defined as the last date for the receipt of the application for the Public Issue which will be nine (9) Market Days from the date of issuance of the Prospectus or such later date as agreed by the the Company and the Underwriter), no material adverse change or any development involving a prospective material adverse change in the condition, financial or otherwise of the Company or its subsidiary companies (which in the reasonable opinion of the Underwriter is or will be material in the context of the Public Issue) from that set forth in the Prospectus, nor the occurrence of any event nor the discovery of any fact rendering inaccurate, untrue or incorrect an extent which is or will be material in any of the representations, warranties and undertakings contained in the Underwriting Agreement if they are repeated on and as of the Closing Date;
- (d) the issue and subscription of the Public Issue Shares in accordance with the provisions of this Underwriting Agreement is 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 legislative, executive or regulatory body or authority of Malaysia (including Bursa Securities);
- (e) the Prospectus having been lodged with the ROC and registered with the SC;
- (f) all necessary approvals and consents required in relation to the Public Issue Shares including but not limited to governmental approvals having been obtained and are in full force and effect;
- (g) the Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the cost and expenses referred to in the Underwriting Agreement; and
- (h) all agreements/letters of undertaking in relation to the Private Placement in a form acceptable to the Underwriter have been duly executed before the issuance of the Prospectus, if required.

In the event any of the conditions set out in item (i) above are not satisfied on or before the Closing Date, the Underwriter shall be entitled to terminate this Underwriting Agreement by notice given to the Company not later than the Closing Date and upon such termination, the Company and the Underwriter shall be released and discharged from their respective obligations under this Underwriting Agreement PROVIDED THAT the Company shall remain liable for the payment of the underwriting commission and of all other costs and expenses including but not limited to those referred to in the Underwriting Agreement. The Underwriter reserves the right to waive or modify any of the conditions aforesaid and such waiver or modification shall not prejudice the Underwriter's rights under this Underwriting Agreement.

- (ii) Notwithstanding anything contained in this Underwriting Agreement, the Underwriter may at any time be entitled to terminate its obligations under this Underwriting Agreement with a notice in writing delivered to the Company on the occurrence of all or any of the following matters, on or before the Closing Date if the success of the Public Issue is, in the opinion of the Underwriter, seriously jeopardised by:
 - (a) any Government requisition or other occurrence of any nature whatsoever, which in the opinion of the Underwriter seriously affects or will seriously affect the business and/or financial position of the Company or any of its subsidiary companies; or
 - (b) any change in national or international monetary, financial, political or economic conditions or exchange control or currency exchange rates, as would in the reasonable opinion of the Underwriter, prejudice materially the success of the Public Issue and their distribution or sale (whether in the primary or in respect of dealings on the secondary market); or

3. PARTICULARS OF THE PUBLIC ISSUE (cont'd)

- (c) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, which in the opinion of the Underwriter has or is likely to have a material adverse effect on the condition (financial or otherwise) or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) of the Company and/or its subsidiary companies; or
- (d) any event or series of events beyond the reasonable control of the Underwriter (including without limitation, acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, sabotage, acts of God or accidents) which has or is likely to have the effect of making any material part of this Underwriting Agreement incapable of performance with its terms or which prevents the processing of application, crediting of accounts and/or payments pursuant to the Public Issue or pursuant to the underwriting hereof; or
- (e) the Bursa Securities composite index falling below 600 points and remains below 600 points for five (5) consecutive Market Days at any time between the date of this Underwriting Agreement and the Closing Date based on the closing market price.

On delivery of such a notice by the Underwriter to the Company and confirmation of such a notice by hand or facsimile, this Underwriting Agreement shall be terminated and the Underwriter and the obligations of the Underwriter under this Underwriting Agreement shall be discharged accordingly. In the event of any such termination under the situations set out in item (ii) above, the Company shall bear all the costs and expenses incurred under this Underwriting Agreement.

- (iii) Upon any breach of the said warranties, representations or agreements or any failure to perform any of the said warranties, representations or agreements or any change rendering any of the said warranties, representations or agreements inaccurate in a material respect coming to the notice of the Underwriter prior to the Closing Date, the Underwriter shall be entitled (but not bound) by notice to the Company to elect to treat such breach, failure or change as releasing or discharging itself from its obligations under this Agreement PROVIDED THAT the Company shall remain liable for the payment of the costs and expenses referred to in the Underwriting Agreement, which are incurred prior to or in connection with such release and discharge AND PROVIDED FURTHER THAT failure to make such election as aforesaid shall be without prejudice to the right of the Underwriter to treat any further or other breach, failure or change as releasing and discharging the Underwriter from its obligations as aforesaid.

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4. RISK FACTORS

There are a number of risk factors, both specific to the Fotronics Group and relating to the general business environment, which may impact the operating performance and financial position of the Fotronics Group. Investors should carefully consider the following factors (which may not be exhaustive), which may have a significant impact on the future performance of the Fotronics Group before applying for the Public Issue Shares.

4.1 NO PRIOR MARKET FOR FOTRONICS SHARES

Prior to the Public Issue, there has been no public market for Fotronics Shares. There can be no assurance that an active market for Fotronics Shares will develop upon its Listing or, if developed, that such market will be sustained. The Issue Price was determined after taking into consideration a number of factors, including but not limited to the Fotronics Group's financial performance as well as the Fotronics Group's future prospects and the prospects of the industry in which the Fotronics Group operates. The price at which the Fotronics Shares would trade on the MESDAQ Market after the Listing however, would be influenced by a number of factors which include, inter-alia, the liquidity of the market for Fotronics Shares, general market conditions, the difference between the Company's actual financial results and those expected by the investors and analysts and perception of the investors of the Fotronics Group and the industry in which the Fotronics Group operates. There can be no assurance that the Issue Price will correspond to the price at which the Fotronics Shares will trade on the MESDAQ Market upon or subsequent to its Listing.

4.2 DELAY IN OR FAILURE OF THE LISTING

The success of the Listing is also exposed to the risk that it may fail or be delayed should any of the following events occur:

- (i) the eligible Directors, employees, customers and suppliers of the Fotronics Group fail to acquire the Public Issue Shares allocated to them;
- (ii) the Underwriter of the Public Issue Shares fails to honour its obligations under the underwriting agreement dated 22 December 2004;
- (iii) the identified investors under the Private Placement fail to acquire the Public Issue Shares allocated to them; and
- (iv) Fotronics is unable to meet the public spread requirements i.e. at least 25% of the enlarged issued and paid-up share capital of Fotronics must be held by a minimum number of 200 public shareholders.

Although the Directors of the Company will endeavour to ensure compliance by the Company of the various Listing Requirements, including inter-alia, the public spread requirement imposed by the Bursa Securities for the successful Listing, no assurance can be given that the abovementioned events will not occur and cause a delay in or failure of the Listing.

4. RISK FACTORS (cont'd)

4.3 DELAY BETWEEN SETTLEMENT AND TRADING OF FOTRONICS SHARES

After the Fotronics Shares have been allotted into the investors' CDS accounts in the Depository, which would occur at least two (2) clear market days prior to the anticipated date for admission, it potentially may not be possible to recover monies paid in respect of these Shares from the Company in the event that admission and the commencement of trading of Fotronics Shares on the MESDAQ Market do not occur. Delays in the admission and the commencement of trading in the Shares on Bursa Securities have occurred previously. In order for the Company to return monies to investors in respect of the Public Issue Shares following their allotment in the Depository, a reduction of the Company's capital would be necessary. This would require a special resolution of the Company and the approval of courts in Malaysia. There can be no assurance that monies can be recovered within a short period of time or at all. If Bursa Securities does not admit the Fotronics Shares onto the MESDAQ Market, the market for the Fotronics Shares will be illiquid and it may not be possible to trade the Fotronics Shares. This may also have a material adverse effect on the value of the Fotronics Shares.

4.4 COMPANY'S SHARE PRICE MAY BE VOLATILE

The price of Fotronics Shares may fluctuate as a result of variations in its operating results. If the trading volume of the Company's ordinary shares is low, the price fluctuations may be exacerbated, particularly as no stabilising transactions can or will be undertaken in respect of the Company's ordinary shares in connection with this Public Issue or thereafter. Since Fotronics' prospects are intricately linked with technology and the Fotronics Group's businesses are to a great extent driven by technology, the price of the Company's ordinary shares may rise and fall in tandem with announcements of technological or competitive developments. The price of the Company's ordinary shares, as are typical of those of companies in technology sectors, are also prone to news regarding the gain or loss of significant customers or key personnel, as well as changes in securities analysts' estimates of its financial results or recommendations.

4.5 INVESTORS IN THIS PUBLIC ISSUE WILL SUFFER IMMEDIATE DILUTION

The Issue Price per Share is higher than the NTA per Share of the Company. Investors subscribing for Fotronics Shares in this Public Issue will therefore incur immediate dilution. The issuance of further ordinary shares at prices lower than the existing NTA per Share would result in further dilution.

The Issue Price is RM1.00 per Share while the proforma NTA per Share after the Public Issue and utilisation of proceeds based on the NTA of the Group as at 31 July 2004 is RM0.34.

4.6 BUSINESS RISKS

The Fotronics Group is subject to certain general risks inherent in its business which include, amongst others, a general downturn in the global, regional and national economy, entry of new players, constraints in labour supply, changes in law and taxation legislation affecting the industry in Malaysia, Singapore, Hong Kong and China and other countries where the Fotronics Group operates, increase in production costs, changes in business and credit conditions, fluctuations in foreign exchange rates, introduction of new technologies and collectibles of debts. The Fotronics Group has taken steps to mitigate the risks through continuous efforts to maintain its skilled workers and to enhance its range of products. The Fotronics Group also embraces updated technologies to continuously improve its products and services to meet customers' demands and expectations. However, there can be no assurance that any change to these factors will not have a material adverse effect on the Fotronics Group's business.

4. RISK FACTORS (cont'd)

4.7 OPERATIONAL RISKS

Every business faces consequential losses arising from breakout of fire and energy crisis. The Group has taken note of such risks and has taken various steps to reduce such risks by having proper fire fighting systems and carrying out periodical review on its security and maintenance by the assigned personnel of the Group. The Group has also taken insurance coverage to mitigate the financial losses from such happenings, where possible. In addition, the operations of the Group are located in industrial zones. Therefore, energy providers are prompt to react to any energy crisis in order to minimise consequential losses which will be potentially large, taking into consideration the number of factories situated within an industrial zone. So far, the Group's operations have not experienced any major energy crisis for the past years.

4.8 COMPETITION

The Fotronics Group faces competition from its competitors who may expand their businesses substantially and from new players entering the industry. As such, there is no certainty that the Fotronics Group will always be able to maintain its existing market share in the future. Nevertheless, the Fotronics Group has a history dating back to the late 1970s and has successfully built-up strong relationships with its customers, many of which are multinational corporations. The Fotronics Group maintains its competitive advantage by ensuring prompt delivery, high quality products and value added services. The Fotronics Group is continuously looking at ways to improve its production processes through R&D in process technology in order to diversify its product range and achieve higher production efficiency. However, there can be no assurance that the Fotronics Group will not be affected by the competitive strategies adopted by other precision engineering providers within the same industry, both domestic and overseas.

4.9 DEPENDENCE ON A MAJOR CUSTOMER

The Fotronics Group is dependent on its customers for continuous orders as a majority of the Group's products are not sold directly to retail customers or end-users. In particular, approximately 39% of the Fotronics Group's revenue for the financial year ended 31 March 2004 was derived from sales to one single customer, i.e. Enplas Corporation. Vtrek (China) assembles micro-optic products for Enplas Corporation which is then distributed to various multinational corporations as critical enabling technological components for the digital imaging industry. The Fotronics Group's relationship with Enplas Corporation started since year 2000, during which the Fotronics Group has built a strong relationship with Enplas Corporation in view of Fotronics' process technology capabilities to produce a wide range of high quality products and its capability to deliver its products on a timely basis. This is evidenced by Enplas Corporation's repeated orders over the years. However, in view of the Fotronics Group's plan to expand its client base, the Board of Fotronics anticipates that the percentage of Enplas Corporation's contribution to the Fotronics Group's revenue will decrease substantially over the next few years.

4.10 DISRUPTION IN AUTOMATION

There is a high degree of automation in the Fotronics Group's precision manufacture and assembly processes. The Fotronics Group faces the risk of machinery breakdown and consequently slowdown in production. To avoid major breakdowns, the machinery is constantly monitored and maintained. In addition, the Fotronics Group's operating facilities are equipped with in-house workshops filled with replacement parts and components. In order to minimise the risk of long lead-time in sourcing replacement parts and components for the machinery, the workshops monitor and replenish replacement parts and components every two (2) months.

4. RISK FACTORS (cont'd)

4.11 RAPID TECHNOLOGICAL CHANGES

High technology companies and their supporting industries are inevitably exposed to the risks of rapid technology change, requirements for continuous product and process improvements and market uncertainties.

As a dynamic technology oriented company, the Fotronics Group to-date has kept abreast with developments in the technology and product markets. In this respect, the Fotronics Group has adapted its process technology as well as its skills and experiences in precision engineering to manufacture and/or assemble parts and components for the computer, telecommunications, digital imaging, optical storage and aerospace industries.

Nevertheless, no assurance can be given that the Fotronics Group will continue to be at the forefront of technological changes and R&D or that it will continue to keep abreast with market developments.

4.12 DEPENDENCE ON TECHNOLOGY PROVIDER

The Fotronics Group is relatively dependent on the transfer of technology and the provision of technical assistance, services and management know-how from FInc, a related corporation, in respect of the production processes. However, through the Technical Assistance and Know-How Agreement, the Fotronics Group is able to secure the exclusive provision of the said technical knowledge and assistance. In addition, the Fotronics Group's dependency on FInc as a technology provider is minimised as the Fotronics Group plans to develop its R&D activities within the Group. The Fotronics Group seeks to minimise the dependence on FInc by increasing its R&D personnel by one (1) to two (2) experienced R&D personnel per year within the next five (5) years and is further committed to invest up to RM9.1 million in developing and enhancing its R&D capabilities over the next three (3) years. Although the Fotronics Group seeks to limit these risks through, inter-alia, the Technical Assistance and Know-How Agreement and increasing its R&D capabilities, no assurance can be given that the premature termination of the Technical Assistance and Know-How Agreement will not have a material effect on the Fotronics Group's business.

4.13 DELAY IN R&D

The Group is involved in a rapidly changing industry and its success is largely dependent on the speed of its ability to evolve and develop up-to-date products to remain competitive. The Group has set up its in-house R&D team to carry out R&D on the Group's products. However, the completion and successful implementation of R&D efforts may require a long lead-time. Although the Group seeks to mitigate the risk by effectively allocating its resources and focusing on servicing customers as well as focusing on prospects with better returns (in order not to exhaust the Group's resources or sacrifice quality of product development), there can be no assurance that there will not be any delay in the completion of its R&D efforts and that any delay in its R&D efforts will not have any material adverse effect on the Group's business and financial performance.

4. RISK FACTORS (cont'd)

4.14 DEPENDENCE ON DIRECTORS, KEY MANAGEMENT AND/OR KEY TECHNICAL PERSONNEL

The technology industry is a growing and fast changing sector and management and operation of the business requires the employment of highly skilled knowledge workers, whether in technology or non-technology related fields. The Directors of the Company recognise and believe that the Group's continuing success depends to a significant extent on the abilities and continuing efforts of its existing Directors and key personnel. As such, the Group's ability to attract new personnel and retain its existing skilled personnel is important given that the labour market for skilled personnel in this field is highly competitive. The Group seeks to mitigate this risk factor by grooming the existing personnel to support senior management and/or to shoulder further responsibilities in preparation for long-term expansion as well as offering competitive salary/remuneration and incentive packages. There can be no assurance that the measures taken/to be taken will be successful and that any change in the Group's existing skilled personnel will not have a material effect on the Group's business and operations.

4.15 GLOBAL POLITICAL AND ECONOMIC CONSIDERATIONS

The Group's future growth and level of profitability are expected to be closely linked to the future economic conditions and development in Malaysia, Singapore, Hong Kong, China and other countries in which the Fotronics Group operates which, in turn, may be affected by political and economic uncertainties, including but not limited to changes in inflation, interest rates, taxation methods and government regulations. No assurance can be given that any changes to these factors will not have a material adverse effect on the Group's business and financial performance. Some of these uncertainties are caused by war, unrest and the outbreak of diseases. Despite the uncertainties stated above, the Directors of the Company will continue to focus on its core businesses while evaluating new business opportunities that arise which could potentially enhance shareholders' value.

4.16 SIGNIFICANT INFLUENCE BY PROMOTERS

Upon completion of the Public Issue, the Promoters of the Company, namely, Memcorp, Seah Bak Seng, FInc, Ng Kwok Leung, George and YEPL will collectively hold approximately 63.08% of the enlarged issued and paid-up share capital of the Fotronics Group assuming Seah Bak Seng and Ng Kwok Leung, George subscribe to their respective allocations under the pink form. These shareholders will be able to exercise the voting rights attached to their shares in respect of matters requiring shareholders' approval. Depending on how they choose to vote and because of the size of their shareholdings, these shareholders may be in a position to determine the outcome of matters requiring shareholders' approval, except for matters that involve the interests of these shareholders. Nonetheless, the Company has invited independent Directors to the Board of Fotronics as a step towards good corporate governance to ensure that any future transactions involving related parties, if any, are entered into on arms-length terms.

4. RISK FACTORS (cont'd)

4.17 SHAREHOLDING IN VTREK (HK) AND VTREK (CHINA)

Vtrek (China) is wholly-owned by Vtrek (HK). Fotronics holds 60% equity interest in Vtrek (HK) and the remaining 40% equity interest is held by Zhuang Bingwu. Zhuang Bingwu is currently a director of Vtrek (HK). As director and shareholder of Vtrek (HK), Zhuang Bingwu will be able to exercise management powers and functions of his directorship and voting rights attached to his shares in respect of matters requiring shareholders' approval at Vtrek (HK) level. Zhuang Bingwu was formerly the legal representative and a director of Vtrek (China) but had since ceased to be a member of the Board and the legal representative of Vtrek (China). Seah Bak Kheow is currently the legal representative of Vtrek (China) and as the legal representative of Vtrek (China), he is the official representative of Vtrek (China) under China law in dealing with the authorities and for execution of documents which bind the company.

Notwithstanding the above, the Board of Fotronics is of the view that the business plan intended for Vtrek (China) will be carried out as planned as the operations of Vtrek (China) lie with several key personnel who are responsible for specific areas of operations. These key personnel report to the operations committee of Vtrek (China) which consists mainly of certain key management personnel of the Fotronics Group who then reports to the Board of Vtrek (China) and who in turn reports to the Board of Vtrek (HK).

4.18 REGISTERED CAPITAL REQUIREMENTS OF VTREK (CHINA)

Pursuant to the licensing requirements of Vtrek (China), the full amount of the registered capital of Vtrek (China) has to be paid up by 21 March 2005. The Fotronics Group has plans to apply for a reduction in the registered capital of Vtrek (China). However, in the event the Fotronics Group is unable to obtain the aforesaid reduction, or if the Board of Fotronics is of the view that it is in the best interest of Vtrek (China) not to apply for the aforesaid reduction, the Fotronics Group will pay the remaining unpaid registered capital of Vtrek (China) of USD9.285 million by way of the following:

	Note	USD ('000)
Available cash of the Vtrek Group based on its consolidated audited accounts as at 31 July 2004	1	3,300
Internally generated funds from operations of the Vtrek Group for the period from 1 August 2004 to 28 February 2005	2	2,800
External borrowings to be obtained by Vtrek (HK)	3	2,385
Part of the proceeds of the Public Issue	4	800
Total		9,285

Notes:

- 1 Based on the consolidated audited financial statements of Vtrek (HK) as at 31 July 2004, Vtrek Group has cash of HKD26.109 million (equivalent to USD3.348 million). It is proposed that Vtrek (HK) utilises USD3.3 million cash as part payment of the remaining unpaid registered capital to be paid-up as capital contribution to Vtrek (China).
- 2 It is proposed that Vtrek (HK) further utilises USD2.8 million cash to be derived from Vtrek Group's internally generated funds from operations for the period from 1 August 2004 to 28 February 2005 as capital contribution to Vtrek (China).
- 3 It is proposed that Vtrek (HK) obtains external borrowings to finance the remaining shortfall of the unpaid capital of Vtrek (China).

4. RISK FACTORS *(cont'd)*

- 4 *It is proposed that Fotronics advances USD800,000 cash to Vtrek (HK) from the proceeds of the Public Issue as capital contribution to Vtrek (China). Vtrek (HK) shall repay Fotronics in full the aforesaid advances interest free within one (1) year from the date of disbursement. In the event the Listing does not take place before March 2005, the USD800,000 remaining unpaid registered capital of Vtrek (China) will be repaid by way of external borrowings.*

The Board of Fotronics has undertaken to comply with the paid-up registered capital requirements of Vtrek (China) as imposed by the China authorities. In addition, Memcorp, a Promoter of Fotronics has provided a written undertaking letter dated 29 October 2004 to Fotronics, agreeing to advance the necessary cash requirement ("Advance") to enable Vtrek (HK) to pay up the remaining unpaid registered capital of Vtrek (China) on or before 21 March 2005 in the event Vtrek (HK) does not obtain the approval for the reduction in the amount of registered capital of Vtrek (China) from the China authorities and/or has inadequate funds to pay the remaining unpaid registered capital of Vtrek (China). Fotronics shall repay in full or in part the Advance interest free on demand after one (1) year from the date of disbursement.

Notwithstanding the above, the impact on gearing on the Fotronics Group from the proposed abovementioned external borrowings is minimal.

4.19 FOREIGN EXCHANGE RISK

A large portion of the Fotronics Group's existing revenue is denominated in USD. On the other hand, the Group's cost of raw materials is also mainly denominated in USD. As a large portion of the Group's revenue and cost is denominated in the same currency, the impact of foreign exchange rate fluctuations to the Group is limited. In addition, as the RM is currently pegged to the USD at RM3.80 to USD1.00, any risk arising from foreign exchange risk fluctuations is minimised.

While the impositions of currency controls in 1998 and the pegging of the RM to the USD at an exchange rate of RM3.80 to USD1.00 has, to a certain extent, reduced the risks related to foreign currency fluctuations, there is no assurance that the currency controls will remain or that the adjustments to the pegging of the RM to USD will not adversely affect the Fotronics Group.

4.20 FOREIGN OPERATIONS

Presently, the foreign operations of the Fotronics Group are located in Singapore, Hong Kong and China. Accordingly, like any other foreign investments, the investment of Fotronics in MPC, Vtrek (HK) and Vtrek (China) will be subject to the policies of the Singapore, Hong Kong and China governments on foreign investment respectively. In addition, the ability of Fotronics' foreign subsidiary companies to repatriate the profits arising from Fotronics' investment abroad will largely depend on the relevant legislation relating to the repatriation of profits prevailing at the point of repatriation. There can be no assurance that any change in the policies of the Singapore, Hong Kong or China governments with respect to foreign investment and repatriation of profits will not materially and adversely affect the rights and/or performance of Fotronics with respect to its investments abroad. The experts' reports on the host country pertaining to policies on foreign investments and repatriation of profits as well as the expected time-frame in which profits are to be repatriated to Malaysia are set out in Section 16 of this Prospectus.

4. RISK FACTORS (cont'd)

4.21 INSURANCE RISKS

At present, the Directors believe that the Fotronics Group is adequately insured against unforeseen events such as fire and lightning, malicious damage, theft and burglary. Although the Fotronics Group has taken the necessary measures to ensure that its assets are adequately covered by insurance, there can be no assurance that the insurance would be adequate for the replacement cost of all assets of the Fotronics Group.

4.22 PROFIT ESTIMATE

The Prospectus contains the consolidated profit estimate of Fotronics that are based on assumptions which the Directors deem to be reasonable, but which nevertheless are subject to uncertainties and are contingent in nature. Due to inherent uncertainties of the consolidated profit estimate and as events and circumstances frequently do not occur as expected, there can be no assurance that the consolidated profit estimate contained herein will be realised and actual results may be materially different from the estimate. Investors will be deemed to have read and understood the assumptions and uncertainties underlying the consolidated profit estimate that are contained herein.

Investors are advised to read carefully the assumptions made in this Prospectus of the consolidated profit estimate as set out in Section 11.3.1 of this Prospectus.

4.23 DISCLOSURE OF FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results and any statements which are forward-looking in nature are subject to uncertainties and contingencies. All forward-looking statements are based on forecasts and assumptions made by the Fotronics Group, and although believed to be reasonable, are subject to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include, inter alia, the general economic and business conditions, competition and the impact of new laws and regulations affecting the Group. In light of these risks and other uncertainties, the inclusion of any forward-looking statements in this Prospectus should not imply that the plans and objectives of the Group will be fully implemented and satisfied.

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