13. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

FRONTKEN CORPORATION BERHAD Co Reg No.651020-T

Suite 1603, 16th Floor, Wisma Lim Foo Yong, 86, Jalan Raja Chulan, 50200 Kuala Lumpur
Telephone : (603) 2732-1377 * Facsimile : (603) 2732-0338 * E-mail :fcb@frontken.com * Website : www.frontken.com

Registered Office:

Suite 1603, 16th Floor
Wisma Lim Foo Yong
86 Jalan Raja Chulan
50200 Kuala Lumpur

19 June 2006

The Shareholders of Frontken Corporation Berhad

Dear Sir / Madam,

On behalf of the Board of Frontken Corporation Berhad ("Company"), I report after due inquiry that during the period from 31 December 2005, being a date to which the last audited consolidated financial statements of the Company have been made up to 19 June 2006, being a date not earlier than fourteen (14) days before the issue of this Prospectus that:

(a) the business of the Company and its subsidiaries has, in the opinion of the Directors, been satisfactorily maintained;

(b) in the opinion of the Directors, no circumstances have arisen since the last audited consolidated financial statements of the Company which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;

(c) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;

(e) there have been, since the last audited consolidated financial statements of the Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and

(f) since the last audited consolidated financial statements of the Company, save as disclosed in the Proforma Consolidated Balance Sheets and the Accountants' Report as set out in Sections 10.8 and 11 of this Prospectus respectively, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group.

Yours faithfully
for and on behalf of the Board of Directors
FRONTKEN CORPORATION BERHAD

WONG HUA CHOON
Executive Chairman / Managing Director

14. SUMMARY OF BUSINESS DEVELOPMENT PLAN

BUSINESS OBJECTIVES

The FCB Group is a premier group of companies in South East Asia that specialises in surface metamorphosis technology using thermal spray coating processes and a series of complementary processes. The Group performs R&D in surface metamorphosis technology to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes through the control of the microstructure and advance surface properties. The applications include minimising corrosion, reducing frictional energy losses, reducing wear, acting as a diffusion barrier, providing thermal insulation, excluding certain wavelengths of radiation, promoting radiation electronic interactions, providing electrical insulation or simply to improve the aesthetic appearance of the surface.

The Group aims to transform itself into a global surface metamorphosis technology company by providing cost-effective surface metamorphosis technology and engineering solutions. The Group's surface metamorphosis technology together with its core thermal spray and complementary processes are important technologies that modify the surfaces of materials so as to create materials with improved performance and unique properties, which have great potential to increase the efficiency of many processes and reduce the costs of operating and maintaining equipment.

KEY BUSINESS STRATEGIES AND PLANS

I. Product Development Plan

One of the Group's business objectives is to provide reliable advanced materials and surface metamorphosis engineering solutions that will enable its customers to bring their products and/or mission critical applications to the market faster, more efficiently and at a lower cost.

As part of its product development plan to broaden its product offerings and cater to more industries, the Group plans to introduce the following products/services over the next three (3) years: -

(1) Selective nickel coating process

Electroless nickel plating is an autocatalytic process and does not use externally applied electric current to produce the deposit. The electroless process deposits a uniform coating of metal, regardless of the shape of the part or its surface irregularities, and therefore, it overcomes one of the major drawbacks of electroplating – the variation in plating thickness that arises from the variation in current density caused by the geometry of the plated part and its relationship to the plating anode. An electroless plating solution produces a deposit wherever it contacts a properly prepared surface, without the need for conforming anodes and complicated fixturing. Electroplated nickel coatings are widely used in industries to improve the surface finish, hardness and wear resistance of metallic surfaces. Fields of application includes connectors and associated hardware for the automotive, electrical, construction, defence, household appliances, information technology and telecommunications industries, semiconductor and electronic component industry.

(2) Anodising for semiconductor

Anodising is a process to produce an oxide film or coating on metals and alloys by electrolysis. Anodisation can improve certain surface properties, such as corrosion resistance, abrasion resistance, hardness, appearance, etc. One metal very often anodised is aluminium and since the surface film is porous, the aluminium can even be coloured by the application of pigments or dies in the pores.

14. SUMMARY OF BUSINESS DEVELOPMENT PLAN *(Cont'd)*

(3) ***Vacuum Plasma Spray (VPS) or Low pressure plasma spray (LPPS)***

This low-pressure plasma spraying (LPPS) process is often known as the vacuum plasma spraying (VPS) process, because it is a conventional plasma spraying process enclosed in a vacuum tank. To avoid oxidation of the feed material, spraying is carried out in an inert gas atmosphere, at a reduced pressure. Of greater importance is the ability of VPS to process oxygen sensitive material, such as reactive metals and intermetallic compounds. For example, considerable work has been carried out on the VPS processing of nickel aluminides and molybdenum disilicide, which have potential uses in the aerospace industry. It was demonstrated that the VPS process was capable of producing dense, freestanding forms, which showed impressive mechanical properties. The deposits were ultra-fine grained and illustrated the capability of VPS in the manufacturing of rapidly solidified intermetallics. There is a clear important potential for VPS in the processing of intermetallics as both protective coatings and as freestanding forms.

II. Marketing Plan

The Group intends to grow its surface metamorphosis technology businesses by expanding its presence and representation in existing markets and also venturing into new markets and industry segments.

There are plans to expand the number of sales and marketing staff in Singapore and Malaysia by 13 over the next two (2) years via the recruitment of sales engineers in the power, semiconductor, oil and gas and petrochemical industries.

Apart from the employment of permanent sales and marketing staff, the Group also has working relationships with marketing agents in countries where the Group does not have any facilities or office. The Group currently has marketing agents in Indonesia, Pakistan, Thailand, Nigeria and Myanmar. The Group also plans to appoint representatives/agents in countries where it has no physical presence. Over the next two (2) years, the Group plans to set up offices in Vietnam, Indonesia, China and the Middle East.

In order to increase its market visibility and presence, the Group will continue to organise roadshows and participate in expositions to showcase its services and coating solutions to existing and potential customers.

III. R&D Plan

The Group believes that R&D plays a pivotal role in the driving the growth of its business. It ensures that the Group keeps abreast of the latest technological advancements, changes in customer demands and industry developments. It also helps to ensure that the Group's products and services remain relevant and competitive in the market place. Hence, the Group's R&D initiatives will continue to focus on process improvements and new product developments to improve productivity and produce surface engineering solutions that are reliable, productive, cost effective and would lengthen the useful life of the customers' equipment and machinery.

The Group has outlined a number of process improvement and product development initiatives over the next three years, which are expected, among other things, to result in improved quality and adhesion of particles on the thermal coated surface leading to longer surface life, expansion of services offered by the Group to its existing customer base in the Power Generation and Semiconductor industries as well as new customers in the marine and aerospace industries.

14. SUMMARY OF BUSINESS DEVELOPMENT PLAN *(Cont'd)*

In essence, the FCB Group's on-going and future R&D projects are targeted at the following objectives:

(a) To enable the Group to expand industrial applications, based on the new technology to address real market needs and consequently to adopt it as part of the Group's industrial technology platforms.

(b) To brand the Group as an advanced technology company by disseminating the technical know-how resulting from the R&D program through publications, seminars, training, workshop and conferences.

(c) To establish the Group as a centre of research excellence with partners from different industrial/service sectors to exchange experience on the advanced precision cleaning and surface metamorphosis technology.

(d) To build the Group's technology network with suppliers, partners and customers in order to identify new business opportunities for the advanced precision cleaning and surface metamorphosis technology within a wide audience of the industries.

Technology/Knowledge Transfer Plan to Malaysia

The FCB Group plans to expand its R&D activities in Malaysia, which includes working closely with overseas technology partners, equipment manufacturers as well as the customers. The Group also intends to make Malaysia the hub for its regional activities and expansion. The rationale behind making Malaysia the hub for the Group's regional expansion and R&D includes the following:

(i) Potential of Malaysian market for the Group's services;
(ii) Conducive business environment; and
(iii) Incentives for R&D activities in Malaysia.

IV. Human Resource Plan

In line with the Group's expansion plans the Company plans to recruit employees at all levels of the organisation. The Group places great emphasis on developing "knowledge workers" to ensure that services and solutions provided are of impeccable quality and standard. To achieve this, the Group will continue its training and development programmes for employees. The FCB Group's staff are sent for training and development courses which are conducted both internally and by external parties to ensure that they are adequately trained to carry our their respective duties and responsibilities.

The FCB Group intends to strengthen its technical staff force over the coming years to further strengthen its R&D capabilities.

14. SUMMARY OF BUSINESS DEVELOPMENT PLAN *(Cont'd)*

DIRECTORS' OUTLOOK

The Directors of the FCB Group believe that the thermal spray industry is still at its early development stage in this region. Hence, the future growth of the industry will be spurred by continuous education and promotion to raise awareness among prospective customers of the benefits and versatility of thermal spray, and development of new applications.

There is tremendous opportunity for the Group to expand horizontally by moving up the technology ladder in order to better serve high-technology industrial fields such as the power industry. For instance, the Group has recently teamed up with OTS of Germany to expand its scope to include repair of more complex power components e.g. gas turbine blades. This tie-up paves the way for the Group to secure more jobs from Siemens and possibly from other end users.

Given the Group's engineering capability and track record in developing new technology through technical collaboration or partnership with global specialists, there is a lot of potential for the Company to leverage off its existing businesses and customer relationships to expand into other high value complementary services. For instance, the Group intends to expand into mechanical seal repair and servicing to complement its existing pump component repair activities for the marine, oil & gas and petrochemical industries. In doing so, the Group would be able to provide one-stop industrial pump repair services to its customers.

In the semiconductor sector, the Group plans to set up selective nickel plating and anodising facilities to complement its precision cleaning business. The move will enable the Group to tap on the huge OEM market.

The potential of the surface metamorphosis technology using thermal spray process and a series of complementary processes industry in Southeast Asia bodes well for the Group. As a leading advanced material and surface metamorphosis technology solution provider in Southeast Asia, coupled with the Group's strong R&D capabilities, technical tie-up with established players in their field, technical know-how, growing distribution network and customer-oriented services, the FCB Group is poised to take advantage of the potential growth in new and existing applications of thermal spray coatings.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in this Prospectus)

Lynck Capital Associates Sdn Bhd
(Company no: 625153-V)
Suite 1603, 16th Floor, Wisma Lim Foo Yong
86 Jalan Raja Chulan, 50200 Kuala Lumpur
Tel: 03-2144 5022 Fax: 03-2144 7011 E-mail: khootk@lynck.com

Date: 16 June 2006

The Board of Directors
Frontken Corporation Berhad
Suite 1603, 16th Floor
Wisma Lim Foo Yong
86 Jalan Raja Chulan
50200 Kuala Lumpur

Re: Independent Market Research Report on Thermal Spray Coating and Precision Cleaning Industries

This Executive Summary Report is prepared for the inclusion in the Prospectus of Frontken Corporation Berhad to be dated 22 June 2006 in relation to its listing on the Mesdaq Market of Bursa Malaysia Securities Berhad.

This report has been prepared with the intention to provide an overview of the Thermal Spray Coating market and the Precision Cleaning market for the Semiconductor industry in Southeast Asia, in particular Singapore and Malaysia. The Thermal Spray Coating market is part of the larger surface metamorphosis industry, while Precision Cleaning is a complementary process that supports the surface metamorphosis industry. The report also included estimates on market size and discussions on the prospects of these two industries.

Lynck Capital Associates Sdn Bhd had conducted the research as an independent party, basing primarily on publicly available information, interviews with end users and economic trends at the point in time when the report was prepared to indicate the future direction of the industries.

Yours faithfully
For and on behalf of
LYNCK CAPITAL ASSOCIATES SDN BHD

KHOO TENG KEAT
Director

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Section 1: Industry Overview

1.1 Surface Metamorphosis

1.1.1 Surface Metamorphosis Technology Overview

Surface metamorphosis encompasses all processes that change the surface properties either metallurgically, mechanically, chemically or by adding a layer of coating, aimed at improving the component's productivity, economic useful life, overall equipment effectiveness and/or aesthetic appearance. This in turn lowers production cost and the overall cost of ownership of the equipment. Thermal spray coating (TSC) is one of these processes for treating surfaces of engineering components.

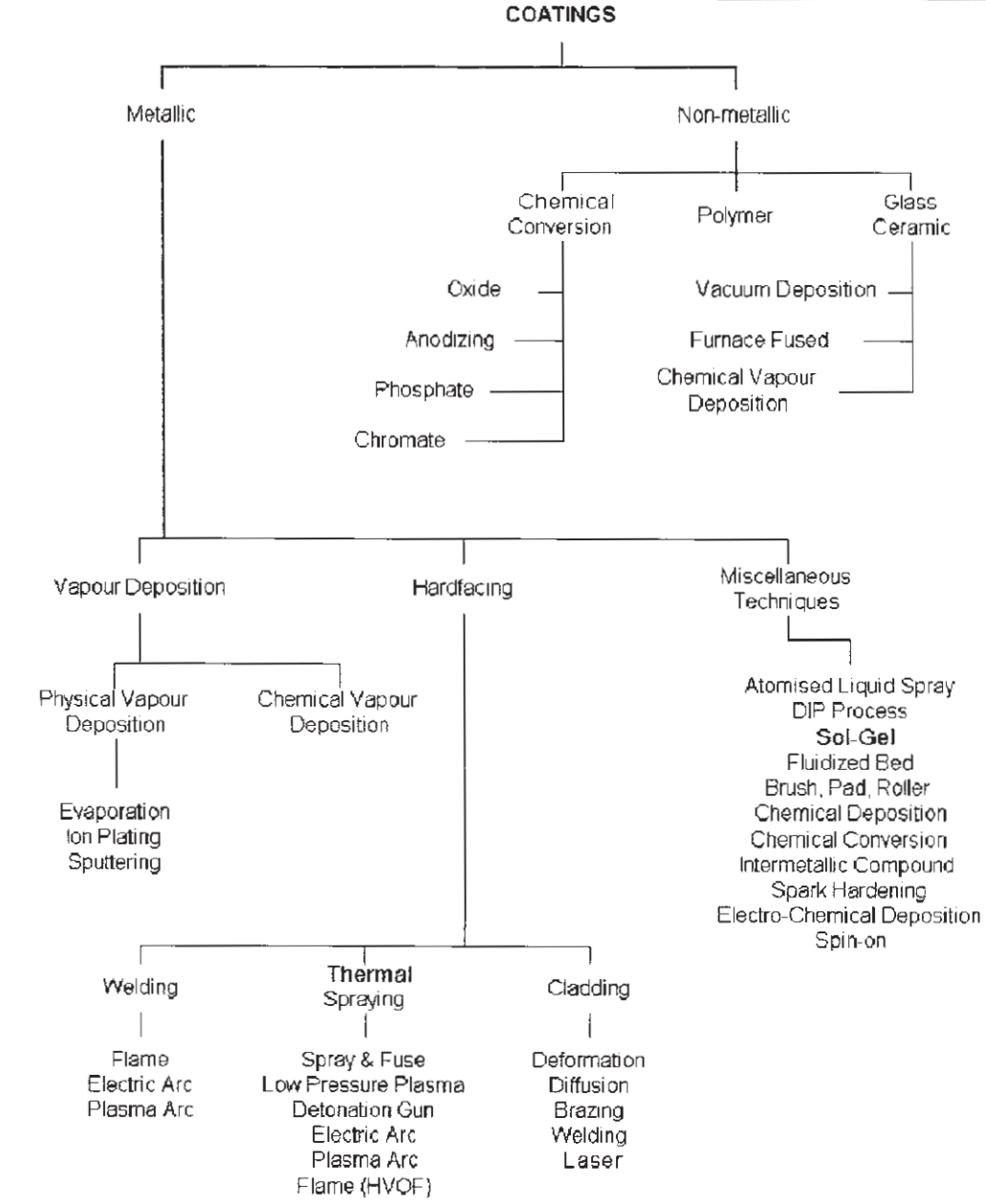
Improving the characteristics of surfaces is the current trend for solving today's many engineering problems, such as wear, corrosion, conductivity and thermal shock. These problems usually take place at the surface and the near-surface. Hence, it makes economic sense to focus research and development efforts on enhancing the properties of the surface, rather than to concentrate on developing new bulk materials. In order to enhance the surface characteristics, the surface of these components may require treatment. The purpose may be to minimize corrosion, reduce frictional energy loss, reduce wear, act as a diffusion barrier, provide thermal insulation, exclude certain wavelengths of radiation, promote radiation electronic interactions or simply improve the aesthetic appearance of the surface. The diagram in Figure 1 shows the different types of surface metamorphosis techniques, including thermal spray coating.

Wear resistant surfaces require certain material properties, and these properties can be obtained by a variety of techniques. Sometimes a surface coating is the best way to get the desired surface properties; sometimes it is best to use hardened steel; sometimes diffusion hardening treatment is the best choice. In summary, hard-facing processes are very competitive in wear resistance and the choice of right material and method really depends on the particular application.

Once the wear and corrosion mechanisms and the surface properties needed to resist those mechanisms have been established, the other factors to consider before selecting a suitable coating process include costs, environmental impact and component geometry.

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Figure 1: Surface Metamorphosis Techniques



Source: Coating deposition technologies, adapted from Bhushan and Gupta, (1991)

1.1.2 Definition of thermal spray coating

A thermal spray coating is a coating produced by a process in which molten or semi-molten particles, usually within the size range of five to 200 microns, are applied by impact onto a substrate. All thermal spraying processes rely on the same principle of heating a feedstock (powder, wire or rod) and accelerating it to a high velocity and then allowing the particles to strike the substrate. The particles will then deform and freeze onto the substrate. The coating is formed when millions of particles are deposited on top of each other.

The benefits of thermal spray coating can be summarized as follows:

- Comprehensive choice of coating materials: metals, alloys, ceramics, cermets and carbides.
- Thick coatings can be applied at high deposition rates.
- Coatings are mechanically bonded to the substrate – can often spray coat materials that are metallurgically incompatible with the substrate.
- Components can be sprayed with little or no pre- or post-heat treatment, and component distortion is minimal.
- Parts can be rebuilt quickly and at low cost, and usually at a fraction of the price of replacement.
- By using a premium material for the thermal spray coating, coated components can outlive new parts.
- Thermal spray coatings may be applied both manually and automatically via the use of robotic arm.

There are essentially three components to the thermal spray coating technology: 1) the spray equipment/process; 2) the coating material; and 3) the technical knowledge and know-how in optimizing the most appropriate mix of spray equipment/process and coating materials that best meet the specific needs of end-customers.

R&D for the first two components is mainly undertaken by global OEMs such as Sulzer Metco and Praxair, and private and government-sponsored research institutions. Companies such as Tocalo and FCB, on the other hand, possess the technical know-how in optimizing these processes and coating materials.

Table 1 below provides a summary of thermal spray coating applications according to industry served.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Table 1: Thermal Spray Coating Application by Industries Served

INDUSTRY	WEAR							Clearance Control				Electrical	
	Abrasive	Adhesive	Fretting	Erosion	Cavitation	Impact	TBC	Abradable	Abrasive	Restoration	Corross-Oxidat	Resistance	Conduct
Aero gas turbine	X	X	X	X			X	X	X	X	X		
Stationary gas turbine	X	X	X	X			X	X	X	X	X		
Hydro-steam turbine	X	X	X	X	X					X	X		
Automotive engines	X	X		X		X	X	X	X	X	X	X	
Diesel engines	X	X		X		X	X			X	X		
Transportation non-engine	X	X					X			X	X	X	
Agriculture implementations	X			X		X				X			
Railroad	X	X				X				X	X		X
Iron and steel manufacture	X			X		X				X	X		
Steel rolling mills	X	X				X				X	X		
Iron and steel casting	X			X		X				X	X		
Forging	X	X				X				X	X		
Copper and brass mills	X									X	X		
Ship and boat manufacture/repair	X			X						X	X		
Oil and gas exploration	X	X		X		X				X	X		
Mining, construction and dredging	X			X	X	X				X	X		
Rock products	X					X				X	X		
Screening	X					X				X	X		
Cement and structural clay	X					X				X	X		
Chemical processing	X			X						X	X		
Rubber and plastic manufacture	X			X		X				X	X		
Textile	X									X			
Food processing	X									X			
Electrical utilities	X	X		X	X	X				X	X		
Pulp and paper	X				X	X				X	X		
Printing equipment	X	X								X			
Defense and aerospace	X	X	X	X	X	X	X			X			
Nuclear											X		
Medical	X		X								X		
Business equipment	X	X	X										
Electrical and electronic													
Architectural	X					X							
Glass Manufacture	X	X								X	X		

Thermal spray coating applications according to industry served

Source: International Thermal Spray Association, www.spray-itsa.com

1.1.4 Thermal spray coating process:

There are three basic steps in the thermal spray coating process:

Step 1: Cleaning and Surface Preparation. Before a part/component can be coated, its surface needs to be cleaned to remove contamination, including surface rust and scale (normally removed through machining). After cleaning, the surface is "activated" or roughened via grit blasting to increase the bonding strength between the coating material and substrate.

Step 2: Coating. There are four main thermal spray technologies that are commonly used in today's industrial applications. They are Flame Spray, Electric Arc Spray, Plasma Spray and High Velocity Oxy-Fuel (HVOF) Spray. Each of these technologies yields different coating characteristic, as summarized in Table 2.

Table 2: Coating Characteristics

Process	Particle Velocity (m/s)	Adhesion (MPa)	Oxide Content (%)	Porosity (%)	Deposition Rate (kg/hr)	Typical Deposit Thickness (mm)
Flame	40	<8	10–15	10–15	1–10	0.2–10
Arc	100	10–30	10–20	5–10	6–60	0.2–10
Plasma	200–300	20–70	1–3	1–8	1–5	0.2–2
HVOF	600–800	>70	1–2	1–2	1–5	0.2–2

Source: Air Products and Chemical Inc. website

Step 3: Finishing polish, inspection and quality assessment. Finally the coatings are inspected and assessed for quality by either mechanical or microstructural evaluation.

1.2 Precision Cleaning – A complementary process

1.2.1 Cleaning Technology Overview

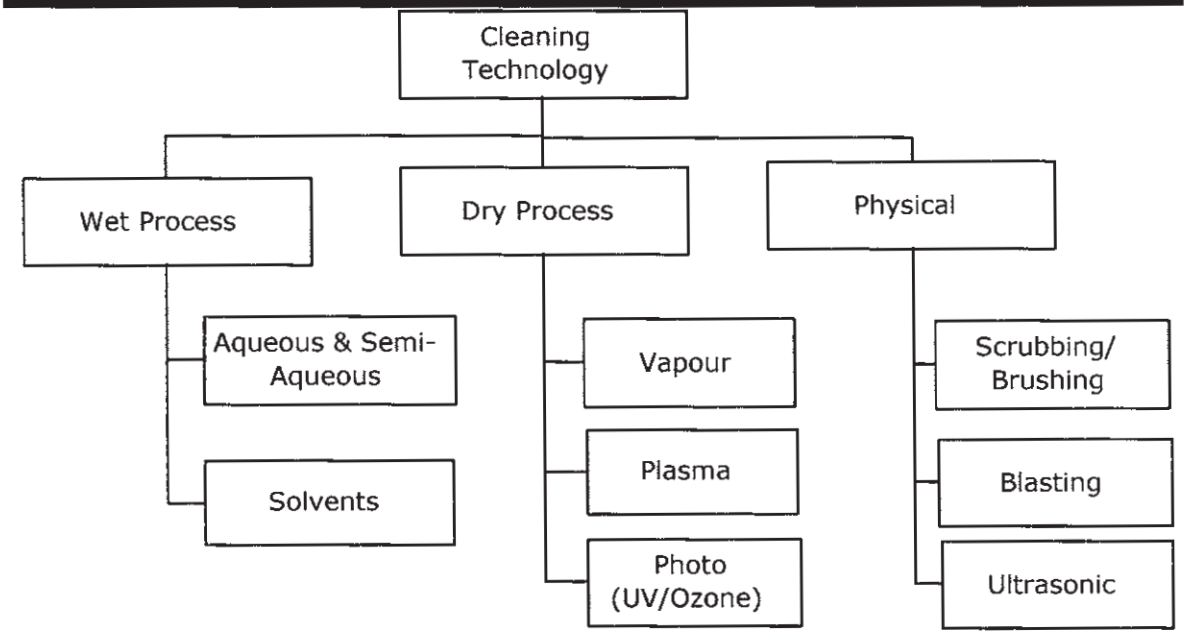
The common factor in all cleaning technologies is that they involve the removal of substances that have a negative impact on the objects or spatial environments. For a long time in industrial production, the cleaning of components or products was regarded simply as a cost factor that would have to be dealt with at some stage. A fundamental change in this attitude is evident today.

The manufacture of microelectronics, micro-optical and micromechanical systems entails particular problems where cleanness is concerned. Even nano-scale layers of dirt or particles can have a detrimental effect on the functioning of a product and render it worthless. In micro-production, therefore, special efforts have to be made to ensure cleanness.

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Cleaning processes can be classified into wet, dry and physical processes, as illustrated in Figure 2.

Figure 2: Cleaning Technology



Source: Lynck

1.2.2 Definition of precision cleaning

Precision cleaning means cleaning to very exacting standards, with a very low tolerance for left over particles or other contaminants (particle size less than 0.3 micron). Parts requiring the most stringent cleanliness criteria are cleaned in environmentally controlled clean rooms. In many critical applications commonly found in high tech industries such as semiconductor, flat panel display (FPD), hard disk drive (HDD), aerospace and medical, precision cleaning is a prerequisite for newly manufactured parts prior to assembly, and for routine services and maintenance of manufacturing devices.

There are many precision cleaning systems available in the market today. The key factors influencing the choice of cleaning system are the level of cleanliness required, the type and thickness of contamination, and the base material (i.e. the substrate) and geometry of the component.

Section 2: Industry Structure

2.1 Thermal Spray Coating Industry Structure

Demand for thermal spray coating services globally and in this region is principally driven by the pursuit to achieve a desired functionality for the equipment/component and high replacement costs. Consequently, the thermal spray coating (TSC) market can be broadly divided into two major segments – the original equipment manufacturer (OEM) market ("primary" market) and the service and repair market ("secondary" market).

The primary market involves OEM collaborating with TSC specialists and/or research institutions to develop new and improved surface engineering solutions against material degradation of the component surface. Successful development of proprietary advance surface properties often accords OEM designers and manufacturers an added competitive advantage to stay ahead in the industry.

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

The service and repair market involves reclaiming used components as a result of material degradation processes such as wear and corrosion. The aim is either to bring the component back to its original state or to enhance the component's useful life, performance and/or productivity to levels beyond that of new components.

The Southeast Asia market

Although TSC applications have been around for decades and have found a position in a broad spectrum of global industries, the regional TSC market within Southeast Asia remains relatively under-developed and the number of players is small. We list below some of the key factors that have inhibited growth in the TSC industry in this region.

- There are very few high-tech OEMs in the region to provide the required thrust in TSC R&D. However, there is an increasing trend where high-tech OEMs are gradually relocating a portion of their manufacturing activities to this region or outsourcing some of the component fabrication jobs to local companies. We expect these trends, if sustained, to bode well for the development of TSC industry in Southeast Asia.

- Due to the lack of marketing and promotion, many prospective customers are unaware of the benefits and advantages of TSC, especially with the advent of new, more high-tech technologies, namely the HVOF system.

- End-users of imported high-tech equipment are often bound by warranty covenants and/or service contracts to send components back to OEMs or their approved vendors for servicing, repair and refurbishment. This has to some extent discouraged investments in the local TSC industry. It is however a boon to existing players such as FCB who is increasingly being recognized by OEMs as a reliable and quality supplier of TSC and complementary services.

- Barriers to entry are high. TSC requires significant investments in thermal spray systems, knowledge and human capital. At present, the relatively small market size is a deterrent for prospective new entrants. Moreover, the market is highly fragmented in that its applications are spread over a number of industries. Given TSC requires specific industry knowledge, it may not be easy for a TSC service provider to expand horizontally across multiple industries. In many instances, these factors make new investments in TSC commercially not viable.

- While the general outsourcing trend holds true in the TSC industry, it has not yet significantly materialized in this region primarily because local players generally lack track record and most could not meet the stringent quality requirements imposed by the OEMs. On the other hand, local players may not be prepared to commit huge investments without getting a reasonable assurance that there would be adequate business flows from the OEMs.

Among some of the existing players in this region, TSC merely constitutes an extension to or integral part of their core business activities. For instance, GE-Keppel Energy Services' (GKES) is in the business of repair and overhaul of power generation equipment. Its thermal spray facility is solely to support the company's principal activity and is not intended to be a separate business unit or profit centre. These companies are equipped with thermal spray facilities, but the applications are specific to the needs of their respective industry.

Another group of TSC players are the anti-corrosion specialists. These companies are in the business of providing anti-corrosion solutions to industrial processes, and TSC is one of the services they offer. Interestingly, there are not many anti-corrosion companies that offer TSC services. Among those who do are FCB, See Hup Seng, Plasma Precision and CRC Engineering. We believe this could be due to the fact that TSC involves a relatively large capital outlay (thermal spray systems can be quite expensive) and investment in knowledge and human capital (skilled labor, engineers, researchers).

There are no major foreign independent TSC service providers operating in this region. We believe this is mainly because the existing size of the TSC market is still too small and fragmented to warrant the setting up of separate operations here in this region. FCB has overcome this issue by diversifying its customer base to include several major industries – power, oil & gas, petrochemical and electronics/semiconductor.

2.2 Precision Cleaning Industry Structure

Like the thermal spray coating market, the precision cleaning market can be broadly divided into two major segments – the original equipment manufacturer (OEM) market ("primary" market) and the service and repair market ("secondary" market).

The primary market involves cleaning of newly fabricated components of high-tech devices, before they are assembled and packaged for delivery to end customers. This segment of the market is typically undertaken by the OEMs or their approved contract manufacturers themselves. The secondary market comprises regular cleaning requirement of manufacturing devices as a result of contamination from the manufacturing process, and cleaning of damaged components prior to and after repair (including coating).

Most semiconductor and high-end electronics manufacturing companies would have at least some in-house precision cleaning capabilities. However, many of these companies have opted to outsource some or most of their cleaning requirements to third party service providers such as FCB in order to focus on the core product development and manufacturing activities.

The Southeast Asia market

Precision cleaning services industry in Southeast Asia is similar to those in developed countries. The players comprise equipment manufacturers (e.g. UMS Semiconductor), semiconductor/electronics manufacturers (e.g. wafer fabs) and third party independent precision cleaning service providers (e.g. FCB).

In this region, there are only three major independent service providers, and they are FCB, Metron Singapore and UMS Semiconductor.

Section 3: Market Size of Thermal Spray Coating and Precision Cleaning

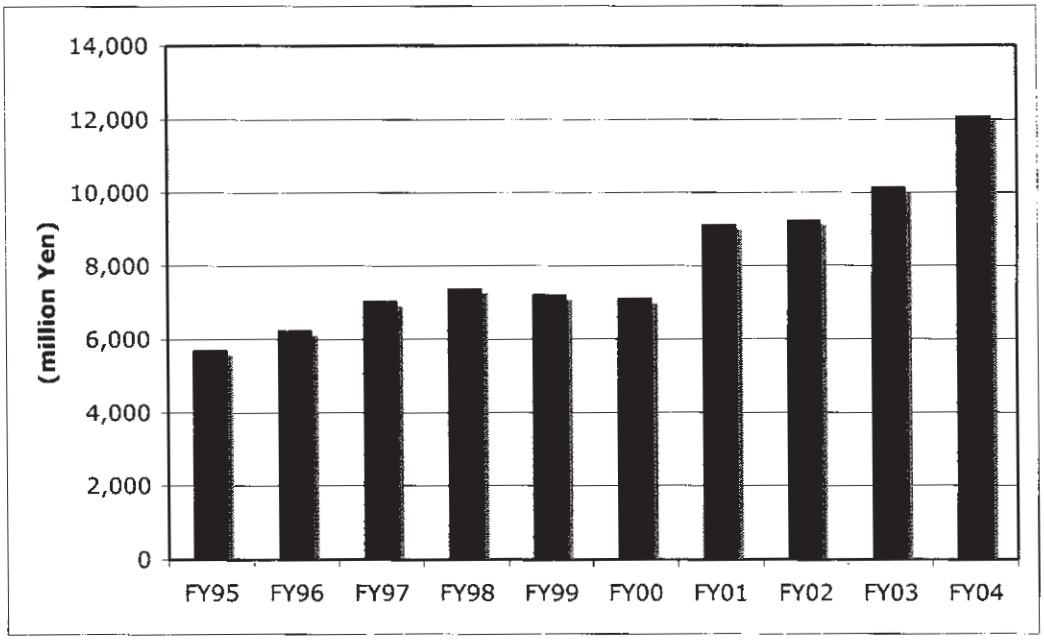
3.1 Market Size of Thermal Spray Coating (TSC)

3.1.1 Overall market assessment

The global TSC market reached US$5.6 billion in 2004 *(Source: Sulzer Metco)*, compared to US$2.7 billion in 1996, US$3.5 billion in 2000 and US$5.0 billion in 2003 *(Source: May 2004 International Thermal Spray Conference & Exposition in Osaka, Japan)*. This translates into an average compound annual growth rate of 9.5% in 1996-2004, both years inclusive. The industry is further projected to grow by 5-6% CAGR in 2005 to 2007 *(Source: Sulzer Metco)*.

Closer to home, Japan's TSC market size is estimated at US$830 million in 2003 (source: May 2004 ITSC). We estimate Tocalo Co. Ltd ("Tocalo"), the world's largest independent TSC service provider (excluding equipment and coating material sales), has about 33% of the contract job market (US$336 million out of US$830 million) and about 13.6% of the overall TSC market in Japan, which includes the OEM market. Figure 3 shows the 11-year revenue track record of Tocalo, which we believe gives an indication of the historical growth trend. In FY95-05, Tocalo's TSC revenue grew by an average compound rate of 10.6% p.a..

Figure 3: Tocalo Co., Ltd TSC Turnover (Year-Ended 31 March)



Source: Tocalo Co., Ltd

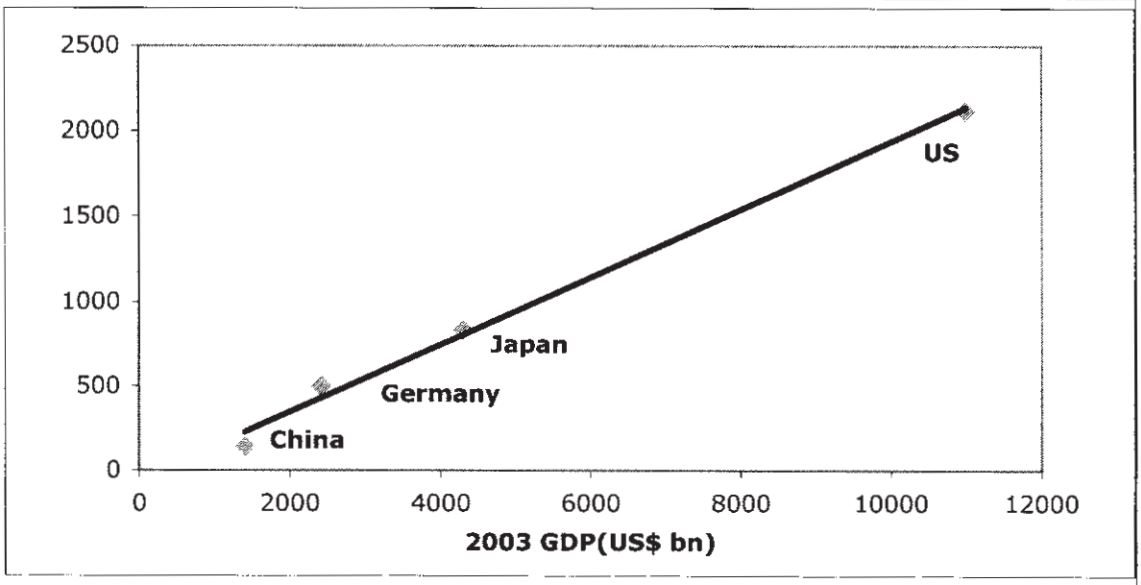
15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Southeast Asia

There are no published data on the market size of the thermal spray coating industry in Southeast Asia. And it is difficult to estimate and track the market size in this region principally because it is difficult to extract the commercial value of TSC services from the overall engineering component repair and/or refurbishment process. This is particularly true in situations where the repair work is undertaken either in-house or by a third party engineering firm where TSC is provided as an ancillary service. Additionally, the TSC industry in this region is still at its early development stage, and has not yet grown to a size that justifies a comprehensive market study.

However, there is a reasonably strong correlation between TSC output and GDP output, as demonstrated in Figure 4. Using this correlation, **we estimate the TSC market in Southeast Asia is worth RM335.4 million.** As the region becomes more industrialized, we expect the TSC/GDP output ratio to gradually move towards the level of developed nations. **Note the above estimates relate only to TSC services and exclude the value of complementary processes such as welding, fabrication, metal finishing and precision cleaning.** For example, we estimate the repair and restoration market for the power industry alone in Southeast Asia to be RM262 million.

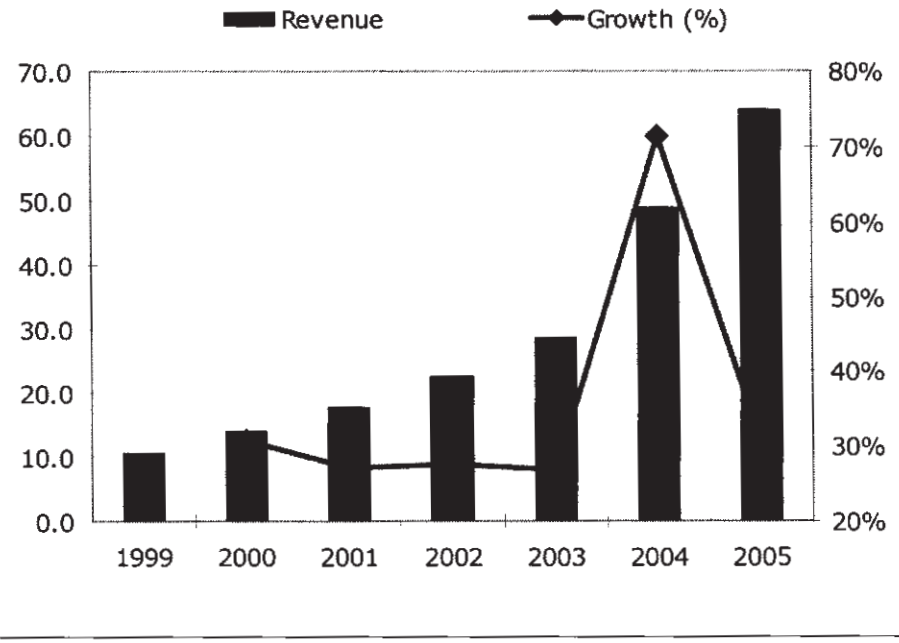
Figure 4: Correlation between TSC and GDP output 2003



Source: Research paper presented during the May 2004 International Thermal Spray Conference in Osaka, Japan by Huang Xiaoou and Lu Yufen from China Surface Engineering Association; IMF; Lynck

Figure 5 shows revenue trend of the FCB Group; revenue expanded by an average compound annual rate of 35% in 1999-2005. While this may not entirely represent the industry growth trend, we believe it is a good proxy given FCB's leading market position and the relatively small size of its closest competitors.

Figure 5: Revenue FCB TSC (1999-2005)



Source: FCB

3.1.2 Industry specific assessment

Power industry

TSC is widely used in the repair and refurbishment of power generating equipment, especially components of gas turbines, and to a lesser extent, steam turbines. According to Alstom, the global power service sector, which includes field services, parts supply, replacements, operation support, **repair and restoration**, troubleshooting and technical services, is worth about Euro44 billion. Out of this total, about Euro23 billion is outsourced to independent service providers such as the Wood Group (UK), while the balance of the services is supplied by OEMs such as General Electric (US), Siemens (Germany) and Alstom (France) and power generation companies such as Npower One (UK) and Energy East (US). We estimate the share of Southeast Asia power service market based on the region's share of installed power generating capacity is Euro1.3 billion or RM6.11 billion.

The segment under focus, repair and restoration, is a subset of the total power service outlay. Unfortunately, there is no separate disclosure on the size of the repair and restoration market globally and in this region.

However, based on the published data of GE Keppel Energy Services (GKES), we estimate the repair and restoration market in Southeast Asia to be worth S$119 million or RM262 million. GKES is a joint venture between General Electric Company (GE) and Keppel Corporation primarily to provide engineering repair and restoration work for GE's turbines and other power equipment in Asia.

Oil & Gas and Petrochemical industries

Historically, TSC applications in the oil & gas and petrochemical industries are limited mainly to coating of **rotating equipment** such as pumps, industrial steam and gas turbines, compressors and blowers and fans. However in recent years, TSC has been increasingly accepted and recognized as a viable alternative coating technology for **static equipment** as well. These include condensers, reactors, hydro crackers, big structures; pressure vessels, spool systems and heat exchangers. **The business potential from static equipment is significantly greater in volume and offers tremendous growth potential in the future.**

We estimate the historical market size of TSC in the oil & gas and petrochemical industries at RM19.9 million. This is done by adding up the relevant revenue of the major players in the market.

3.2 Market size of Precision Cleaning

As in TSC, there are no published statistics on the market size of precision cleaning in Singapore and Malaysia. We have used two methods to estimate its market size: the "installed capacity" method and the "revenue" method.

Installed Capacity Method

This method requires us to estimate the average amount a semiconductor wafer fabrication plant ("fab") spends annually per 10,000-wafer capacity on precision cleaning. We then used this to multiply the total installed capacity of wafer fabs to estimate the market size of precision cleaning in these two countries. Based on this method, we estimate the total market size of precision cleaning in Singapore and Malaysia to be RM82.8 million in 2003.

The above however excludes three new wafer fabs that started commercial production in 2004 and 2005. They are UMC (12-inch), Chartered Semiconductor Manufacturing (CSM) Fab VII (12-inch) and Hewlett Packard (6-inch). Assuming all these three plants reach their maximum monthly production capacity of 40,000, 30,000 and 20,000 wafers respectively, we estimate it would add another RM60.3 million to the precision cleaning market, bringing the total market size to RM143.1 million.

The key advantage of the "installed capacity" method of estimating the market size of precision cleaning is it captures both the value of precision cleaning done in-house and by independent service providers. The biggest drawback of this approach is it excludes the component of precision cleaning in media storage and flat panel display (FPD) industries. On our estimate, this would probably add another US$5-6 million (RM19.0 million - 22.8 million) to the precision cleaning market.

Revenue Method

Under this method, we estimate the market size by summing up the relevant revenue of the key players, namely Metron Technology, UMS Semiconductor and FCB. Based on their latest annual accounts, we estimate the market size was RM43.3 million in 2004.

The difference between the "installed capacity" method (RM82.8 million) and the "revenue" method (RM43.3 million) can be explained by two reasons. First, the latter excludes in-house cleaning services. Second, our "installed capacity" approach assumes a 100% capacity utilization rate throughout the year. In reality, utilization rate was below 100% in 2003/04. We reckon the actual market size would be somewhere in between the two methods.

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Section 4: Competitive Analysis

4.1 Thermal Spray Coating

4.1.1 Thermal spray coating competitive environment

The competitive environment of thermal spray coating varies depending on industry. Generally, the competitive space is more crowded in industries where customer demands are comparably less stringent. The marine industry is one such example. Most of today's marine applications are based on established thermal spray systems and commonly used coating materials. The level of skills and knowledge required to operate these processes are also lower.

Given the lower barriers to entry, the thermal spray coating market within the marine sector is relatively more fragmented, comprising a number of local players. The main participants in this arena are See Hup Seng, FCB, CRC Engineering and Plasma Precision.

In contrast, there is generally less competition in the high-tech industrial fields such as the aviation and power industries, where barriers to entry are substantially higher. Thermal spray coating applications in these sectors typically involve more advanced spray technologies and systems, which require specialized skills and know-how to operate. As a result, large multinational companies dominate this segment of the market such as Pratt & Whitney via its two Singapore-based subsidiaries Turbine Overhaul Services and Turbine Coating Services, which provide a full range of aero-engine repair and overhaul services to the regional aviation industry.

In the power sector, GE Keppel Energy Services Pte Ltd provides turbine repair and refurbishment services principally for GE's turbines installed within the region. FCB, which has a Maintenance Repair Overhaul (MRO) contract with Siemens Power, is the only other Singapore-based player in this segment, serving the Singapore, Malaysia, Thailand, Vietnam and the Philippines markets. In Malaysia, there are Sapura Power Services and TNB Repair And Maintenance (Remaco).

We believe the petrochemical and oil & gas industries would fall somewhere in between the marine and aviation/power industries. Based on the research conducted by Lynck, there are only four major players in this segment: FCB, CRC Engineering, Plasma Precision and MTQ engineering. We believe this is due to the fact that TSC applications in the oil & gas and petrochemical industries (for Southeast Asia) have not yet been fully developed and accepted as part of the repair methodology. Consequently, while the growth potential is good, the existing market size of TSC applications is small. Few engineering shops are prepared to venture into this area given the small size of the market, which could not justify the heavy investments in thermal spray systems (HVOF and Plasma systems), R&D and manpower.

4.1.2 Thermal spray coating competitive factors

We believe the most important competitive factors are: 1) the ability to develop and provide surface engineering solutions that meet specific customer needs; and, 2) having the right equipment, manpower and know-how to execute these solutions. This is particularly true for high-tech industrial field applications. Price, whilst important, is less of an issue in advanced thermal applications when compared to lower end thermal systems mainly because of the huge economic benefits derived and limited competition. Other factors considered important by customers include service and reputation.

Quality is key, given that choosing the wrong coating process and/or material can be extremely costly if they result in component/equipment damage or the lowering of component/equipment performance. Here lies the importance of R&D, engineering capabilities and end-user industry knowledge.

4.1.3 Thermal spray market share and positioning

Based on our estimated Singapore and Malaysia TSC market size of RM126.1 million, we estimate FCB's overall TSC market share to be about 29% in 2004.

FCB is a leading regional player in advanced materials and surface metamorphosis technology with thermal spray as its core. The group operates the largest thermal coating facility in the region with a comprehensive range of spray systems and complementary processes such as welding fabrication and metal finishing. FCB also performs R&D in advanced materials and surface engineering technology to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes. Many of the Group's R&D initiatives are directly related to materials performance in the operation and maintenance of industrial processes related to the oil & gas and petrochemical sectors.

Most of the TSC service providers in this region do not compete directly with FCB. For instance, GKES essentially provides repair and refurbishment services for the group's GE turbines. Plasma Precision, CRC Engineering and See Hup Seng are probably the closest competitors of FCB in that they offer TSC services for the oil & gas and petrochemical industries, albeit in a much smaller scale.

4.1.4 Thermal spray industry competitive analysis

Table 14: Industry Competitive Analysis For Thermal Spray

Barriers to entry	***High***	
Economies of scale	Medium to High	Thermal spray systems are fairly expensive, especially the higher-end HVOF and Plasma systems. The present small market size is a key deterrent for newcomers.
Product differentiation	Medium to High	TSC requires specialized knowledge when choosing an appropriate technology and right coating materials. Strong R&D and engineering capabilities are key to delivering quality service.
Brand identity	Low	End results are far more important than brand identity
Access to distribution channel	Low	There are no 3rd party distributors. TSC firms take charge of all sales & marketing functions themselves.
Capital requirements	Medium to High	Thermal spray systems are fairly expensive (especially the higher-end HVOF and Plasma systems. Moreover, these systems require specialized engineering skills and knowledge to operate.
Regulatory protection	None	The market is open to all, foreign and local.
Experience effect	Medium to High	Experience is important when dealing with difficult and complex wear problems.
Availability of substitutes	***Low***	
Availability of close substitutes	Low	TSC serves very specific customer needs. There are only very limited applications where other coating technologies can be considered as alternatives to thermal spray.
User's switching cost	Medium	Generally, it would not cost much to switch from one coating technology to another, provided the issue of suitability can be established. However, there are other qualitative considerations as well such as technical competence, reliability and quality of alternative service providers.
Substitute producer's profitability & aggressiveness	Low	In most instances, suitability of coating technology is more important, not so much about pricing.
Substitute's price value	Medium	Thermal spray tends to be more expensive than some of the other coating techniques such as spray painting and electroplating. However, this is compensated by its superior wear resistance properties. However, in most instances, suitability of coating technology is more important, not so much about pricing.

Rivalry among competitors	***Low to Medium***	
No. of equally balanced competitors	Low	FCB's competitors are niche players, focusing on few applications in one or two sectors. The number of players in any particular industry is usually small.
Diversity of competitors	Medium to High	Competitors range from Multinational Companies to Small-to-Medium size Enterprises (SMEs)
Industry growth	High	TSC in this region is still at its early development stage. New applications, continuous customer education and gradual industrialization in the region are catalysts for future strong growth.
Fixed cost	Low to Medium	In most instances, price is not the most important consideration. More often than not, customers are willing to pay a premium for quality service due to the incremental economic benefits.
Capacity increases	Incremental	We expect capacity increases to be incremental, in line with demand growth.
Power of customers	***Low to Medium***	
No. of important customers	High	Customer base is wide and fragmented.
Availability of substitutes of the industry products	Low	In a small number of applications, customers have a choice between two or more coating technologies.
Customer's switching cost	Low to Medium	Customers can easily switch from one TSC service provider to another. However, key considerations are technical competence, reliability and quality.
Customers' threat of backward integration	Low	An unlikely scenario for most industries given repair services is not a significant cost component.
Importance of service to customers' products	High	TSC significantly lowers cost of ownership by increasing the economic useful life, performance and yield of equipment.
Total customers' cost contributed by industry	Low	The repair cost itself is not a significant cost component although it can result in substantial cost savings as a result of extending the economic useful life of the equipment and deferring replacement of the equipment.
Power of suppliers	***Low***	
No. of important suppliers	High	There are many equipment and coating material suppliers globally.
Availability of substitutes for suppliers' products	Low	There are no substitutes for suppliers' products.
Differentiation or switching cost of supplier's products	Low	Switching cost is low between suppliers.
Suppliers' threat of forward integration	Medium	Globally, there is a reasonable likelihood of equipment and coating material manufacturers venturing into TSC services.
Supplier's contribution to quality or service of the industry products	Medium	Choosing the right spray system and coating material that meet specific customer needs, and having the right skill to operate the process are equally, if not more, important.
Total industry cost contributed by suppliers	Medium	Coating material and equipment costs account for about 40-45% of COGS.
Importance of the industry to supplier group	High	Thermal spray equipment and coating materials are specific to thermal spray applications.
Govt./regulatory actions	***Neutral***	
Industry regulation and protection	None	The field is leveled and open to all players, both foreign and local
Consistency of policies	High	There has not been any significant regulatory changes in the past.
Tax incentives	Yes	There are tax incentives given to the TSC industry in Malaysia by MIDA e.g. pioneer status and investment tax allowances.
Assistance provided to competitors	None	Again, the playing field is leveled for all players.
Source: Lynck		

4.2 Precision Cleaning

4.2.1 Competitive environment

Three players dominate the precision cleaning market in Singapore and Malaysia. They are Metron Technology Singapore ("Metron Singapore"), UMS Semiconductor ("UMS") and FCB. Other than FCB, which has set up cleaning facilities in Penang for the semiconductor industry, none of the other three remaining participants has precision cleaning facilities in Malaysia.

4.2.2 Competitive factors

We believe the most important competitive factors in the precision cleaning business are quality, service and price.

The quality of the cleaning process is of utmost importance given the high investment cost of semiconductor equipment. Vendors must not only give assurance the components being cleaned will not be damaged in the process, but also the efficiency and efficacy of the devices would not be compromised after being re-assembled. Consequently, OEM accreditation is important, as it lends credit to the suppliers' technical and service competence. While some wafer fabs do not place heavy emphasis on this, so long as the vendor is able to stand up to rigorous pre-qualification tests and audits, others would only consider using the services of a vendor that has been endorsed by the OEMs. FCB is an approved supplier for Lam Research and Ulvac.

Wafer fabrication facilities run 24 hours a day, seven days a week. Therefore, service reliability is critical in light that any unscheduled outage resulting from failure by suppliers to meet tight delivery deadlines could potentially disrupt the entire production process.

4.2.3 Precision cleaning: market share and positioning

We estimate FCB's market share in 2004 was about 14.4% under our "installed capacity" method. Using our revenue method to estimate the outsourced portion of the precision cleaning market size, we estimate FCB's market share to be about 28.4% in 2004.

The competitive landscape however may change with the acquisition of Metron Singapore by Applied Materials last year. Since the acquisition, Applied Materials has consolidated its precision cleaning division with that of Metron, and is currently using the latter as the platform to provide precision cleaning services to all makes of equipment.

According to an end user, there has not yet been any apparent change in either Metron's pricing policy or the way it conducts its business. However, the same end user believes it is likely Applied Materials will want to sell itself as a one-stop shop to foundries, supplying semiconductor equipment, materials and component supplies, and after sales services, including regular cleaning and repair services. Note that Applied Materials also owns a minority stake in UMS and has historically been referring jobs to UMS. It remains to be seen if Applied Materials will eventually consolidate all its precision cleaning business under one roof. If so, the number of major players could potentially be reduced to two.

4.2.4 Precision cleaning: industry competitive analysis

Table 16: Industry Competitive Analysis For Precision Cleaning

Barriers to entry	***Low to Medium***	
Economies of scale	Low to Medium	A certain volume is required to achieve economic utilization of cleaning capacity.
Product differentiation	Medium	Firms differentiate themselves in terms of service quality and cleaning technology. Customer satisfaction is measured in terms of equipment performance and longevity.
Brand identity	Low	Results outweigh brand identity. Suppliers undergo stringent pre-qualification tests and audits. OEM accreditation is an advantage.
Access to distribution channel	Not applicable	Suppliers deal direct with end-customers, which are few in number. There are only 12 fabs in Singapore and four in Malaysia.
Capital requirements	Low to Medium	Depending on cleaning technology and process, set up cost can be moderately expensive.
Regulatory protection	None	There are no regulatory barriers faced by prospective entrants.
Track record	Low to Medium	Track record is an advantage but not critical due to stringent pre-qualification tests and audits by wafer fabs.
Availability of substitutes	***Low***	
Availability of close substitutes	Low	The only substitute is part replacement.
User's switching cost	High	Replacement is however expensive and makes little economic and commercial sense, unless the part is beyond repair.
Substitute producer's profitability & aggressiveness	Irrelevant	As above.
Substitute's price value	Low	As above.
Rivalry among competitors	***Medium***	
No. of equally balanced competitors	Low to Medium	There are presently only four players. To avoid single supplier dependency, wafer fabs normally appoint two or more suppliers.
Diversity of competitors	Medium	Competitors range from MNCs to SMEs.
Industry growth	Low to Medium	Long-term industry growth hinges on FDI (foreign direct investments) inflows into the wafer foundry sector. Short-term demand can be volatile depending on capacity utilization, as utilization affects cleaning frequency.
Fixed cost	Medium	MNCs like Metron Singapore carry significantly higher overheads when compared to local outfits such as FCB and AIS. As such, local prices are significantly cheaper.
Capacity increases	Incremental	No major capacity expansion anticipated in the near term. We expect capacity increases to be incremental, in line with demand growth.
Power of customers	***Low to Medium***	
No. of important customers	Low	There are only 12 wafer fabs in Singapore and four in Malaysia.
Availability of substitutes of the industry products	Low	Wafer fabs can perform cleaning activities in-house. However, the current trend in Singapore and Malaysia is towards outsourcing.
Customer's switching cost	Medium	In-house cleaning necessitates additional equipment investment. Realistically, wafer fabs maintain some cleaning capability to meet ad-hoc cleaning requirement where fast turnaround is critical.
Customers' threat of backward integration	Low	An unlikely scenario as cleaning is not a core activity. Moreover, the present trend is to outsource.
Importance of service to customers' products	High	Regular cleaning prolongs the economic useful life of equipment and ensures consistent manufacturing standards and yields.
Total customers' cost contributed by industry	Low	Cleaning is not a significant cost component.
Power of suppliers	***Low***	
No. of important suppliers	High	There are numerous equipment manufacturers and cleaning material suppliers globally but a limited pool in this region.
Availability of substitutes for suppliers' products	Low	There are few, if any, substitutes for suppliers' products. Each product has its specific use.
Differentiation or switching cost of supplier's products	Low	Switching cost, if any, is low.
Suppliers' threat of forward integration	Low	A highly unlikely scenario. In precision cleaning, the process and know-how are proprietary. Most of the equipment and materials are quite generic.
Supplier's contribution to quality or service of the industry products	Low	Quality of service lies primarily in the cleaning process, and not so much on the equipment and materials.
Total industry cost contributed by suppliers	Low	The main value-add is in the process.
Importance of the industry to supplier	Low to Medium	Most suppliers are not industry specific.

group		
Govt./regulatory actions	***Neutral***	
Industry regulation and protection	None	There are no specific regulations regulating the industry. The market is open to all without restriction.
Consistency of policies	High	Both the Singapore and Malaysia governments have consistently been encouraging the development of the supporting industries for high-tech sectors such as semiconductor.
Tax incentives	Yes	There are tax incentives relating to the precision cleaning industry in Malaysia by MIDA e.g. pioneer status and investment tax allowances.
Assistance provided to competitors	None	Both foreign and local companies are treated equally.
Source: Lynck		

4.3 FCB SWOT Analysis

Table 17: SWOT Analysis for FCB

Strengths/Competitive Advantage	***Weaknesses***
Established track record and strong team of management FCB has established a reputation for quality and reliable service in the thermal spray industry. Despite having a shorter operating history than its closest competitors Plasma Precision and CRC Engineering, FCB has established itself as the clear industry leader by revenue, and boasts of an impressive client base comprising many big MNC names such as Siemens, Shell, Exxon Mobil, Ulvac, Showa Denko and UMC. **Strong technology collaborations** FCB's technology collaborators include Tocalo of Japan, the world's largest independent thermal spray service provider; Ares Green, Taiwan's biggest independent precision cleaning service provider; OTS and Siemen PG (Power Generation) of Germany; and Lam Research of the US. **Relatively strong R&D capability** Within this region, FCB probably has the largest R&D set up amongst its closest competitors. The department is headed by Dr Tay, an R&D veteran with 15 years of experience. FCB's main R&D focus is in developing new innovative processes and materials for both TSC and precision cleaning to penetrate new market segments that are undergoing strong expansion such as oil & gas and petrochemical industries. **Diversified customer base** FCB is not dependent on a single customer or industry for its earnings. Its earnings are well spread out across four core industries, namely power, oil & gas, petrochemicals, semiconductor/electronics, and there is no single client that accounts for >15% of earnings. In contrast, most of FCB's competitors are reliant on a few key customers in one or two industries.	**Marketing** Historically, FCB has channeled most of its marketing efforts in the Singapore market, resulting in low penetration rates amongst prospective customers in the other Southeast Asian countries, including Malaysia. However, since 2003, FCB has started to beef up its sales and marketing team to aggressively promote its services, starting with Malaysia. **Technological limitation** Although FCB is the industry leader for TSC in this region, technologically, the company still lags behind many of its counterparts in developed countries. FCB is constantly exploring technical collaboration possibilities with global specialists to enhance its technological capabilities in areas where the applications are commercially viable. **Financial resources** FCB's business expansion has in part been hindered by financial constraints, especially in the high-tech industries. However, with the potential listing, FCB would be in a better financial position to capitalize on future business opportunities.

15. EXECUTIVE SUMMARY OF INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*

Opportunities	*Threats*
Strong growth prospects The thermal spray industry is still at its early development stage in this region. Future growth will be spurred by continuous education and promotion to raise awareness among prospective customers of the benefits and versatility of thermal spray, and development of new applications. **Horizontal expansion** There is tremendous opportunity for FCB to expand horizontally by moving up the technology ladder in order to better serve high-tech industrial fields such as the power industry. For instance, the company has recently teamed up with OTS of Germany to expand its scope to include repair of more complex power components e.g. gas turbine blades. This tie-up paves the way for FCB to secure more jobs from Siemens, and possibly from other end users. Note FCB already has an existing Maintenance Repair Overhaul (MRO) contract with Siemens. But due to its technological limitation, FCB is presently only capable of providing limited range of repair and services of compressor blades. **Vertical expansion** Given FCB's engineering capability and track record in developing new technology (normally through technical collaboration or partnership with global specialists), there is a lot of potential for the company to leverage off its existing businesses and customer relationships to expand into other high value complementary services. For instance, FCB intends to expand into mechanical seal repair and servicing to complement its existing pump component repair activities for the marine, oil & gas and petrochemical industries. In doing so, FCB would be able to provide one-stop industrial pump repair services to its customers. In the semiconductor sector, FCB plans to set up selective nickel plating and anodizing facilities to complement its precision cleaning business. The move will enable FCB to tap on the huge OEM market.	**Technological change** As in any knowledge-based industry, thermal spray faces the risk of technological stagnation and/or obsolescence. Other new coating technologies may emerge that could selectively replace or provide alternate solution to thermal spray. Nevertheless, thermal spray is recognized in the world today as one of the most versatile and promising surface engineering techniques. Moreover, FCB constantly keeps abreast of technology changes through active participation in global conferences. **Competition** Although FCB does not face any serious competition now, there is no assurance that new players would not enter the market, especially when the market has grown to a considerable size. FCB also faces the possibility of increased competition from existing local players should they form strategic alliances with technically and financially more established foreign companies. In precision cleaning, FCB has made significant inroads into the market in part due to its competitive pricing. However, there is no assurance its financially strong rivals, Metron Singapore and UMS, would not retaliate by engaging in an aggressive price war in the future. FCB's low cost structure and proven cleaning technology will put the company in a good position to compete with Metron and UMS. **Cyclicality of customer industries** The industries that FCB services are cyclical and have historically experienced periodic downturns. Generally, these downturns would affect the utilization rates of equipment, which would in turn reduce the demand for precision cleaning and repair services. However, FCB does not depend on a single industry for its earnings. Its diversified customer base across multiple industries means FCB's earnings would not be highly susceptible to a downturn in any one industry. **Changes in outsourcing trend** FCB is a beneficiary of today's global outsourcing trend. Wafer fabs are outsourcing cleaning services of its equipment to third party contractors. Global power equipment manufacturers such as Siemens are increasingly sub-contracting out part of the repair and refurbishment work to specialist service providers like FCB. Therefore, any reversal in the outsourcing trend may have an adverse impact on FCB's future prospects, although we believe there isn't any indication yet that this is forthcoming.
Source: Lynck	

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

Section 5: Industry prospects

5.1 Prospects and outlook for Thermal Spray Coating

The prospects and outlook for the thermal spray coating industry in this region are excellent. Not only is thermal spray increasingly being recognized and accepted as the preferred coating solution when compared to some of the other coating technologies such as chrome plating and spray painting, new processes and materials are continuously being developed globally through intensive research that would further widen thermal spray applications in the industrial fields in the future. Globally, the market value of thermal spray has risen from US$2.7 billion in 1996 to US$3.5 billion in 2000, US$5.0 billion in 2003 and US$5.6 billion in 2004.

In the petrochemical and oil & gas industries for instance, thermal spray, which has historically been used primarily to resist wear in **rotating components** such as valves, pumps and compressors, are increasingly becoming a prerequisite for new **static equipment** installations such as piping, heat exchangers, spool system, storage tanks and pressure vessels, as well. Companies like Shell, Exxon Mobil and Petrobas of Brazil have already taken the lead, and we believe more would soon follow suit.

Outside of Singapore, the awareness level of the benefits of thermal spray coating in the region remains considerably low until today. We attribute this to the absence of major independent thermal spray service firms to promote and educate end-users of the advantages and economics of thermal spray as a surface engineering solution. There are therefore tremendous opportunities that companies like FCB can tap on. In fact, FCB has in the last 18 months been beefing up its sales and marketing arm and has since earlier last year commenced regular road shows in Malaysia to promote its services to end-customers in the oil & gas industry.

There will also be more scope for expansion as the governments of Singapore and Malaysia continue to put in place the right policies and incentives to attract new foreign direct investments in the manufacturing sector, including semiconductor and electronics, oil & gas and petrochemical industries.

Growth forecast

It is difficult to forecast future growth rates of the TSC industry in Southeast Asia due to the lack of independent market studies on the industry. However, we believe the pace of growth will largely depend on two important factors:

- The amount of marketing efforts by industry players in promoting TSC services, especially to the largely untapped markets like Malaysia, Thailand, Indonesia and the Philippines. TSC offers suitable solution to many of the existing manufacturing and engineering problems. However, in many instances, it is not adopted due to the lack of awareness and reliable local suppliers.

- The pace at which independent TSC service providers expand their scope of services through technological advancements. Currently, even the FCB Group, the leading player in the thermal spray coating industry, has limited applications in servicing the high-tech industrial sectors such as the power and electronic sectors. However, with continuous investment in R&D and technical collaboration with global specialists, we believe local players such as the FCB Group will be able expand their scope of services by moving up the technology ladder.

Based on FCB's on-going R&D and marketing efforts, and its recent technical collaboration with OTS of Germany (specialist in the repair and refurbishment of power generation equipment), **we believe the TSC industry will be able to continue growing at between 15% and 20% per annum in the next three years, compared to FCB's average historical growth rate of 35% in 1999-2005 and global TSC industry growth estimate of 5% to 6% CAGR in 2005-2007** ***(Source: Sultzer Metco)***

There are two main reasons behind FCB's superior growth rates:

(a) There is an acute shortage of competent local players. Historically, most of the demand for thermal spray coating services had been satisfied by foreign suppliers. However, with FCB' emerging as a reliable independent thermal spray service provider in this region, more and more jobs are increasingly being conducted locally.

(b) New market creation by FCB through successful development and commercialization of new surface metamorphosis solutions. In order to sustain its growth and remain competitive, FCB continuously invests in and carries out R&D activities on tough engineering problems, which will address specific customers' needs or resolve specific industrial problems. Upon completion, these R&D activities are commercialised, thus creating market needs for FCB's services.

5.2 Prospects and outlook for Precision Cleaning

The prospects and outlook for the precision cleaning industry in Singapore and Malaysia look promising. For instance, in Singapore, UMC has in 2004 begun commercial production in its new 12-inch wafer fab in Pasir Ris. Chartered Semiconductor Manufacturing and Hewlett Packard also commenced commercial production in their new 12-inch fab (Fab VII) and 6-inch fab last year, respectively. STMicroelectronics, which has invested a total of USD2.4 billion to date in Singapore's TechnoPark in Ang Mo Kio, has recently announced it would invest as much as another USD1.2 billion by the end of 2006 on expanding the capacities of existing fabs, and is considering building a new USD2 billion 12-inch wafer fab in 2006. Other semiconductor projects in the pipeline in Singapore include TECH Semiconductor's new 12-inch and Hewlett Packard's new 8-inch wafer fabs.

In Malaysia, German semiconductor giant Infineon Technologies AG is building a new 8-inch fab with a total investment cost of USD1 billion to mainly produce power and logic chips used in automotive and industrial power applications. Storage media companies such as Hoya Corporation, Fuji Electric Holdings Co., Ltd, Showa Denko K.K. and Komag, Inc are also expanding capacities in Malaysia.

The evolving trend in today's manufacturing environment should also see wafer fabs outsourcing more and more of their non-core operations, including precision cleaning.

Growth forecast

We estimate the above planned fab investments could potentially raise the total installed fab capacity in Singapore and Malaysia by 74% or 250,000 wafers per month to 587,000 wafers per month. Using the installed capacity method, we estimate this could more than double the precision cleaning market size from RM82.8 million in 2003 to RM200 million. **Assuming these new capacities all come on stream by 2008, it will translate into an average compound annual growth rate of 19.3% in 2003-2008.**

16. REPORT PERTAINING TO POLICIES ON FOREIGN INVESTMENTS / LEGAL OPINION

(Prepared for inclusion in this Prospectus)

Wee Woon Hong & Associates

30 Raffles Place
#19-04 Caltex House
Singapore 048622
Tel: 6236 0670
Fax: 6536 0688

25 May 2006

The Board of Directors
FRONTKEN CORPORATION BERHAD
Suite 1603, 16th Floor, Wisma Lim Foo Yong
No. 86, Jalan Raja Chulan, 50200
Kuala Lumpur
Malaysia

Dear Sirs

FRONTKEN (SINGAPORE) PTE LTD ("FS")
(A) OWNERSHIP AND TITLE TO SECURITIES/ASSETS IN FS
(B) ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS UNDER SINGAPORE LAWS
(C) DIVIDEND POLICIES
(D) POLICIES OF FOREIGN INVESTMENTS, IN PARTICULAR, THE REPATRIATION OF PROFITS AND THE TIMEFRAME FOR THE REPATRIATION OF PROFITS

1. We are a law firm practising Singapore law.

2. We have been requested by Frontken Corporation Berhad ("FCB") to advise on the following matters:

2.1 ownership of title to the share capital in FS;

2.2 enforceability of agreements, representations and undertakings given by FS under Singapore laws;

2.3 the dividend policies of FS relating to the declaration of dividends; and

2.4 the current legal position under Singapore laws in relation to foreign investment policies in Singapore, in particular the repatriation of profits from Singapore to Malaysia and the timeframe for the same.

This letter has been prepared for the purposes of inclusion in the prospectus ("Prospectus") in connection with the listing of FCB on the MESDAQ Market of Bursa Malaysia Securities Berhad.

3. PRELIMINARY MATTERS

3.1 FS was incorporated on 5 September 1996 in Singapore and carries on its business in Singapore. Pursuant to an agreement dated 25 January 2005, as supplemented by a further agreement dated 21 October 2005 (collectively the "Sale and Purchase Agreement"), FCB (a company incorporated in Malaysia) had agreed to acquire the entire issued and paid up share capital in FS comprising 9,093,984 ordinary shares for an aggregate consideration of RM29,123,278 to be satisfied by the issuance of 291,232,780 new ordinary shares of RM0.10 each in FCB (the "Acquisition"). In this regard, we understand that the Acquisition was completed on 31 March 2006.

3.2 Our opinion set out in paragraph 5 is limited to matters of the laws of Singapore as currently applied by the Singapore courts at the date of this opinion and we express no opinion with respect to the laws of any other jurisdiction. We have made no investigation of the laws of any country or jurisdiction other than

蓝钰法律事务所

Wee Woon Hong & Associates

Singapore and do not express or imply any opinion thereof. This letter addresses exclusively the Acquisition. Notwithstanding that the Sale and Purchase Agreement is expressed to be governed by the laws of Malaysia (as to which laws we have assumed compliance with as well as validity and enforceability under), our views expressed in relation to the Acquisition pertains to the laws of Singapore only, and we express no view with respect to any other matter and are under no obligation to advise you of any matters that may occur after the date of this letter which could render the views expressed herein no longer applicable save where we become aware of significant changes affecting the content of this letter.

4. DOCUMENTS AVAILABLE FOR OUR REVIEW

We have been provided with, reviewed and relied on copies of the following documents in rendering our opinion set out paragraph 5:

4.1 the Memorandum and Articles of Association of FS;

4.2 the minute book and statutory registers of FS;

4.3 the Sale and Purchase Agreement, which was entered into between FCB (as purchaser) and the following persons listed below (as vendors) in respect of the Acquisition:

(a) Wong Hua Choon;
(b) Yeo Lay Poh;
(c) Liew Lep Onn;
(d) Frontken Holdings Pte. Ltd.;
(e) Quantum Spire Sdn. Bhd.; and
(f) Privilege Bargain Sdn. Bhd.

4.4 The following sections (the "Relevant Sections") of Legal Due Diligence Report relating to FS dated 30 April 2006 (which provided an update on the initial Legal Due Diligence Report relating to FS dated 4 February 2005), issued by Messrs Wong Partnership (the Legal Due Diligence Reports dated 4 February 2005 and 30 April 2006 respectively are collectively known as the "Due Diligence Report") for the purpose of our opinion set out in paragraph 5:

(a) Section 4.6 (Subsidiaries and Associated Companies of the Company);
(b) Section 5 (Charges and other Security Granted by the Company);
(c) Section 15 (Intellectual Property);
(d) Section 16 (Contracts);
(e) Section 18 (Banking Facilities);
(f) Section 19 (Properties);
(g) Section 20 (Fixed Assets); and
(h) Section 32.5.

Other than the above documents ("Documents"), we have not reviewed any other document and have not made any other enquiries or investigations for the purpose of rendering our opinion set out in paragraph 5. Our opinion contained herein is accordingly subject to there not being anything contained in any document not having been reviewed by us which may require us to amend or vary any portion of this opinion.

5. OUR OPINION

Based upon and subject to the foregoing, and subject to the assumptions and qualifications set out below, we are of the view that:

5.1 **Ownership and Title to Securities/Assets in FS**

There are no restrictions in Singapore laws which would prohibit the transfer and ownership of shares in FS to FCB. The Acquisition does not infringe any governmental laws and regulations in Singapore and

蓝钰法律事务所

there are no provisions in the Memorandum and Articles of Association of FS which prohibits the Acquisition.

5.2 **Enforceability of Agreements, Representations and Undertakings**

The agreements, representations and undertakings given by a Singapore company are generally enforceable in the Singapore courts in accordance with their terms unless:

(a) the validity, performance and enforcement is limited by statutes of limitation, lapse of time, waiver and laws relating to bankruptcy, insolvency, reorganisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally; or

(b) where the obligations are illegal or contrary to public policy.

5.3 **Dividend Policies**

Based on our understanding, FS does not have a fixed dividend policy. Nonetheless, the memorandum and articles of association of FS provides for the declaration of dividends upon its shareholders' approval in a general meeting, provided that no dividend shall exceed the amount recommended by its directors. In addition, any general meeting declaring such dividends may direct for such dividends to be paid wholly or partly via the distribution of specific assets or in any one or more of such ways. Where there are any difficulty arising in relation to such distribution, the directors of FS may decide on such action as they think expedient. The directors of FS may also, from time to time, pay to the shareholders of FS, such interim dividends from the profits of FS that are available for distribution. Dividends may only be paid out of profits under Singapore laws

5.4 **Foreign Investment Policies**

Subject to the payment of the applicable taxes described in this paragraph 5.4, there is no restriction nor time frame imposed on the reinvestment or repatriation of earnings and capital under Singapore laws, so long as there is no breach of any rule for international monitoring for countering money-laundering and terrorism. In addition, Singapore laws do not impose significant restrictions on remittances, foreign exchange transactions or capital movements.

Under Singapore laws, a company will be taxed on any income accruing in or derived from Singapore or received in Singapore from outside Singapore regardless of the company's tax residence status in Singapore. A company regarded as being resident in Singapore is one whose businesses are controlled or managed in Singapore and is subject to income tax at a flat rate on its chargeable income. The corporate income tax rate in Singapore is 20% with effect from the year of assessment 2005. Certain exemptions from income tax are applicable for the first S$100,000 of chargeable income and full tax exemption for new companies is applicable where they meet certain qualifying conditions.

A non-resident is subject to income tax on Singapore-sourced income. Subject to any applicable tax treaty, non-resident taxpayers are subject to withholding tax on certain types of income that are derived from Singapore. The withholding tax rate differs according to the nature of income derived. In this regard, directors' remuneration and management fees are subject to withholding tax according to the prevailing corporate tax rate.

6. OUR ASSUMPTIONS

We have assumed the following in considering the Documents and in rendering our opinion set out in paragraph 5:

6.1 The authenticity of all seals, chops and signatures, duty stamp or marking, and the authenticity and completeness of each document submitted to us, that each signature on behalf of each party thereto is that of a person authorised to execute the same, the conformity with the relevant originals of all documents

submitted to us as copies thereof and the authenticity and completeness of the documents from which such copies were taken and the correctness of all facts and information stated or given in all of such documents;

6.2 the minute book and statutory registers of FS submitted to us for examination are true and complete and the board resolutions and shareholders resolutions set out in the minute book of FS have not been rescinded or modified and they remain in full force and effect and that no other resolution or action has been taken which could affect the validity of the board resolutions or shareholders' resolutions;

6.3 all Documents as reviewed by us are true, accurate and complete and have not been rescinded or modified or supplemented to in any way;

6.4 the completeness, correctness and validity of the Relevant Sections in the Due Diligence Report; and

6.5 all the representations and confirmations made by FS are true, accurate and complete.

The making of the above assumptions does not imply that we have made any enquiry to verify any assumption (other than as expressly stated in this letter). No assumption specified above is limited by reference to any other assumption.

7. OUR QUALIFICATIONS

Our opinion set out in paragraph 5 is subject to the following qualifications:

7.1 The term "enforceable" as used in this letter refers to the obligations assumed by FS under any agreement are of a type which the Singapore courts will generally enforce. It does not mean that the obligations under any agreement will necessary be enforced in accordance with their terms, in particular:

(a) the validity, performance and enforcement of the relevant agreement may be limited by statutes of limitation, lapse of time, waiver and by laws relating to bankruptcy, insolvency, reorganisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally and claims may be or become subject to set off or counter claim of third parties;

(b) where obligations are required to be performed in a jurisdiction outside Singapore, they may not be enforceable in Singapore to the extent that performance would be illegal or contrary to public policy under the laws of that jurisdiction;

(c) enforcement may be limited by general principles of equity, for instance, equitable, equitable remedies such as injunction and specific performance, are discretionary and may not be available where damages are considered to be an adequate and appropriate remedy;

(d) enforcement proceedings are subject to the general jurisdiction of the court in regard to awards of costs, even as against a successful party;

(e) any provision in any of the relevant agreement providing for the severance of any provision which is illegal, invalid or unenforceable may not be binding under the laws of Singapore as it depends on the nature of the illegality, invalidity or unenforceability in question which issue would be determined by a Singapore court at its discretion;

(f) a Singapore court may refuse to give effect to clauses in any of the relevant agreements in respect of the costs of unsuccessful litigation brought in a Singapore court or where the court itself made an order for costs;

(g) in appropriate circumstances and at the court's discretion, the courts of Singapore may render judgments in foreign currencies (such judgments may, however, have to be converted into local currencies for enforcement purposes);

蓝钰法律事务所

Wee Woon Hong & Associates

(h) the courts of Singapore may refuse to accept jurisdiction or stay proceedings in certain circumstances (for example, if the matter concerned is res judicata, if litigation is pending in another forum on the same matter or if another forum is more convenient);

(i) where party to any of the agreements is vested with a discretion or may determine a matter in its opinion, Singapore law may require such discretion to be exercised reasonably or that such an opinion is based upon reasonable grounds;

(j) an obligation to pay an amount may be unenforceable if the amount is held to constitute a penalty;

(k) we have assumed that the choice of the laws of Singapore in the respective agreements is bona fide and not in contravention of public policy. The choice of law governing any agreement will only be recognised and upheld by the Singapore courts provided that the same is bona fide and there being no reasons for avoiding it for reason of contravention of public policy. A choice of law clause may also not be upheld if it was made with the express purpose of avoiding the law of a jurisdiction with which the relevant agreement has the most substantial connection and which, if
in the absence of the stated choice of law would have invalidated the relevant agreement or been inconsistent with it;

(l) the failure to exercise a right may be held by a Singapore court to operate as a waiver of that right notwithstanding any provision to the contrary in any of the agreement;

(m) the effectiveness of any provisions exculpating a party from liability or duty otherwise owed may be limited by law; and

(n) the terms and conditions of the relevant agreements may be amended, revised, varied and/or supplemented orally or by course of conduct notwithstanding any provisions to the contrary.

7.2 Save as otherwise expressly stated in this letter, we express no opinion on the accuracy and completeness of any statements or warranties of fact set out in any agreement, as to which statements and warranties we have not independently verified.

7.3 Save as otherwise expressly stated in this letter, we also express no opinion as to the ability of the relevant parties to any of the agreements to observe and comply with their respective obligations thereunder.

Yours faithfully

Wee Woon Hong & Associates

蓝钰法律事务所