FOTRONICS CORPORATION BERHAD (640352-A)
L3-1, 3rd Floor Kompleks Kemajuan
No. 2, Jalan 19/1B
46500 Petaling Jaya
Selangor Darul Ehsan

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www.fotronics.com

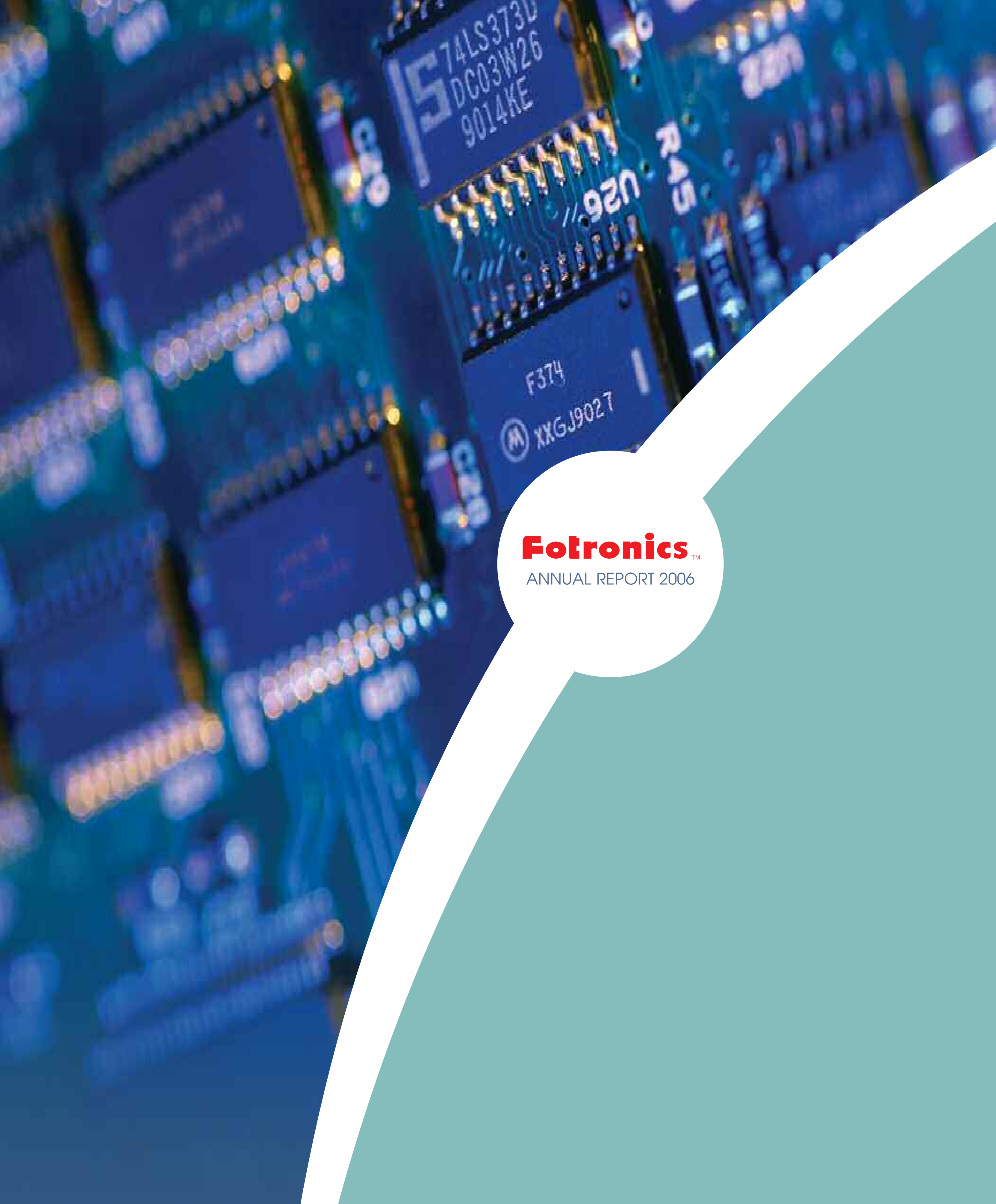
FOTRONICS CORPORATION BERHAD (640352-A)

annual report 2006

Fotronics™

Reinforcing our identity as a global brand

Fotronics Corporation Berhad (640352-A)
annual report 2006



Fotronics™

ANNUAL REPORT 2006

FOTRONICS CORPORATION BERHAD
(Co. No: 640352-A)

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Corporate Section




Financial Section

corporate information

Board of Directors

Seah Bak Kheow	(Executive Chairman)
Khoo Lee Meng	(CEO/Executive Director)
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Ng Kwok Leung, George	(Executive Director)
Yong Kit Fai	(Executive Director)
Yuen Kin Pheng	(Independent Non-Executive Director)
Patrick Bernard Andre Bouju	(Independent Non-Executive Director)
Benoit Jean-Marie Mauffrey	(Independent Non-Executive Director)
Albert Yeo Toon Mok	(Independent Non-Executive Director)
Dato' Baharuddin bin Musa	(Independent Non-Executive Director)

AUDIT COMMITTEE

Albert Yeo Toon Mok
Chairman

Yong Kit Fai
Member

Benoit Jean-Marie Mauffrey
Member

COMPANY SECRETARY

Chua Siew Chuan
(MAICSA 0777689)

REGISTERED OFFICE

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel : 03-2084 9000
Fax : 03-2094 9940

PRINCIPAL BANKERS

Malayan Banking Berhad
The Hongkong and Shanghai
Banking Corporation Limited
Rabobank International
RHB Bank Berhad

SHARE REGISTRAR

Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Tel : 03-2084 9000
Fax : 03-2094 9940

SPONSOR

Avenue Securities Sdn Bhd
(A member of ECM Libra Avenue Group)
Ground Floor & Level 1, THB Satu
Jalan Damansara Endah
Damansara Heights
50490 Kuala Lumpur
Tel : 03-2711 8798

STOCK EXCHANGE LISTING

MESDAQ Market of Bursa Malaysia
Securities Berhad

BUSINESS ADDRESS

L3-1, 3rd Floor Kompleks Kemajuan
No. 2, Jalan 19/1B
46500 Petaling Jaya
Selangor Darul Ehsan
Tel : 603-7873 5927
Fax : 603-7873 5928
Website : www.fotronics.com
E-mail : mail@fotronics.com

AUDITORS

Deloitte & Touche (AF 0834)
Level 19, Uptown 1
1, Jalan SS 21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan

SOLICITORS

Mazlan & Associates
Advocates & Solicitors
Level 3A, Wisma E&C
2, Lorong Dungun Kiri
Damansara Heights
50490 Kuala Lumpur

A global
brand

that is increasingly
customer-centric
rather than
product-centric.

directors' profile

Seah Bak Kheow
Executive Chairman

Seah Bak Kheow, a Singaporean, aged 55, is the Executive Chairman of Fotronics Corporation Berhad ("Fotronics"). He was appointed to the Board of Fotronics on 15 September 2004. He has more than 20 years of working experience in the precision engineering industry. His involvement in the precision engineering industry started in 1980 when he completed his HSC 'A' Levels. In 1998, he acquired Futek Incorporated ("FInc") from Japan Energy Corporation Ltd and ventured into the assembly of drumheads by capitalising on the established brand name of FInc and its technology. Subsequently, in 2000, he established MPC to expand upstream into the processing of drumheads.

He is responsible for charting and driving the strategic directions of the Fotronic Group. Besides being on the Board of Fotronics, he is also the Non-Executive Chairman of FInc, Chairman of Vtrek (HK) and Chairman of Vtrek (China).

He is the brother of Seah Bak Seng and is a major shareholder of the Company by virtue of his direct and indirect interests through his spouse's and children's substantial shareholdings in Memcorp Holdings Limited ("Memcorp"), a major shareholder of the Company, and Memcorp's controlling interest in FInc, also a major shareholder of the Company. He has no conflict of interest in any business arrangement involving the Company except as disclosed in the financial statements and has not been convicted for any offences within the past ten (10) years.

Khoo Lee Meng
CEO/Executive Director

Mr Khoo Lee Meng was appointed as the Chief Executive Officer ("CEO") of Fotronics on 1 February 2005 and subsequently, was appointed to the Board of Directors on 27 February 2006. Mr Khoo, a Singaporean, aged 54, has more than 18 years of working experience with the Singapore Institute of Standards and Industrial Research ("SISIR") where his last held position was the Chief Executive of SISIR. Prior to joining Fotronics, Mr Khoo has more than 9 years of experience with WBL Corporation Limited ("WBL"), an international group which is listed on the Singapore Stock Exchange ("SGX").

During his tenure with WBL, he held various management positions which include Director and Group General Manager of Wearnes Technology (Private) Limited (a WBL's subsidiary) and as a Group General Manager of WBL. His work experiences with WBL include strategic investment and management of information technology, biotech and medical and agritech businesses in China. During 2001 to 2003, Mr Khoo also served as a board member for WBL's subsidiary, MFS Technology Limited which went public on the SGX in 2002.

Mr Khoo Lee Meng holds a First Class Honours degree in Mechanical Engineering and a Masters degree in Industrial Engineering from the National University of Singapore. He is a registered Professional Engineer in Singapore and is a fellow of the Institution of Engineers, Singapore.

Mr Khoo is responsible for the overall business operations of the Fotronics Group. He is also the Director of FIPL and FIJ.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Seah Bak Seng

Executive Director

Seah Bak Seng, a Singaporean, aged 63, is an Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. He graduated with a Certificate in Education from the Singapore Teacher's Training College in 1966 and thereafter taught at various secondary schools as well as at the Institute of Technical Education, Singapore for more than 20 years. Subsequently, he was the General Manager of Multiskill Management, a human resource consultancy firm providing recruitment, training and commercial advice to assist new companies in their initial set-up from 1986 to 1993. Prior to joining MPC in 2000, he worked as a freelance human resource consultant. With his vast experience in human resource management, he played an instrumental role in leading MPC to attain ISO 9001:2000 quality accreditations from the Bristish Standards Institutions in 2001.

He is a member of the Chartered Management Institute, UK and member of the Society for Human Resource Management, USA. Besides serving as members in the above capacities, he has also written training manuals and a book on office management.

He is responsible for the human resource and strategic planning within the Fotronics Group. In addition to being on the Board of Fotronics, he is also the Director of MPC, FIPL, Memcorp and Natex.

He is a member of the Employees' Share Option Scheme Committee.

He is the brother of Seah Bak Kheow. He has no conflict of interest in any business arrangement involving the Company and has not been convicted for any offences within the past ten (10) years.

Ng Kwok Leung, George

Executive Director

Ng Kwok Leung, George, a Canadian, aged 50, is an Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. He obtained his High Certificate of Building Technology from the Hong Kong Polytechnic Institution in 1976. He started his career as a Chemical Engineer with Y Cee Enterprises Ltd in 1979. Subsequently in 1989, he joined Permaquik Corporation as Regional Marketing Manager. In 1990, he established Y Cee Company Limited, a company principally involved in construction materials. He joined Vtrek (HK) in 2001 as Director. Currently, he is responsible for the operations of Vtrek (HK) and Vtrek (China).

He is also the Director of Vtrek (HK), Vtrek (China), MPC and Memcorp.

He is a major shareholder of the Company. He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company except as disclosed in the financial statements. He has not been convicted for any offences within the past ten (10) years.

Yong Kit Fai

Executive Director

Yong Kit Fai, a Malaysian, aged 43, is an Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. He has more than 18 years of work experience in the fields of auditing, accounting, trading, manufacturing and assembling. He started his career in 1986 with an audit firm and subsequently joined FMSB in 1990 as Finance and Administration Manager. Thereafter, he was promoted to Director of FMSB in 1990. Since 1998, he has been spearheading the brand building of the "Futek" brand of AV products as well as the "Futek" own brand of electrical home appliances in Malaysia. Currently, he is responsible for the strategic planning and operations of FMSB and FTSB.

He is a Fellow of the Chartered Institute of Management Accountants, UK and member of the Malaysian Institute of Accountants. Besides being on the Board of Fotronics, he is also the Director of FMSB and FTSB respectively.

He also sits as a member of the Audit Committee. He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Yuen Kin Pheng

Independent Non-Executive Director

Yuen Kin Pheng, a Singaporean, aged 56, is an Independent Non-Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. He obtained his Bachelor in Business Administration (First Class Honours) and Masters in Business Administration from the University of Singapore in 1980 and 1981 respectively. Subsequently, he pursued his Advanced Management Program from Wharton School, University of Pennsylvania, USA. He has also won several awards including the Mobil Gold Medal, SGV Gold Medal and International Chamber of Commerce Prize for his academic achievements.

In 2003, he was appointed President and Business Leader of Trane for the Asia Pacific region. Prior to his appointment at Trane, he was President of Honeywell International Inc. for the Asia Pacific and China region. In this capacity, he was responsible for the operations of Honeywell International Inc. and instrumental in leading Honeywell International Inc.'s business initiatives as well as driving growth and expansion in the Asia Pacific region.

He joined AlliedSignal China Inc. ("AlliedSignal") in 1994 to head the company's aerospace activities in China. He was later promoted to Chairman and subsequently to Vice President of Commercial Air Transport for North Asia's Division of AlliedSignal for the China, Taiwan, Korea and Japan regions. In 1999, following the merger between AlliedSignal Inc. and Honeywell International Inc., he was appointed Vice President of Aerospace for Honeywell Inc., Asia Pacific. Prior to joining AlliedSignal, he was Vice President and General Manager of the Singapore Aviation Services Pte Ltd and Vice President of Business Development of Singapore Aerospace Ltd.

In addition, he has served in various positions with the Singapore Air Force for 18 years and has also won the Commendation Gold Medal for outstanding service in the Singapore Air Force.

He is the Chairman for the Employees' Share Option Scheme Committee.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Patrick Bernard Andre Bouju
Independent Non-Executive Director

Patrick Bernard Andre Bouju, a French national, aged 59, is an Independent Non-Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. A veteran of the electronic industry, he has over 30 years of working experience in the high technology industry and almost 25 years of working experience in marketing in the Asia Pacific region, particularly in the electronics industry in China. He is currently a private consultant in the field of biometrics. Prior to this, he was President of IPC Peripherals Ltd in Singapore, Chief Executive Officer of Hagenuk Telecom in Germany, President of ST Microelectronics Incorporated for the Hong Kong and Korea regions, General Manager of Thomson Passive Components Corporation in the USA and Managing Director of Thomson Far East Ltd, Hong Kong.

He is the Chairman of the Nomination Committee and a member of the Remuneration Committee.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Benoit Jean-Marie Mauffrey
Independent Non-Executive Director

Benoit Jean-Marie Mauffrey, a French national, aged 53, is an Independent Non-Executive Director of Fotronics. He was appointed to the Board of Fotronics on 15 September 2004. He has more than 25 years of working experience in international business development, negotiation, sales and marketing in a diverse range of industries specifically in the Asia Pacific region.

Currently, he is the Asia Pacific Managing Director for NASDAQ-listed Globecomm Systems Inc., a company dealing in end-to-end communication and broadcast solutions. Prior to that, between 1974 and 1985, he was Sales Director of CMR Pte Ltd, a French company manufacturing automated equipment for ocean-going vessels whilst from 1986 to 1989, he was Managing Director of MDSA (HK) Ltd, a company producing semiconductors and CAD/CAM products. Subsequently, from 1989 to 1994, he was Managing Director of Marta Hachette (HK), a French company involved in the aerospace, defence, automotive, semiconductors, telecommunications, CAD/CAM, publishing and transportation industries.

He is the Chairman of the Remuneration Committee and a member of the Nomination Committee and Audit Committee respectively.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Albert Yeo Toon Mok

Independent Non-Executive Director

Albert Yeo Toon Mok, a Singaporean, aged 64, is an Independent Non-Executive Director of Fotronics. He was appointed to the Board of Directors on 15 September 2004. He obtained his Bachelor of Laws with Honours from the National University of Singapore in 1973. He was admitted as an Advocate & Solicitor of the Supreme Court, Singapore in 1974 and in the same year, started his legal practice with Messrs. Lui Boon Poh & Co. He subsequently joined Tat Lee Bank Limited as its Legal Officer until 1982. Since then, he has been a practising partner in the legal firm of Lim & Lim. He also seats on the Board of Malaysian Social Research Institute.

He is the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee respectively.

He does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

Dato' Baharuddin bin Musa

Independent Non-Executive Director

Dato' Baharuddin bin Musa, a Malaysian, aged 70, is an Independent Non-Executive Director of Fotronics. He was appointed to the Board of Fotronics on 25 November 2005. He is also the Joint Chief Executive and Director of Asiatic Development Berhad. He holds a Bachelor of Arts (Honours) Degree from the University of Malaya and a Masters Degree in Public Administration from Pittsburgh University. He is also a Parvin Fellow of Princeton University. He served the Malaysian Government in the Malaysian Administrative and Diplomatic Service for 20 years in various positions, including inter alia, Assistant State Secretary in the States of Pahang and Malacca and the first Director of Culture and then the Deputy Secretary General of the Ministry of Culture, Youth and Sports and the first Deputy Chairman and Director General of Tourist Development Corporation Malaysia. He was also seconded to the University of Malaya as Chairman of the Division of Public Administration in the Faculty of Economics and Administration where apart from lecturing on Government and Administration also started the course for Diploma in Public Administration. His last posting whilst in the Government Service was as Deputy Secretary General, Ministry of Defence.

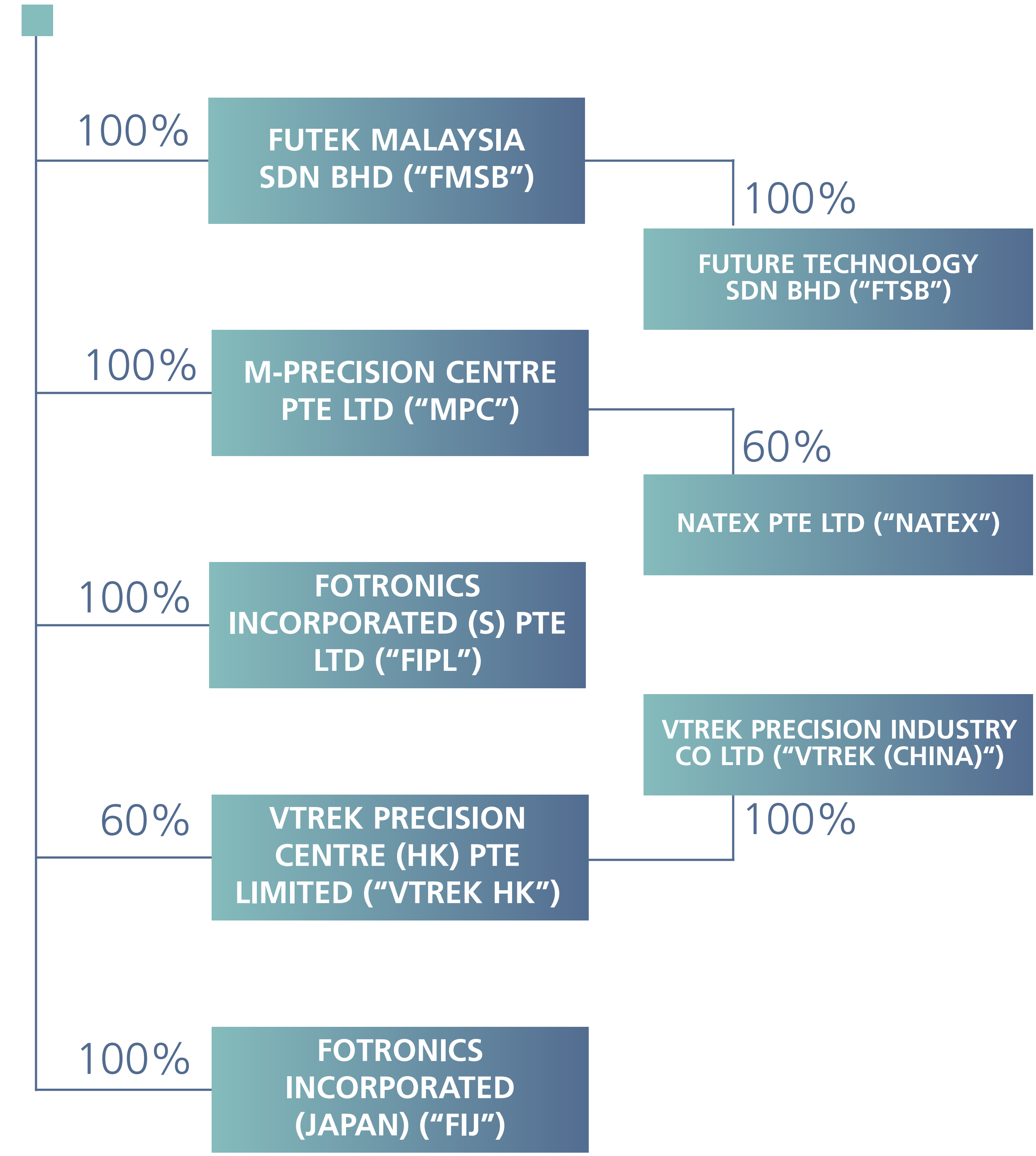
He also sits on the Board of some of the companies within the Genting Group, Tradewinds Corporation Berhad (formerly known as Pernas International Holdings Berhad) and a number of other private limited companies.

Dato' does not have any family relationship with any director and/or major shareholder of the Company and has no conflict of interest in any business arrangement involving the Company. He has not been convicted for any offences within the past ten (10) years.

corporate structure

Fotronics™

Fotronics Corporation Berhad (640352-A)



chairman & ceo's statement

Dear Shareholders,

We are pleased to present the Annual Report and the Audited Financial Statements of Fotronics Corporation Berhad ("Fotronics") for the financial year ended 31 March 2006.

In the financial year ended 31 March 2006, we are singularly focused on executing the twin components of our growth strategy : a) to invest and build our fledgling but promising Aerospace and Biometric units into formidable and profitable businesses and b) to grow our Data Storage and Micro-optics businesses organically through new customer acquisition.

We integrated the Group's Aerospace unit with our 60%-owned Natex operation. Through this exercise, the combined Aerospace unit optimized its cost structure through a reduction of the headcount; more than 30% of the pre-integration positions were eliminated. In addition, Natex's productivity capacity was brought under the control of Group's Aerospace MD. Since the integration, the Aerospace unit has made encouraging progress in quality level, on-time delivery and acquisition of new orders. We will relentlessly scale up this business in order to achieve acceptable profitability.

Our Biometrics unit has developed partnerships with a number of security solution providers in Australia, United States of America ("US") ,Japan and China. In particular, we have acquired exclusive rights to distribute Australia-based Microlatch's products, including the patented wireless radio frequency access control, in Southeast Asia, parts of Indo-China, North Asia and India.

Our Data Storage unit continued its superior performance in the past year. Since commencing volume production of the tape drive automation product ("autoloader") in September 2005, the unit has significantly ramped up its output by more than 100%. Besides the three US based customers that we served since the beginning of the program, we have recently received order from a Japanese customer.


Our Micro-optics business performed satisfactorily. To grow this business further, the Group entered into a joint development programme with Verno Optics., an established Japan-based optics design house and a major conglomerate in Japan to develop the optical components of several consumer, automotive and office automation products. This is a strategic move to position ourselves for sustainable growth in Micro-optics.

The Group faced a challenging year for the financial year ended 31 March 2006. Losses at the fledgling Aerospace and biometric units more than offset the gains made by the Data Storage unit. Further, our magnetic recording unit sustained losses due to a significant drop in market demand.

FINANCIAL HIGHLIGHTS AND REVIEW OF OPERATIONS

Based on our audited financial statements, Group revenue increased by 207% to RM145.8 million for the financial year ended 31 March 2006 from RM47.5 million (includes pre-acquisition revenue) in the previous financial year. The growth was largely driven by continuing strong demand for autoloaders. The booming market for mobile phones equipped with cameras, together with the growing trend for mobile phones with higher mega-pixel cameras, has helped increase the demand for micro-optic components.

However, impressive autoloader sales are moderated by lower revenue generated from magnetic recording ("DDS") and micro-optic components. The weak DDS sales are attributable to substantially weaker orders for magnetic recording components, in line with declining market demand. The Group is presently reviewing the long-term prospects and profitability of this business. Revenue at the Micro-optics unit has also declined as the lower-margin DOP products are being phased out. Notwithstanding this, it must be noted that the micro-optic sales mix continues to be favourable with a larger proportion of sales mix comprising high-margin components.

Despite an increase in revenue, the Group registered a profit after tax and minority interest of RM6.59 million for the financial year ended 31 March 2006 as compared to RM13.69 million (proforma) in the previous financial year. This represents a reduction in profit after tax and minority interest of 52% over the last financial year. The decline in profit was mainly due to:-

- higher operating losses at our DDS operations due to a substantially lower market demand;

- continuing operating loss at our fledgling aerospace operations, exacerbated by additional cost from an exercise to integrate and streamline the Natex acquisition and to rationalise the cost structure. This exercise, which has been completed, is expected to provide a sound foundation for the aerospace operations; and

- operating loss, primarily start-up costs, at our newly-established Japanese unit (in September 2005), involving in biometric and security businesses.

TECHNOLOGY EXCELLENCE

We attach utmost importance to enhancing our technological capability as we believe that it is the single most important factor to ensuring our continued growth and success. Towards this end, the Group is committed to ongoing research and development (R&D) activities in the area of process technology and product development. Currently, our cumulative investment in R&D stands at RM11 million. The Group plans to invest another RM2 million to undertake such activities in the coming financial year.

OUR COMMITMENT TO CORPORATE GOVERNANCE

Our financial performance is an important measure by which we are judged, but it is not the only measure. As a responsible corporate citizen, we subscribe to a practice of maintaining a high standard of corporate governance and, we are committed to it in the long-term interests of our investors, business associates and the general public. We will strive to ensure that sufficient disclosure is made available to the public so that our stakeholders can assess our performance and governance practices.

CURRENT PROSPECTS

Based on current business trend and business arrangements, we expect the business environment, both global and regional, to continue to become even tougher and more competitive, in light of the current global circumstances such as interest rate hike and increased oil prices. As such, we need to be prudent in our resource allocation, re-align our resources with the Group's strategies, improve production efficiencies and minimise any mismatch in cost structure and pricing.

GOING FORWARD

We will continue to focus on leveraging on our core competencies and capabilities to develop new business opportunities, either via strategic alliances, joint ventures or acquisitions, to provide the impetus for sustainable growth over the near to medium term.

For the Data Storage business, we will continue to improve efficiency, build scale and widen our customer base so that we can keep expanding. For the Optics business, we will focus more on design and move ourselves up the value chain. Aerospace and Security businesses are both new growth areas and we expect that both will make positive contributions to revenue in the future.

APPRECIATION

Since the last Annual General Meeting, Messrs. Cheng Joo Wan, Masato Ikeuchi, Koh Poh Jin and Dato' Sim Bee Ming have resigned/vacated office from the Board. Mr Yutaka Watanabe, the alternate Director to Mr Masato Ikeuchi has also ipso facto resigned. The Board wishes to record its appreciation to them for their invaluable contributions and guidance to the Group.

On behalf of the Board of Directors, we also wish to extend our sincere appreciation to the diligent and resourceful members of the management team and staff for their invaluable contribution to the success of the Group. We also wish to thank our valued customers, suppliers, business associates, bankers, authorities and shareholders for their support and loyalty to our brand. We hope you will continue to support us as we move forward to the year ahead. We also wish to put on record our sincere gratitude to our fellow Directors for their counsel and support.

SEAH BAK KHEOW
Executive Chairman

KHOO LEE MENG
CEO

A global brand

that is delivering **seamless integrated solutions** to our customers, world-wide.

statement on corporate governance

The Board of Directors of Fotronics ("Board") recognises the importance of corporate governance in ensuring transparency, protecting the interests of its shareholders as well as strengthening investors' confidence in its management and financial reporting, and is committed to maintaining a high standard of corporate governance within the Group.

The Company will endeavour to comply with the principles of the Malaysian Code on Corporate Governance ("the Code") in an effort to observe high standards of transparencies, accountability and integrity.

The Board is therefore committed to support recommendation of the Code and the Company has complied with the Principles and Best Practices of the Code as set out in Part 1 and 2 of the Code as follows:-

BOARD OF DIRECTORS

Composition of the Board

The Board consists of ten (10) members, comprising one (1) Executive Chairman, four (4) Executive Directors and five (5) Independent Non-Executive Directors. The current Board's composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market. A brief profile of each Board member is presented in the Annual Report on pages 4 to 8.

Board Balance

There is a clear division of responsibilities between the Executive Chairman and the Group Chief Executive Officer ("CEO"). The Executive Chairman, acting in the capacity as Board Chairman, provides leadership to the Board, encourages debates on issues and brings to the Board a healthy level of deliberation during the meeting. The Group CEO manages and directs the entire Group towards the primary and strategic objectives and is responsible for the overall performances of the Group. The Management of the Group's business and implementation of policies and day-to-day running of the businesses are delegated to the Executive Directors.

The Board considers that the current composition of the Board provides an effective Board with a mix of industry-specific knowledge and broad based business and commercial experiences, together with unbiased and independent views, advice and judgement on matters of strategy, operations, resources and business conducts dealt with at the Board. The Board balance is important to ensure that the strategies proposed by the Executive Directors and Management are independently and objectively deliberated and examined, taking into account the long term interests of the shareholders, employees, customers, suppliers and other stakeholders.

The Board has delegated certain specific functions and responsibilities to various committees, namely the Audit, Remuneration, Nomination and ESOS Committees, which operate within their approved terms of reference.

Board Responsibilities

The main responsibilities of the Board comprise the following:-

- Establishment of the overall strategic direction;
- Approval of annual and interim results, acquisitions and disposals, major capital expenditures and budgets;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Maintaining an effective investor and shareholders communication policy;
- Periodic review and adoption of the Company's business policies and strategies;
- Management and staff succession planning; and
- Review of the adequacy and integrity of the Company's internal controls and management information systems, including systems for compliance with the applicable laws, regulations, rules, directives and guidelines.

Board Meetings

The Board meets regularly at least four (4) times a year. Additional meetings will be convened as and when required. In the intervals between Board meetings, for exceptional matters requiring urgent Board decision, Board approvals are sought via circular resolutions, which are supported with sufficient information required to make an informed decision.

During the financial year, the Board met five (5) times, where it deliberated and considered various matters including the Group's financial results, strategic decisions, the business plan and direction of the Group. The following is a record of attendance of the Board members:-

Directors	No. of Board Meetings Attended	Percentage (%)
Seah Bak Kheow	5/5	100
Seah Bak Seng	5/5	100
Khoo Lee Meng (Appointed on 27/2/2006)	N/A	N/A
Ng Kwok Leung, George	5/5	100
Yong Kit Fai	5/5	100
Yuen Kin Pheng	4/5	80
Patrick Bernard Andre Bouju	5/5	100
Benoit Jean-Marie Mauffrey	5/5	100
Albert Yeo Toon Mok	5/5	100
Dato' Baharuddin Bin Musa (Appointed on 25/11/2005)	1/1	100

Supply of Information to the Board

Each Board member receives notices to meetings setting out the agenda accompanied by relevant Board papers issued to the Directors in sufficient time to enable the Directors to peruse, obtain additional information and/or seek further clarification on the matters to be deliberated. The Board papers provide information on operation performance, status of finance, corporate issues and reasons for any significant deviation from approved budget.

The proceedings and resolutions passed at each Board Meeting are minuted and kept in the statutory minute book at the registered office of the Company.

All Directors have access to the services and advice of the Group's Company Secretary who ensures that all statutory obligations as well as obligations arising from the listing rules of exchange or other regulatory requirements are met. The Company Secretary also provides updates of the Listing Requirements to the Board to enable them to keep abreast with the development of the Listing Requirements.

The Directors have access to all information within the Company whether as a full board or in their individual capacity, in furtherance of their duties. In addition, where deemed necessary, the Directors may seek independent professional advice from external consultants at the Company's expenses in order to discharge their duties and responsibilities effectively.

Directors' Training

All Directors receive full and appropriate briefing on first appointment, with subsequent updating as necessary. All members of the Board have attended the Mandatory Accreditation Programme training as required by the Listing Requirements of Bursa Securities.

Directors also receive training from time to time particularly on relevant new laws and regulations and changing commercial risks. Directors are encouraged to attend training programme and seminars to keep abreast with relevant developments on a continuous basis and to further enhance their professionalism and knowledge. During the year, the Company has organized an in-house seminar, "Understanding Financial and Accounting Reports in the New Reporting Regime" in light of the proposed change of Malaysian Accounting Standards Board ("MASB") to Financial Reporting Standards ("FRS") in line with the global trends on financial reporting, which took effect on 1 January 2006,

In addition, the Company Secretary had similarly conducted a briefing to the Board on the Revamped Listing Requirements for MESDAQ Market which took effect on 8 May 2006.

Nomination Committee

In line with the Best Practices of the Code, the Board has set up a Nomination Committee on 25 February, 2005, comprises predominantly Independent Non-Executive Directors.

The present Chairman and members of the Nomination Committee are:

Chairman	
Patrick Bernard Andre Bouju	Independent Non-Executive Director
Members	
Benoit Jean-Marie Mauffrey	Independent Non-Executive Director
Albert Yeo Toon Mok	Independent Non-Executive Director

During the financial year, the Nomination Committee met three (3) times. The Nomination Committee, in consultation with the Board Chairman, is responsible, amongst others, recommendations on appointment and re-nomination of Directors and Directors to fill up the vacancies of Board committee, having regard to their qualifications, performances and contributions. The Nomination Committee will also ensure that the Board as a whole possesses the core competencies required by the Code.

The Committee shall also assess the performance of the Directors of the Company by annually reviewing the profile of the required skills and attributes to ensure that the Board has an appropriate balance of expertise and ability. In addition, the Board will assess its own effectiveness as a whole and the contribution of each Director on an annual basis.

In accordance with the Company's Articles of Association, at least one third (1/3) of the Board shall retire from office and are subject to election by shareholders at the next opportunity after their appointment at each Annual General Meeting ("AGM"). All Directors shall retire from office at least once every three (3) years and are eligible for re-elections at each AGM. Director who attained the age of seventy (70) is required to submit himself for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

The Directors who are standing for re-election at the Third AGM of the Company are contained in the Notice of Annual General Meeting.

Employees' Share Option Scheme ("ESOS") Committee

On 20 July, 2004, the Company obtained the approval of Bursa Securities to establish an ESOS up to ten percent ("10%") of the issued and paid-up share capital of the Company for a duration of five (5) years. In this connection, on 25 May, 2005, the Board had established an ESOS Committee with the objectives to administer Fotronics' Employees' Share Option Scheme in accordance with the ESOS By-laws and to determine participation eligibility, option offers and share allocation and to attend to such other matters as may be required.

The present Chairman and members of the ESOS Committee are:

Chairman	
Yuen Kin Pheng	Independent Non-Executive Director
Members	
Seah Bak Seng	Executive Director
Tan Gim Hong	Group Financial Controller
Tan Eng Kiat	Treasury Director
Ng Kim Lam	Assistant Group Financial Controller
Susanah Seah Lishan	Senior Manager, Group Human Resources

During the financial year, no meeting was held as the Company does not intend to launch the ESOS yet.

DIRECTORS' REMUNERATION

Remuneration Committee

In line with the Best Practices of the Code, the Board has set up a Remuneration Committee on 25 February, 2005, comprises predominantly Independent Non-Executive Directors.

The present members of the Remuneration Committee are:

Chairman	
Benoit Jean-Marie Mauffrey	Independent Non-Executive Director
Members	
Patrick Bernard Andre Bouju	Independent Non-Executive Director
Albert Yeo Toon Mok	Independent Non-Executive Director

During the financial year, the Remuneration Committee met once. The Remuneration Committee assists the Board, amongst others, to review and approve the remuneration structure and compensation packages, including terms of employment of the Executive Directors and decides on policies relating to the remuneration and incentive programs. For the Non-Executive Directors, the remuneration will be packaged to reflect the experience and level of responsibilities undertaken.

The Executive Directors concerned play no part in the decisions on their own remuneration. Likewise, the remuneration of the Non-Executive Directors is a matter for the Board as a whole, with individual Directors abstaining from discussion of their own remuneration.

Remuneration Committee, with the assistance of the Company Secretary, will propose the introduction of formal and structured guidelines on Directors' fees and Directors' allowances for recommendation to the Board. The proposed Directors' fees will be subject to the approval of shareholders at each AGM.

Directors' Remuneration

The details of the Directors' remuneration for the financial year ended 31 March, 2006 are set out below:

	Executive Directors RM	Non-Executive Directors RM
Salaries and other emoluments	1,315,206	25,600
Fees	–	208,500
Benefit in kind	–	–

The Directors, whose remuneration falls within each successive band of RM50,000 for the financial year ended 31 March, 2006, are as follows:

Remuneration Range	Executive Directors	Non-Executive Directors
Below RM50,000	1	1
RM50,001 – RM100,000	–	4
RM100,001 – RM150,000	1	–
RM150,001 – RM200,000	–	–
RM200,001 – RM250,000	–	–
RM250,001 – RM300,000	–	–
RM300,001 – RM350,000	1	–
RM350,001 – RM400,000	–	–
RM400,001 – RM450,000	–	–
RM450,001 – RM500,000	–	–
RM500,001 – RM550,000	–	–
RM550,001 – RM600,000	–	–
RM600,001 – RM650,000	–	–
RM650,001 – RM700,000	–	–
RM700,001 – RM750,000	–	–
RM750,001 – RM800,000	1	–

The above Directors' remuneration includes salary, contributions to statutory approved provident funds and allowances for all Executive and Non-Executive Directors of the Company except for Mr. Ng Kwok Leung, George, an Executive Director of the Company and of foreign subsidiary companies. The said Director did not receive any direct remuneration package for his executive roles in the Group other than benefits that may have arisen by virtue of management fee payable to George Ng & Company Ltd, a company incorporated in Hong Kong in which Mr. Ng Kwok Leung, George, is a Director and shareholder, as further disclosed in Note 6 to the Financial Statements.

SHAREHOLDERS

Communication with Shareholder

The Board recognises the Company's obligation to provide timely and fair disclosure of material information in accordance with the Corporate Disclosure Policy.

The annual report, quarterly financial results, circular to shareholders (if any) and press releases pertaining to corporate and other developments in the Group serve as a primary means of communication. This dissemination is done in a timely manner to ensure that the Group's shareholders are kept up-to-date of the developments and progresses of the Group. The Group has also held several media briefings with fund managers, analysts and potential investors.

The Group is presently enhancing its existing website, www.fotronics.com, as an alternative communication avenue for all shareholders and investors to have 24-hours access to information on developments in the Group's businesses via updates, company news and promotions.

The shareholders and investors are also able to access the latest corporate, financial and market information of the Company via Bursa Securities' website at www.bursamalaysia.com.

Annual General Meeting ("AGM") and Extraordinary General Meeting ("EGM")

The Company's AGM and EGM remain the principal forum for dialogue and interaction with shareholders wherein shareholders are given the opportunity to seek clarifications or to request additional information pertaining to the operations, business activities and directions of the Group. Shareholders will receive annual report, either in hard copy or CDs and the notice of AGM, which are sent out at least 21 clear days before the date of the meeting. In addition, the Notice of AGM/EGM will be advertised in the newspapers.

Where EGMs are held to obtain shareholders' approval for business or corporate proposals, comprehensive circulars to shareholders are sent within prescribed notice period in accordance with regulatory and statutory provisions.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Company's financial statements are prepared in accordance with the requirements of the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia to ensure that the financial statements of the Company present a balanced and fair assessment of the state of affairs of the Company. In presenting the financial statements, the Company used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, and prepared on a going concern basis.

The Audit Committee assists the Board in scrutinising information for disclosure to ensure accuracy, adequacy and completeness. The composition, summary of activities and terms of reference of the Audit Committee can be found in the Audit Committee Report on pages 23 to 25 of this Annual Report.

The Statement of Directors' Responsibility in respect of the Audited Financial Statements pursuant to the Statement of Directors' Responsibility of the Companies Act 1965 is set out below in the Statement of Corporate Governance.

Internal Control

The Board of Directors acknowledges its overall responsibility for the Group's system of internal controls, which includes establishment of an appropriate control environment and framework, and for reviewing the adequacy and integrity of this system with the objective to safeguard shareholders' investments and the Group's assets. However, the Board also recognises that reviewing the Group's system of internal control is a concerted and continuing process, which is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing those objectives, this system can only provide reasonable and not absolute assurance against material misstatement or loss.

Information pertaining to the Company's internal controls is presented in the Statement of Internal Control as set out on page 26 of the Annual Report.

Relationship with the External Auditors

The Audit Committee's terms of reference formalises the relationship with the External Auditors to report to the members of the Company on their findings which are included as part of the Company's financial reports with respect of each year's audit on the statutory financial statements. In doing so, the Company has established a transparent arrangement with the External Auditors to meet their professional requirements and seeking professional advice in ensuring compliance with accounting standards. The role of Audit Committee in relation to the External Auditors is set out in the Audit Committee Report on pages 23 to 25 of the Annual Report.

Finance Committee

Other than the Board's standing committees, comprising the Audit, Remuneration, Nomination and ESOS Committees, the Board has set up a Finance Committee to assist the Board in safeguarding the assets of the Group and ensuring that the Group's financial policies are complied with. The Finance Committee comprises two (2) Executive Directors and four (4) key management personnel. The Finance Committee reports to the Chairman and/or Group CEO/Executive Director and in its capacity, will deal with matters, including study and evaluate all submissions for capital commitments including business and investment proposals, budgets, financial matters and major operating issues which arise out of the ordinary course of business. The views of the Independent Directors will be sought and recommendations will be made to the Board for approval.

Statement of Directors' Responsibility in respect of Financial Statements

The Directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Company and of the Group at the end of each financial year and of their results and cash flows for the year ended.

In preparing the financial statements, the Directors have ensured that:

- The Group and the Company have used appropriate accounting policies which are consistently applied;
- Reasonably and prudent judgments and estimates were made; and
- All applicable approved accounting standards in Malaysia have been complied with.

The Directors are responsible for ensuring the Company maintains proper accounting records in compliance with the Companies Act, 1965 and disclose with reasonable accuracy the financial position of the Company and of the Group.

This statement is made in accordance with the resolution of the Board of Directors dated 26 July, 2006.

ADDITIONAL COMPLIANCE INFORMATION

Statement on Compliance with the Best Practices in Corporate Governance

The Board considers that the Company had complied with the Best Practices in Corporate Governance set out in Part 2 of the Code during the year.

Utilisation of Proceeds

The status on the utilisation of listing proceeds as of 25 August 2006 (the latest practical date not earlier than 7 days from the date of issue of the quarterly report) is as follows:

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Unutilised Balance RM'000
Capital Expenditure	25,120	10,798	14,322
Repayment of Bank Borrowings	4,000	4,000	–
R&D Expenditure	9,100	2,860	6,240
Working Capital	9,525	9,525	–
Estimated Listing Expenses	3,000	3,000	–
Total	**50,745**	**30,183**	**20,562**

Share Buy-Back

During the financial year under review, the Company did not seek any shareholders' approval to buy-back its own shares.

Options, Warrants or Convertible Securities

No options, warrants or convertible securities were issued during the financial year ended 31 March, 2006.

American Depository Receipt (ADR) or Global Depository Receipt (GDR) Programme

During the financial year, the Company did not sponsor any ADR or GDR programme.

Sanctions and/or Penalties

There were no sanctions or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies during the financial year ended 31 March, 2006.

Non-Audit Fee

There were no non-audit fees paid to the External Auditors during the financial year.

Variation in Results

There were no material variations between the audited results for the financial year ended 31 March 2006 and the unaudited results for the quarter ended 31 March 2006 of the Group.

Profit Estimate, Forecast or Projection

The Company did not issue any profit estimate, forecast or projection for the financial year.

Profit Guarantee

No profit guarantee was given by the Company and/or its subsidiaries in respect of the financial year.

Material Contracts

During the financial year ended 31 March, 2006, there were no material contracts entered into by the Company and its subsidiaries which involved Directors' or major shareholders' interests.

Revaluation Policy

The Group does not have a revaluation policy in respect of the Group's property.

Recurrent Related Party Transactions of a revenue or trading nature

The details of the recurrent related party transactions undertaken by the Group during the financial year are stated in Note 16 in the Audited Financial Statements for the financial year ended 31 March, 2006.

audit committee report

The Audit Committee was established with the primary objective to assist the Board in fulfilling its fiduciary responsibilities relating to corporate governance, system of internal controls, risk management processes, and management and financial reporting practices of the Group.

COMPOSITION

The present members of the Audit Committee comprise:

Chairman	Albert Yeo Toon Mok	Independent Non-Executive Director
Members	Yong Kit Fai	Executive Director
	Benoit Jean-Marie Mauffrey	Independent Non-Executive Director

TERMS OF REFERENCE

The Terms of Reference of the Audit Committee, as approved by the Board on 4 January, 2005, are as follows:

Membership

1. The present members of the Audit Committee of the Company are:-

	Name	Designation
(a)	Albert Yeo Toon Mok (Chairman)	Independent Non-Executive Director
(b)	Yong Kit Fai	Executive Director
(c)	Benoit Jean-Marie Mauffrey	Independent Non-Executive Director

2. Composition of members

The Board shall appoint the Audit Committee members from amongst themselves, comprising no fewer than three (3) directors, where the majority shall be independent directors. The Chief Executive Officer shall not be a member. The appointment of a Committee member terminates when a member ceases to be a Director. No alternate director is appointed as a member of the Audit Committee and at least one (1) member:-

(a) shall be a member of the Malaysian Institute of Accountants ("MIA"); or

(b) if he is not a member of the MIA, he must have at least 3 years of working experience and:

(i) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or

(ii) he must be a member of one (1) of the associations of the accountants specified in Part II of the First Schedule of the Accountants Act, 1967.

(c) fulfils such other requirements as prescribed by Bursa Malaysia Securities Berhad.

Retirement and resignation

If a member of the Audit Committee resigns, dies, or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall within three (3) months of the event appoint such number of the new members as may be required to fill the vacancy.

3. Chairman

The Chairman of the Audit Committee, elected from amongst the Audit Committee members, shall be an independent director. The Chairman of the Committee shall be approved by the Board of Directors.

4. Secretary

The Secretary of the Audit Committee shall be the Company Secretary.

The Secretary shall be responsible for drawing up the agenda with concurrence of the Chairman and circulating it, supported by explanatory documentation to members of the Audit Committee prior to each meeting.

The Secretary shall also be responsible for keeping the minutes of meetings of the Audit Committee, circulating them to members of the Audit Committee and to the other members of the Board of Directors and for following up outstanding matters.

5. Terms of Office

The Board of Directors of the Company shall review the term of office and performance of the Audit Committee and each of its members at least once in every three (3) years to determine whether such Audit Committee and members have carried out their duties in accordance with their terms of reference.

6. Meetings

The Audit Committee meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion.

In the absence of the Chairman, the other independent director shall be the Chairman for that meeting.

The members of the Audit Committee, CEO, Group Financial Controller, Finance Manager and the head of internal audit will normally be in attendance at the meetings. Representatives of the external auditors are to be in attendance at meeting where matters relating to the audit of the statutory accounts and/or external auditors are to be discussed.

Other directors, officers and employees of the Company and/or Group may be invited to attend, except for those portions of the meetings where their presence is considered inappropriate, as determined by the Audit Committee. However, at least once a year the Audit Committee shall meet with the external auditors without any executive board member present.

Minutes of each meeting shall be kept and distributed to each member of the Audit Committee and also to the other members of the Board of Directors. The Audit Committee Chairman shall report on each meeting to the Board of Directors.

7. Quorum

The quorum for the Audit Committee meeting shall be the majority of members present whom must be independent directors.

8. Reporting

The Audit Committee shall report to the Board of Directors, either formally in writing, or verbally, as it considers appropriate on the matters within its terms of reference at least once a year, but more frequently if it so wishes.

The Audit Committee shall report to the Board of Directors on any specific matters referred to it by the Board for investigation and report.

9. Objectives

The principal objectives of the Audit Committee is to assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the holding company and each of its subsidiaries. In addition, the Audit Committee shall:

- evaluate the quality of the audits performed by the internal and external auditors;
- provide assurance that the financial information presented by management is relevant, reliable and timely;
- oversee compliance with laws and regulations and observance of a proper code of conduct; and
- determine the quality, adequacy and effectiveness of the Group's control environment.

10. Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the expense of the Company,

(a) authorise to investigate any activity within its terms of reference. All employees shall be directed to co-operate as requested by members of the Audit Committee.

(b) have full and unlimited/unrestricted access to all information and documents/resources which are required to perform its duties as well as to the internal and external auditors and senior management of the Company and the Group.

(c) obtain, at the expense of the Company, other independent professional advice or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

(d) be able to convene meetings with the external auditors, without the attendance of the executive members of the Audit Committee, whenever deemed necessary.

(e) be able to make relevant reports when necessary to the relevant authorities if a breach of the Listing Requirements occurred.

11. Duties and Responsibilities

The duties and responsibilities of the Audit Committee are as follows:-

- To review the following and report the same to the Board of Directors of the Company:-

  (a) with the external auditor, the audit plan;
  (b) with the external auditor, his evaluation of the system of internal controls;

(c) with the external auditor, his audit report;
(d) the assistance given by the employees of the Company to the external auditor;
(e) the adequacy of the scope, functions and resources of the internal audit functions and it has the necessary authority to carry out its work;
(f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
(g) the quarterly results and year end financial statements, prior to the approval by the board of directors, focusing particularly on:-

    (i) changes in or implementation of major accounting policy changes;
    (ii) significant and unusual events; and
    (iii) compliance with accounting standards and other legal requirements;

(h) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity;
(i) any letter of resignation from the external auditors of the Company; and
(j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment;

- To verify the allocation of employees' share option scheme ("ESOS") in compliance with the criteria as stipulated in the by-laws of ESOS of the Company, at the end of each financial year.

Frequency of Meetings

The Committee meetings shall be conducted at least four (4) times annually, or more frequently as circumstances dictate. In addition, the Chairman may call for additional meetings at any time at the Chairman's discretion. In the absence of the Chairman, the other Independent Director shall be the Chairman for that meeting.

The members of the Committee, CEO, Group Financial Controller and internal audit will normally be in attendance at the meetings. Representatives of the external auditors are to be in attendance at meeting where matters relating to the audit of the statutory accounts and/or external auditors are to be discussed.

Other Directors, officers and employees of the Company and/or the Group may be invited to attend, except for those portions of the meetings where their presence is considered inappropriate, as determined by the Committee. However, at least once a year the Committee shall meet with the external auditors without any executive board member present.

During the financial year, the Committee held a total of four (4) meetings. The attendance of the audit committee members for the meetings held during the year are as follows:

Name of Director	No. of Meeting Attended	Percentage (%)
Albert Yeo Toon Mok	4/4	100
Benoit Jean-Marie Mauffrey	4/4	100
Yong Kit Fai	4/4	100

Quorum

The quorum for the Committee meeting shall be the majority of members present whom must be Independent Directors.

SUMMARY OF ACTIVITIES

The following activities were carried out by the Audit Committee during the financial year under review:-

(a) Reviewed the quarterly financial results of the Company and of the Group, to ensure compliance with Bursa Securities Listing Requirements, Financial Reporting Standard and other relevant legal and statutory requirements prior to submission to the Board for their consideration and approval for release to Bursa Securities;
(b) Reviewed the semi-annual research report, including the announcements pertaining thereto, before the release of the research report to Bursa Securities;
(c) Reviewed the Audit Committee Report and the Statement of Internal Control and recommended the same to the Board of Directors for approval and disclosure in the Company's annual report;
(d) Reviewed the nature and scope of the audit plan for the statutory audit of the Group for the financial year ended 31 March 2006 with the Company's external auditors;
(e) Noted the management letter issued by external auditors for the previous financial year;
(f) Reviewed and approved the audit work plan of the internal auditor; and
(g) Evaluated the effectiveness of the external auditors and made recommendations concerning their appointment and remuneration.

statement on internal control

This statement on internal control has been prepared in compliance with the Listing Requirements of Bursa Securities for MESDAQ Market.

Board Responsibility

The Board of Directors acknowledges its overall responsibility for the Group's system of internal controls, which includes establishment of an appropriate control environment and framework, and for reviewing the adequacy and integrity of this system. Such system is designed to safeguard shareholders' investments and the Group's assets. However, the Board also recognises that reviewing the Group's system of internal control is a concerted and continuing process, which is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing those objectives, this system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a continuous process for identifying, evaluating and managing the significant risks faced by the Group to obtain a reasonable assurance that business objectives are met. These controls are regularly reviewed.

Key Processes

During the year, the Group monitored significant risks and risk mitigation strategies on an ongoing basis through its management meetings. Under the purview of the Group CEO, the respective heads of each operating subsidiary and department of the Group are empowered with the responsibility of managing their respective operations. The key processes that the Directors have established in reviewing the adequacy and integrity of the system of internal control are as follows:-

- ### Independence of Audit Committee

  The Audit Committee comprises mainly Non-Executive Directors, who are also independent of management. The members of the Audit Committee have a wealth of experience and diverse qualifications. The Audit Committee have full access to the Group's management and resources as well as to both the internal and external auditors. The Audit Committee, on behalf of the Board, reviews the quarterly report from management of the subsidiaries on key operating statistics, legal and regulatory matters before bringing to the attention of the Board the findings, recommendations or changes to be made.

- ### Organisational Structure with Defined Roles and Responsibilities

  The Group operates within well-defined structures, with terms of references and job functions in place for the Executive Chairman, Group CEO, Executive Directors, Audit, Remuneration and Nomination Committees, ESOS Committee, Finance Committee and other senior management staff of the Group. This is to facilitate proper division and segregation of duties and responsibilities.

- ### Policies and Procedures and Authority Limits

  The Group's subsidiaries operate in line with internal policies and procedures with clearly defined authority limits, as outlined in the Group's Financial Policies Manual ("FPM") which the Board has adopted. The FPM is intended to provide a clear operational framework for the Group and its management and employees. For any situation not covered under the FPM, the Group CEO either individually or in consultation with either Executive Chairman or other Board members, as required, will determine the next course of action.

- ### Financial and Operational Information

  The Executive Chairman and Group CEO will receive and review regular reports, covering areas such as quarterly financial review, business performances and developments, and other corporate matters, from the Executive Directors and management of respective subsidiaries. These reports will be discussed at the Board meetings on a quarterly basis or as and when the circumstances necessitate.

  Annual budget and business plan, containing financial and operational business targets, are reviewed by Executive Directors and management of the respective subsidiaries with the Executive Chairman and Group CEO and thereafter, are tabled to the Board for approval and adoption.

- ### Internal Audit Department

  During the financial year, the Group set up an Internal Audit Department. The internal audit function is to provide an independent evaluation, enabling continual improvement in the processes and controls and to independently assure the Board, through the Audit Committee, that the system of internal controls is functioning as intended.

  Guided by the Audit Committee's internal audit work plan, the Internal Audit Department reviews the Group's subsidiaries and submits audit reports to the Executive Chairman, Group CEO and Chairman (Audit Committee). Included in the reports are recommended corrective measures on weaknesses identified, if any, for implementation by the management. On a quarterly basis, the Internal Audit Department updates the Audit Committee on the remedial actions taken by the management.

  The close involvement of the Executive Chairman, Group CEO and Executive Directors in the operations of the Group, provides added assurance that certain control procedures on matters of finance and operations are in place and being adhered to. This also includes the review of key operating performances, addressing areas of concern and compliance with regulatory matters.

  The current systems of internal control in place for the Group are satisfactory and have not resulted in any significant breakdown or weaknesses in the system that have resulted in material losses sustained by the Group for the financial year ended 31 March 2006. The Board continues to take necessary measures to strengthen its internal control structure and manage the risks. However, such system, no matter how well designed, implemented and monitored, does not eliminate the possibility of human error, collusion or deliberate circumvention of control procedures.

A global brand

that mirrors our success and stature as a renowned international company in the information communication & technology sector.

directors' report

The directors of FOTRONICS CORPORATION BERHAD have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 March, 2006.

Principal Activities

The principal activities of the Company are investment holding and provision of management administrative services to its subsidiary companies.

The principal activities of the subsidiary companies are disclosed in Note 11 to the Financial Statements.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year other than that as disclosed below and in Note 11 to the Financial Statements.

Significant Events

(a) On 10 May, 2005, the Company entered into a Memorandum of Understanding with certain shareholders of Natex Pte Ltd ("Natex"), a company incorporated in the Republic of Singapore, to acquire 60% equity interest in Natex, comprising 1,200 ordinary shares of SGD100 each, free from all liens, charges and encumbrances and with all rights attaching to and accruing in respect of them, for an indicative cash consideration of SGD360,000 (equivalent to approximately RM807,000).

On 30 August, 2005, the Group, via M-Precision Centre Pte Ltd, a wholly-owned subsidiary company of the Company, entered and completed a share transfer agreement with the said shareholders of Natex for the acquisition of the said 60% equity interest for a total cash consideration of SGD360,000 (equivalent to approximately RM807,000).

(b) On 17 August, 2005, the Company obtained an approval from Bank Negara Malaysia to increase its investment in Fotronics Incorporated (S) Pte Ltd ("FIS"), a wholly-owned subsidiary company of the Company, by way of capitalisation of up to SGD5,000,000 (equivalent to approximately RM11,533,000) from amount owing by the said subsidiary company. On 9 September, 2005, the Company subscribed for an additional 4,999,998 ordinary shares of SGD1.00 each in FIS at par and increased its investment in FIS from RM5 to RM11,532,901.

(c) On 22 August, 2005, the Company announced that it proposed to undertake a bonus issue of up to RM22,327,646 comprising 223,276,460 new ordinary shares of RM0.10 each to be credited as fully paid-up on the basis of one (1) new ordinary share for every one (1) existing ordinary share held in the Company. The proposed bonus issue, which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 27 September, 2005, was completed on 27 October, 2005 with the listing and quotation of 202,978,600 new ordinary shares.

(d) On 11 September, 2005, the Company incorporated Fotronics Incorporated (Japan), a wholly-owned subsidiary company in Japan, with an issued and paid-up share capital of JPY10.0 million (equivalent to approximately RM378,000), consisting of 200 ordinary shares with no par value.

(e) On 20 June, 2006, the Company announced that the Securities Commission had vide its letter dated 15 June, 2006, granted an extension of time for the Company to meet the 30% Bumiputra equity participation requirement until 29 July, 2007. The Company was originally required to meet the said requirement within one year from 31 March, 2005 as the Group had achieved the profit track record requirement for companies applying for listing on the Second Board of Bursa Malaysia Securities Berhad in its financial year ended 31 March, 2005.

Results of Operations

The results of operations of the Group and of the Company for the financial year are as follows:

	The Group RM	The Company RM
Profit/(Loss) before tax	11,646,395	(1,581,442)
Income tax expense	(2,432,533)	–
Profit/(Loss) after tax	9,213,862	(1,581,442)
Minority interests	(2,624,471)	–
Net profit/(loss) for the year	6,589,391	(1,581,442)

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

A final tax-exempt dividend of 10%, amounting to RM2,029,786, proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the financial year.

The directors do not recommend any dividend payment in respect of the current financial year.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

Issue of Shares and Debentures

As approved by the shareholders at an Extraordinary General Meeting held on 27 September, 2005, the issued and paid-up share capital of the Company was increased from RM20,297,860, comprising 202,978,600 ordinary shares of RM0.10 each to RM40,595,720, comprising 405,957,200 ordinary shares of RM0.10 each, by way of a bonus issue of 202,978,600 new ordinary shares of RM0.10 each in the Company through capitalisation of an amount of RM20,297,860 from the share premium account on the basis of one (1) new ordinary share for every one (1) existing ordinary share held in the Company.

The new ordinary shares issued rank pari passu in all respects with the then existing ordinary shares of the Company.

The Company has not issued any debentures during the financial year.

Share Options

No options have been granted by the Company to any parties during the financial year to take up unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. As at the end of the financial year, there were no unissued shares of the Company under options.

Other Financial Information

Before the income statements and the balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts have been written off and that no allowance for doubtful debts is required; and

(b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, the directors are not aware of any circumstances:

(a) which would render the amount of bad debts written off inadequate to any substantial extent or require the setting up of allowance for doubtful debts in the financial statements of the Group and of the Company; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

(d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the succeeding financial year.

Directors

The following directors served on the Board of the Company since the date of the last report:

Seah Bak Kheow
Seah Bak Seng
Ng Kwok Leung, George
Yong Kit Fai
Yuen Kin Pheng
Patrick Bernard Andre Bouju
Benoit Jean-Marie Mauffrey
Albert Yeo Toon Mok
Dato' Baharuddin bin Musa (appointed on 28.11.2005)
Khoo Lee Meng (appointed on 27.02.2006)
Cheng Joo Wan (resigned on 28.11.2005)
Koh Poh Jin (resigned on 28.11.2005)
Masato Ikeuchi (resigned on 28.11.2005)
Yutaka Watanabe (resigned as an alternate director to Masato Ikeuchi on 28.11.2005)
Dato' Sim Bee Ming (vacated office on 31.03.2006)

Directors (Cont'd)

In accordance with Article 92 of the Company's Articles of Association, Messrs. Seah Bak Kheow, Yuen Kin Pheng and Benoit Jean-Marie Mauffrey retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Khoo Lee Meng, who was appointed to the Board since the last Annual General Meeting, retires under Article 99 of the Company's Articles of Association and, being eligible, offers himself for re-election.

Dato' Baharuddin bin Musa, who was appointed to the Board since the last Annual General Meeting, retires under Section 129 of the Companies Act, 1965 and a resolution will be proposed for his re-appointment as director under the provision of Section 129(6) of the said Act to hold office until the next Annual General Meeting of the Company.

Directors' Interests

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, are as follows:

	Number of ordinary shares of RM0.10 each				
Shares in the Company	**Balance as of 01.04.2005/ Date of appointment**	**Bought**	**Sold**	**Bonus Issue**	**Balance as of 31.03.2006**
Direct interest					
Seah Bak Kheow	60,000	–	–	60,000	120,000
Seah Bak Seng	4,644,000	–	(1,450,000)	4,644,000	7,838,000
Ng Kwok Leung, George	13,043,569	–	–	13,043,569	26,087,138
Yong Kit Fai	60,000	–	–	60,000	120,000
Yuen Kin Pheng	60,000	–	–	60,000	120,000
Patrick Bernard Andre Bouju	160,000	500,000	–	160,000	820,000
Benoit Jean-Marie Mauffrey	160,000	600,000	–	160,000	920,000
Albert Yeo Toon Mok	60,000	100,000	–	160,000	320,000
Dato' Baharuddin bin Musa	20,000	–	–	–	20,000
Khoo Lee Meng	1,000,000	–	–	–	1,000,000
Deemed interest					
Seah Bak Kheow*	108,593,205	–	(32,782,920)	100,680,285	176,490,570
Dato' Baharuddin bin Musa#	–	70,000	–	–	70,000

* Deemed interested by virtue of his spouse's and children's substantial shareholdings in Memcorp Holdings Limited ("Memcorp"), a company incorporated in the British Virgin Islands, and Memcorp's controlling interest in Futek Incorporated, a company incorporated in Japan and a substantial shareholder of the Company.

Deemed interested by virtue of his spouse's direct shareholding in the Company.

By virtue of the above directors' interests in the shares of the Company, they are deemed to have an interest in the shares of all the subsidiary companies to the extent the directors have their interests.

Directors' Benefits

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in the financial statements or being fixed salary of full-time employees of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for any benefit which may be deemed to have arisen by virtue of the transactions as disclosed in Note 16 to the Financial Statements.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Holding Company

Memcorp Holdings Limited, a company incorporated in the British Virgin Islands, is regarded by the directors as the immediate and ultimate holding company of the Company.

Auditors

The auditors, Messrs. Deloitte & Touche, have indicated their willingness to continue in office.

Signed in accordance
with a resolution of the Directors,

SEAH BAK KHEOW

SEAH BAK SENG

Kuala Lumpur,
26 July, 2006

report of the auditors

to the members of Fotronics Corporation Berhad

We have audited the accompanying balance sheets as of 31 March, 2006 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:

- (i) the state of affairs of the Group and of the Company as of 31 March, 2006 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and

- (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and auditors' reports of the subsidiary companies of which we have not acted as auditors, as indicated in Note 11 to the Financial Statements, being the financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements, and we have received satisfactory information and explanations as required by us for these purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act.

Deloitte & Touche

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

OOI THIAM POH
2495/01/08 (J)
Partner

26 July, 2006

income statements

for the year ended 31 March, 2006

		The Group		The Company	
	Note	2006 RM	2005 RM	2006 RM	2005 RM
Revenue	4	145,850,768	33,243,833	–	2,680,000
Other operating income		1,352,249	129,213	–	190,000
Changes in inventories of finished goods and work-in-progress		2,436,166	(71,914)	–	–
Raw materials and consumables used		(104,833,181)	(1,764,782)	–	–
Directors' remuneration	6	(1,549,306)	(854,522)	(234,100)	(59,000)
Staff costs	5	(14,351,566)	(5,830,601)	(296,238)	(109,944)
Depreciation of property, plant and equipment	10	(5,498,841)	(2,630,083)	(32,483)	(26,030)
Other operating expenses		(11,817,138)	(9,738,492)	(1,333,206)	(325,592)
Profit/(Loss) from operations	5	11,589,151	12,482,652	(1,896,027)	2,349,434
Finance costs	7	(434,921)	(60,562)	–	–
Interest income from short-term deposits		492,165	141,233	314,585	109,085
Profit/(Loss) before tax		11,646,395	12,563,323	(1,581,442)	2,458,519
Income tax expense	8	(2,432,533)	(2,282,391)	–	–
Profit/(Loss) after tax		9,213,862	10,280,932	(1,581,442)	2,458,519
Minority interests		(2,624,471)	(1,761,050)	–	–
Net profit/(loss) for the year		6,589,391	8,519,882	(1,581,442)	2,458,519
Earnings per ordinary share					
Basic (sen)	9	1.62	2.49		

The accompanying Notes form an integral part of the Financial Statements.

balance sheets
as of 31 March, 2006

	Note(s)	The Group 2006 RM	The Group 2005 RM	The Company 2006 RM	The Company 2005 RM
ASSETS					
Property, plant and equipment	10	24,686,506	24,249,190	97,158	97,008
Investment in subsidiary companies	11	–	–	27,291,298	15,380,402
Development expenditure	12	6,303,689	2,839,537	–	–
Goodwill on consolidation		565,372	–	–	–
Deferred tax assets	19	1,186,798	1,241,598	–	–
Current Assets					
Inventories	13	9,037,222	2,324,907	–	–
Trade receivables	14 & 16	33,030,754	10,683,322	–	–
Other receivables and prepaid expenses	14 & 16	8,699,628	1,541,997	350,412	46,923
Amount owing by subsidiary companies	16	–	–	13,076,734	13,535,841
Short-term deposits with licensed banks	24	16,880,000	37,350,000	16,880,000	36,900,000
Cash and bank balances		35,414,721	21,396,708	4,348,854	83,424
		103,062,325	73,296,934	34,656,000	50,566,188
Current Liabilities					
Trade payables	15 & 16	10,238,482	3,086,475	–	–
Other payables and accrued expenses	15 & 16	1,653,759	2,151,252	238,805	626,719
Hire-purchase payables					
– current portion	17	379,531	85,065	–	–
Bank borrowings					
– secured	18	20,225,211	1,870,346	–	–
Tax liabilities		738,200	65,457	–	–
		33,235,183	7,258,595	238,805	626,719
Net Current Assets		69,827,142	66,038,339	34,417,195	49,939,469
Long-term and Deferred Liabilities					
Hire-purchase payables					
- non-current portion	17	(597,290)	(112,855)	–	–
Deferred tax liabilities	19	(3,673,813)	(2,289,842)	–	–
		(4,271,103)	(2,402,697)	–	–
Minority interests		(11,545,765)	(9,041,845)	–	–
Net Assets		86,752,639	82,924,122	61,805,651	65,416,879
Represented by:					
Issued capital	20	40,595,720	20,297,860	40,595,720	20,297,860
Reserves	21	46,156,919	62,626,262	21,209,931	45,119,019
Shareholders' Equity		86,752,639	82,924,122	61,805,651	65,416,879

The accompanying Notes form an integral part of the Financial Statements.

statements of changes in equity

for the year ended 31 March, 2006

The Group	Note(s)	Issued capital RM	Share premium RM	Reserve on consolidation RM	Translation reserve account RM	Unappropriated profit/ (Accumulated losses) RM	Total shareholders' equity/(Capital deficiency) RM
Balance as of 1 April, 2004		2	–	–	–	(13,474)	(13,472)
Issues of shares	20 & 21	20,297,858	45,670,500	–	–	–	65,968,358
Listing expenses	21	–	(3,000,000)	–	–	–	(3,000,000)
Acquisition of subsidiary companies		–	–	10,873,272	–	–	10,873,272
Translation adjustments		–	–	–	576,082	–	576,082
Net profit for the year		–	–	–	–	8,519,882	8,519,882
Balance as of 31 March, 2005		20,297,860	42,670,500	10,873,272	576,082	8,506,408	82,924,122
Bonus issue	20	20,297,860	(20,297,860)	–	–	–	–
Dividends paid	22	–	–	–	–	(2,029,786)	(2,029,786)
Translation adjustments		–	–	–	(731,088)	–	(731,088)
Net profit for the year		–	–	–	–	6,589,391	6,589,391
Balance as of 31 March, 2006		40,595,720	22,372,640	10,873,272	(155,006)	13,066,013	86,752,639

The Company	Note(s)	Issued capital RM	Share premium RM	Unappropriated profit/ (Accumulated losses) RM	Total shareholders' equity/(Capital deficiency) RM
Balance as of 1 April, 2004		2	–	(10,000)	(9,998)
Issues of shares	20 & 21	20,297,858	45,670,500	–	65,968,358
Listing expenses	21	–	(3,000,000)	–	(3,000,000)
Net profit for the year		–	–	2,458,519	2,458,519
Balance as of 31 March, 2005		20,297,860	42,670,500	2,448,519	65,416,879
Bonus issue	20	20,297,860	(20,297,860)	–	–
Dividends paid	22	–	–	(2,029,786)	(2,029,786)
Net loss for the year		–	–	(1,581,442)	(1,581,442)
Balance as of 31 March, 2006		40,595,720	22,372,640	(1,162,709)	61,805,651

The accompanying Notes form an integral part of the Financial Statements.

cash flow statements

for the year ended 31 March, 2006

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit/(Loss) before tax	11,646,395	12,563,323	(1,581,442)	2,458,519
Adjustments for:				
Depreciation of property, plant and equipment	5,498,841	2,630,083	32,483	26,030
Amortisation of development cost	201,470	–	–	–
Finance costs	434,921	60,562	–	–
Write-off of:				
Property, plant and equipment	120,762	4,040	–	–
Bad debts	57,077	25,000	–	–
Interest income	(492,165)	(141,233)	(314,585)	(109,085)
Unrealised loss on foreign exchange	327,065	–	71,941	–
Gain on disposal of property, plant and equipment	(2,809)	(8,246)	–	–
Operating Profit/(Loss) Before Working Capital Changes	17,791,557	15,133,529	(1,791,603)	2,375,464
(Increase)/Decrease in:				
Inventories	(6,687,136)	(54,142)	–	–
Trade receivables	(21,186,992)	(1,105,394)	–	–
Other receivables and prepaid expenses	(6,873,857)	(811,751)	(32,710)	(46,923)
Amount owing by subsidiary companies	–	–	387,166	(13,535,841)
Increase/(Decrease) in:				
Trade payables	5,168,663	(2,813,377)	–	–
Other payables and accrued expenses	(842,393)	1,417,386	(387,914)	616,716
Cash Generated From/(Used In) Operations	(12,630,158)	11,766,251	(1,825,061)	(10,590,584)
Income tax paid	(409,847)	(521,397)	–	–
Net Cash From/(Used In) Operating Activities	(13,040,005)	11,244,854	(1,825,061)	(10,590,584)

cash flow statements

for the year ended 31 March, 2006 (cont'd)

	Note	The Group 2006 RM	The Group 2005 RM	The Company 2006 RM	The Company 2005 RM
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES					
Interest received		221,386	141,233	43,806	109,085
Proceeds from disposal of property, plant and equipment		62,821	8,645	–	–
Purchase of property, plant and equipment (Note b)		(3,975,075)	(10,614,480)	(32,633)	(123,038)
Development expenditure incurred		(3,698,267)	(2,839,537)	–	–
Dividend paid		(2,029,786)	–	(2,029,786)	–
Acquisition of subsidiary companies (Note a)		(687,187)	13,796,103	–	(157,039)
Increase in investment in subsidiary companies		–	–	(11,910,896)	–
Net Cash From/(Used In) Investing Activities		(10,106,108)	491,964	(13,929,509)	(170,992)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Net addition to/(repayments of) bank borrowings, excluding bank overdrafts		17,860,791	(1,670,781)	–	–
Payment of hire-purchase payables		(756,184)	(27,118)	–	–
Interest paid		(434,921)	(60,562)	–	–
Proceeds from issue of shares		–	50,745,000	–	50,745,000
Share issue expenses		–	(3,000,000)	–	(3,000,000)
Net Cash From Financing Activities		16,669,686	45,986,539	–	47,745,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(6,476,427)	57,723,357	(15,754,570)	36,983,424
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		57,723,362	5	36,983,424	–
Effect of exchange rate changes on cash and cash equivalents		(469,634)	–	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	50,777,301	57,723,362	21,228,854	36,983,424

cash flow statements

for the year ended 31 March, 2006 (cont'd)

Note a

Analysis of assets and liabilities of subsidiary companies acquired are as follows:

	The Group	
	2006	**2005**
	RM	**RM**
Property, plant and equipment	1,646,554	15,683,582
Deferred tax assets	–	1,415,973
Inventories	25,179	2,270,765
Trade receivables	1,217,517	9,602,928
Other receivables and prepaid expenses	12,995	730,246
Cash and cash equivalents	119,430	13,796,103
Trade payables	(1,656,279)	(5,899,852)
Other payables and accrued expenses	(71,296)	(894,206)
Hire-purchase payables	(786,270)	(75,317)
Bank borrowings, excluding bank overdrafts	–	(2,517,781)
Tax liabilities	–	(727,263)
Deferred tax liabilities	(105,756)	(7,753)
Minority interests	(160,829)	(7,280,795)
Net assets acquired	241,245	26,096,630
Goodwill on consolidation/(Reserve on consolidation)	565,372	(10,873,272)
Total purchase consideration	806,617	15,223,358
Less: Purchase consideration satisfied through the issue of ordinary shares	–	(15,223,358)
Less: Cash and bank balances	(119,430)	(14,243,390)
Add: Bank overdrafts	–	447,287
Cash flow on acquisition, net of cash and cash equivalents acquired	687,187	(13,796,103)

Note b

During the financial year, the Group acquired property, plant and equipment at an aggregate cost of RM4,723,890 (2005: RM10,764,201), of which RM748,815 (2005: RM149,721) was acquired under hire-purchase arrangements. Cash payments by the Group for acquisition of property, plant and equipment amounted to RM3,975,075 (2005: RM10,614,480).

The accompanying Notes form an integral part of the Financial Statements.

notes to the financial statements

1. General Information

The Company is a public limited company and listed on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The principal activities of the Company are investment holding and provision of management administrative services to its subsidiary companies. The principal activities of the subsidiary companies are disclosed in Note 11.

There have been no significant changes in the nature of the activities of the Company and its subsidiary companies during the financial year other than those as disclosed in Notes 11 and 27.

The total number of employees of the Group and of the Company at the end of the financial year are 1,025 (2005: 1,037) and 2 (2005: 2), respectively.

The registered office of the Company is located at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur.

The principal place of business of the Company is located at Suite 3A.1, Level 3A, Wisma E & C, 2 Lorong Dungun Kiri, Damansara Heights, 50490 Kuala Lumpur.

2. Basis of Preparation of Financial Statements

The financial statements of the Group and of the Company were approved by the Board of Directors for issuance on 26 July, 2006.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia.

3. Significant Accounting Policies

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention.

Basis of Consolidation

The consolidated financial statements include the audited financial statements of the Company and of all subsidiary companies made up to the end of the financial year. Subsidiary companies are those companies in which the Group owns, directly or indirectly, more than 50% of the equity share capital and has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. The interest of minority shareholder is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary companies acquired or disposed off during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as applicable.

All significant intercompany transactions and balances are eliminated on consolidation.

Reserve on consolidation represents the excess of the Group's interest in the fair values of the identifiable net assets of the subsidiary companies acquired at the effective date of acquisition over the cost of investment.

Goodwill on consolidation, which represents the excess of the Group's cost of investment over its share of the fair values of the identifiable net assets of the subsidiary companies at the effective date of acquisition, is stated at cost less any impairment losses.

3. Significant Accounting Policies (Cont'd)

Revenue

Revenue of the Company consists of dividend income and management fee received or receivable from subsidiary companies.

Revenue of the Group consists of gross invoiced value of goods sold less discounts and returns.

Revenue from sales of goods is recognised upon delivery of products and when the risks and rewards of ownership have passed.

Revenue from provision of management administrative services is recognised when the services are rendered.

Dividend from subsidiary companies is recognised when the shareholder's right to receive payment is established.

Foreign Currency Conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates, or where settlement has not yet been made at the end of the financial year, at the approximate exchange rates prevailing at that date. All foreign exchange gains or losses are taken up in the income statements.

For the purpose of consolidation, the financial statements of the foreign incorporated subsidiary companies have been translated into Ringgit Malaysia as follows:

Assets and liabilities	-	at year-end rate
Share capital and reserves	-	at historical rate
Revenue and expenses	-	at average rate for the year

The closing rates per unit of Ringgit Malaysia used in converting foreign currency amounts and the translation of foreign incorporated subsidiary companies' financial statements are as follows:

Foreign currency	**2006**	**2005**
Chinese Renminbi	2.1794	2.1771
Hong Kong Dollar	2.1053	2.0525
Singapore Dollar	0.4390	0.4341
Japanese Yen	31.8471	28.2100
United States Dollar	0.2713	0.2632
Euro	n/a	0.2036

All translation gains or losses are taken up and reflected in the translation reserve account under shareholders' equity. Such translation gains or losses are recognised as income or expenses in the income statements, in the period in which the operations are disposed off.

Employee Benefits

Wages, salaries, paid annual leave, bonuses and other non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and of the Company.

The Company and certain subsidiary companies make statutory contributions to approved provident funds which are charged to the income statements in the period in which they relate. Once the contributions have been paid, there are no further payment obligations. The approved provident funds are in accordance with local practices in which the Company and certain subsidiary companies operate and are defined contribution plans.

3. Significant Accounting Policies (Cont'd)

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

Impairment of Assets

The carrying amounts of property, plant and equipment, investment in subsidiary companies, development expenditure and goodwill on consolidation are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss in respect of goodwill is not reversed unless the loss is caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of the event. In respect of other assets, an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of other assets is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Gain or loss arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

Depreciation of property, plant and equipment is computed on the straight-line method at the following annual rates based on the estimated useful lives of the various assets:

Long-term leasehold land	Period of lease of 84 years
Building	2%
Plant, machinery and factory equipment	10% – 30%
Office equipment, furniture and fittings	5% – 20%
Motor vehicles	20%

Property, Plant and Equipment Acquired Under Hire-Purchase Arrangements

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations are treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

3. Significant Accounting Policies (Cont'd)

Investment in Subsidiary Companies

Investment in subsidiary companies, which is eliminated on consolidation, is stated at cost less any impairment losses in the Company's financial statements.

Development Expenditure

Development expenditure is charged to the income statements in the year in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that the development expenditure will give rise to future economic benefits. Such development expenditure are recognised as an intangible asset and amortised on a straight-line basis over five years in which benefits are expected to be derived commencing from the period in which the developed product is available for sale or use.

Inventories

Inventories are stated at the lower of cost (determined principally on the "first-in, first-out" basis) and net realisable value. The cost of raw materials and consumables include the purchase price and incidental cost incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods include the cost of raw materials, direct labour and a proportion of production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. In arriving at net realisable value, due allowance is made for damaged, obsolete or slow-moving inventories.

Receivables

Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimate of possible losses which may arise from non-collection of certain receivable accounts.

Provisions

Provisions are made when the Group and the Company have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Financial Assets

The Group's principal financial assets are trade and other receivables, short-term deposits with licensed banks and cash and bank balances. The Company's principal financial assets also include amount owing by subsidiary companies.

Financial Liabilities and Equity Instruments

Debts and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

The Group's significant financial liabilities include trade and other payables, hire-purchase payables and bank borrowings, which are stated at their nominal values.

Bank borrowings are recorded at the proceeds received net of direct issue costs. Finance charges, including premium payable on settlement, are accounted for on an accrual basis.

Equity instruments are recorded at the proceeds received net of direct issue costs.

3. Significant Accounting Policies (Cont'd)

Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value.

4. Revenue

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sales of precision manufactured and assembled products	143,811,192	31,957,143	–	–
Marketing and distribution of trading merchandise	2,039,576	1,286,690	–	–
Income from subsidiary companies:				
Dividend income	–	–	–	2,600,000
Management fee	–	–	–	80,000
	145,850,768	33,243,833	–	2,680,000

5. Profit/(Loss) from Operations

Profit/(Loss) from operations is arrived at:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
After Charging:				
Rental of:				
Premises	1,903,166	1,069,180	60,301	65,837
Equipment	20,557	13,467	–	–
Clerical support fee payable to a substantial shareholder (Note 16)	788,646	394,595	–	–
Management fee payable to a related party (Note 16)	494,535	213,654	–	–
Unrealised foreign exchange loss - net	327,065	–	71,941	–
Amortisation of development expenditure	201,470	–	–	–
Technical fee payable to a substantial shareholder (Note 16)	185,500	190,000	185,500	190,000
Audit fees	138,805	101,564	40,000	40,000
Write-off of:				
Property, plant and equipment	120,762	4,040	–	–
Bad debts	57,077	25,000	–	–
And Crediting:				
Technical fee receivable from subsidiary companies	–	–	–	190,000
Realised foreign exchange gain - net	15,796	73,805	–	–
Gain on disposal of property, plant and equipment - net	2,809	8,246	–	–

Staff costs include salaries, statutory contributions to approved provident funds, bonuses and all other staff related expenses.

Included in staff costs are statutory contributions to approved provident funds made by the Group and the Company amounting to RM786,667 (2005: RM591,455) and RM33,180 (2005: RM8,400), respectively.

6. Directors' Remuneration

	The Group 2006 RM	The Group 2005 RM	The Company 2006 RM	The Company 2005 RM
Executive Directors				
The Company:				
Salaries and other emoluments	–	46,000	–	46,000
Subsidiary companies:				
Salaries and other emoluments	1,315,206	795,522	–	–
Non-Executive Directors				
The Company:				
Salaries and other emoluments	25,600	13,000	25,600	13,000
Fees:				
Current year	108,500	–	108,500	–
Underprovision in prior year	100,000	–	100,000	–
	208,500	–	208,500	–
	1,549,306	854,522	234,100	59,000

Directors' remuneration includes salaries, statutory contributions to approved provident funds, allowances and all other director related expenses for all executive and non-executive directors of the Company except for Mr. Ng Kwok Leung, George, an executive director of the Company and of a foreign subsidiary company. The said director did not receive any direct remuneration packages for his executive roles other than any benefit which may be deemed to have arisen by virtue of the management fee payable to George Ng & Co Ltd, a company incorporated in Hong Kong SAR in which Mr. Ng Kwok Leung, George, is a director and shareholder, as disclosed in Note 16.

Included in directors' remuneration are statutory contributions to approved provident funds made by the Group and the Company amounting to RM40,398 (2005: RM48,587) and RM Nil (2005: RM Nil), respectively.

7. Finance Costs

	The Group 2006 RM	The Group 2005 RM
Interest on:		
Revolving credit	209,688	–
Trust receipts and bankers' acceptances	112,276	35,465
Bank overdrafts	65,872	21,060
Hire-purchase payables	47,085	4,037
	434,921	60,562

8. Income Tax Expense

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Estimated tax payable:				
Current year:				
Foreign	1,082,295	39,115	–	–
Under/(Over)provision in prior years:				
Malaysian	295	(179,524)	–	–
	1,082,590	(140,409)	–	–
Deferred tax assets: (Note 19)				
Current year	–	183,039	–	–
Over/(Under)provision in prior years	54,800	(8,664)	–	–
	54,800	174,375	–	–
Deferred tax liabilities: (Note 19)				
Current year	1,330,533	1,546,562	–	–
(Over)/Underprovision in prior years	(35,390)	701,863	–	–
	1,295,143	2,248,425	–	–
	2,432,533	2,282,391	–	–

A reconciliation of income tax expense applicable to profit/(loss) before tax at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit/(Loss) before tax	11,646,395	12,563,323	(1,581,442)	2,458,519
Tax at the applicable statutory tax rate of 28% (2005: 28%)	3,260,991	3,517,730	(442,804)	688,385
Tax effects of:				
Lower tax rate applicable to Malaysian small and medium scale industries	3,754	8,736	–	–
Differences between Malaysian and foreign tax rates	(1,715,271)	(1,080,120)	–	–
Foreign income not subject to tax	–	(741,205)	–	(728,000)
Expenses not deductible for tax purposes	538,236	63,575	442,804	39,615
Deferred tax assets not recognised	325,118	–	–	–
Income tax expense for the year	2,412,828	1,768,716	–	–

As of 31 March, 2006, the Company has tax-exempt income account amounting to approximately RM570,000 (2005: RM2,600,000) arising from tax-exempt dividend income received from foreign subsidiary companies. The said tax-exempt income account is available for distribution as tax-exempt dividends.

8. Income Tax Expense (Cont'd)

As mentioned in Note 3, the tax effects of deductible temporary differences, unutilised tax losses and unused tax credits which would give rise to net deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilised. As of 31 March, 2006, the amount of deferred tax asset, calculated at the current income tax rate which has not been recognised in the financial statements in view of the uncertainty of its realisation, is as follows:

	The Group Deferred Tax Assets	
	2006 RM	**2005 RM**
Unutilised tax losses	325,118	–

The unutilised tax losses is subject to agreement with the tax authorities.

9. Earnings Per Ordinary Share

	The Group	
	2006 RM	**2005 RM**
Basic		
Net profit attributable to ordinary shareholders	6,589,391	8,519,882
	2006 Units	**2005 Units**
Number of ordinary shares at beginning of year	202,978,600	20
Effect of bonus issues in October 2005	202,978,600	202,978,600*
Effect of share issues for acquisition of subsidiary companies in August 2004	–	88,802,922
Effect of public issue in January 2005	–	50,745,000#
Weighted average number of ordinary shares	405,957,200	342,526,542
Basic earnings per ordinary share (sen)	1.62	2.49

* Adjusted to include the bonus element of shares issued during the financial year.

\# Not weighted as the bonus shares issued during the financial year were capitalised from the share premium account that arose from the public issue in January 2005.

10. Property, Plant and Equipment

The Group	Long-term leasehold land RM	Building RM	Plant, machinery and factory equipment RM	Office equipment, furniture and fittings RM	Motor vehicles RM	Total RM
Cost						
At beginning of year	776,000	390,015	31,155,664	3,660,706	966,575	36,948,960
Arising from acquisition of subsidiary companies	–	–	2,642,325	379,340	371,491	3,393,156
Additions	–	–	2,852,180	1,871,710	–	4,723,890
Disposals	–	–	–	(13,849)	(130,796)	(144,645)
Write-offs	–	–	–	(230,844)	–	(230,844)
Translation adjustments	–	–	(333,307)	(59,016)	(9,583)	(401,906)
At end of year	776,000	390,015	36,316,862	5,608,047	1,197,687	44,288,611
Accumulated Depreciation						
At beginning of year	142,373	120,255	10,177,762	1,757,904	501,476	12,699,770
Arising from acquisition of subsidiary companies	–	–	1,478,678	99,207	168,717	1,746,602
Charge for the year	9,234	7,800	4,472,704	876,407	132,696	5,498,841
Disposals	–	–	–	(6,155)	(78,478)	(84,633)
Write-offs	–	–	–	(110,082)	-	(110,082)
Translation adjustments	–	–	(104,197)	(37,935)	(6,261)	(148,393)
At end of year	151,607	128,055	16,024,947	2,579,346	718,150	19,602,105
Net Book Value						
As of 31 March, 2006	624,393	261,960	20,291,915	3,028,701	479,537	24,686,506
As of 31 March, 2005	633,627	269,760	20,977,902	1,902,802	465,099	24,249,190
Depreciation charge for 2005	6,157	5,200	2,127,689	382,925	108,112	2,630,083

The Company	At beginning of year RM	Additions/ (Charge for the year) RM	Disposal RM	At end of year RM
Office Equipment, Furniture and Fittings				
Cost	123,038	32,633	–	155,671
Accumulated Depreciation	(26,030)	(32,483)	–	(58,513)
Net Book Value	97,008	150	–	97,158

10. Property, Plant and Equipment (Cont'd)

The cost of property, plant and equipment of the Group which have been fully depreciated but are still in use, are as follows:

	The Group	
	2006	2005
	RM	RM
Plant, machinery and factory equipment	3,767,971	2,989,847
Office equipment, furniture and fittings	327,669	222,907
Motor vehicles	273,090	142,800
	4,368,730	3,355,554

Included in property, plant and equipment of the Group are motor vehicles and plant, machinery and factory equipment acquired under hire-purchase arrangements with net book values amounting to RM402,830 (2005: RM271,529) and RM1,043,347 (2005: RM33,303), respectively.

Net book value of property, plant and equipment of the Group pledged as security for bank overdrafts and other credit facilities granted to the Group as mentioned in Note 18 are as follows:

	The Group	
	2006	2005
	RM	RM
Long-term leasehold land	–	633,627
Building	–	269,760
Plant, machinery and factory equipment	–	1,799,531
	–	2,702,918

As of 31 March, 2006, the remaining lease period of the long-term leasehold land of the Group is 68 years (2005: 69 years).

11. Investment in Subsidiary Companies

	The Company	
	2006	2005
	RM	RM
Unquoted shares - at cost	27,291,298	15,380,402

11. Investment in Subsidiary Companies (Cont'd)

Details of the subsidiary companies are as follows:

Name of Subsidiary Company	Country of Incorporation	Principal Activities	Effective Equity Interest 2006 %	Effective Equity Interest 2005 %
Direct				
Futek Malaysia Sdn Bhd ("FMSB")	Malaysia	Assembling of magnetic recording heads and drums, marketing and distribution of audio visual equipment, and investment holding	100	100
Fotronics Incorporated (S) Pte Ltd #	Republic of Singapore	Precision manufacturing and assembling of parts and components for the data storage industry	100	100
M-Precision Centre Pte Ltd ("MPC") #	Republic of Singapore	Precision manufacturing and assembling of parts and components for the magnetic recording and aerospace industries	100	100
Vtrek Precision Centre (HK) Pte Limited ("Vtrek HK") #	Hong Kong SAR	Marketing and distribution of micro optic components, and investment holding	60	60
Fotronics Incorporated (Japan) #	Japan	Marketing and distribution of biometric and security products	100	–
Indirect				
Future Technology Sdn Bhd (held through FMSB)	Malaysia	Marketing and distribution of audio visual equipment and parts- Inactive as of 31 March, 2006	100	100
Vtrek Precision Industrial Co Ltd # (held through Vtrek HK)	People's Republic of China	Precision assembling of micro-optic components	60	60
Natex Pte Ltd # (held through MPC)	Republic of Singapore	Precision manufacturing and assembling of parts and components for the aerospace industries-Inactive as of 31 March, 2006 after internal re-organisation	60	–

\# The financial statements of these companies are not audited by Deloitte & Touche, the auditors of the Company.

During the current financial year, the Group acquired 60% equity interest in Natex Pte Ltd as disclosed under Note 27.

11. Investment in Subsidiary Companies (Cont'd)

Post-acquisition results of subsidiary company acquired:

	The Group 2006 RM
Revenue	936,769
Operating expenses	(1,506,046)
Finance costs	(28,045)
Loss before tax	(597,322)
Income tax credit	146,640
Loss after tax	(450,682)
Minority interests	160,829
Decrease in Group's profit attributable to shareholders	(289,853)

The effects of this acquisition on the financial position of the Group as at year end are as follows:

	The Group 2006 RM
Property, plant and equipment	1,402,879
Deferred tax assets	39,918
Trade receivables	353,246
Other receivables and prepaid expenses	9,486
Cash and bank balances	17,344
Trade payables	(1,034,359)
Other payables and accrued expenses	(177,775)
Hire-purchase payables	(651,654)
Minority interests	–
Group's share of net liabilities	(40,915)

In 2005, the Company acquired certain subsidiary companies as part of the Company's listing exercise on the MESDAQ Market of Bursa Malaysia Securities Berhad. The effects of these acquisitions on the financial results of the Group in the previous financial year were as follows:

	The Group 2005 RM
Revenue	21,943,742
Operating expenses	(12,083,036)
Finance costs	(60,290)
Profit before tax	9,800,416
Income tax expense	(1,694,504)
Profit after tax	8,105,912
Minority interests	(1,761,050)
Increase in Group's profit attributable to shareholders	6,344,862

11. Investment in Subsidiary Companies (Cont'd)

The effects of these acquisitions in 2005 on the financial position of the Group as of 31 March, 2005 were as follows:

	The Group 2005 RM
Property, plant and equipment	14,611,430
Deferred tax assets	1,241,598
Inventories	2,324,907
Trade receivables	6,199,982
Other receivables and prepaid expenses	542,596
Short-term deposits with licensed banks	450,000
Cash and bank balances	18,588,247
Trade payables	(1,754,088)
Other payables and accrued expenses	(1,233,290)
Hire-purchase payables	(52,356)
Bank borrowings	(1,870,346)
Tax liabilities	(65,457)
Deferred tax liabilities	(1,693,167)
Minority interests	(9,041,845)
Group's share of net assets	28,248,211

12. Development Expenditure

	The Group	
	2006 RM	2005 RM
Cost		
At beginning of year	2,839,537	–
Incurred during the year	3,698,267	2,839,537
Translation adjustment	(31,559)	–
At end of year	6,506,245	2,839,537
Cumulative Amortisation		
At beginning of year	–	–
Amortisation for the year	(201,470)	–
Translation adjustment	(1,086)	–
At end of year	(202,556)	–
	6,303,689	2,839,537

Development expenditure relates to costs capitalised by certain subsidiary companies in developing new products. As of 31 March, 2005, development activities of the new products were still on going. Certain products being developed have commenced productions in the current financial year and the related development expenditure are being systematically amortised, as described in the accounting policies.

12. Development Expenditure (Cont'd)

Included in the carrying amount of development expenditure as of 31 March, 2006 is an amount of SGD2,578,858 (equivalent to approximately RM5,874,000) which was payable by a subsidiary company in the current and previous financial years to a related party as disclosed in Note 16. The said related party has undertaken to repay the subsidiary company any shortfall arising from the said development expenditure not being able to be recovered from future revenue of the developed product.

13. Inventories

	The Group	
	2006	**2005**
	RM	**RM**
At cost:		
Raw materials and consumables	4,896,682	645,712
Work-in-progress	1,621,088	449,499
Finished goods	2,519,452	1,229,696
	9,037,222	2,324,907

14. Trade Receivables, Other Receivables and Prepaid Expenses

Trade receivables consist of amount owing by:

	The Group	
	2006	**2005**
	RM	**RM**
Third parties	4,873,289	3,361,625
Related parties (Note 16)	28,157,465	7,321,697
	33,030,754	10,683,322

The normal credit period granted by the Group to its trade customers on sales of goods ranges from 30 to 90 days (2005: 30 to 90 days).

The currencies profile of trade receivables is as follows:

	The Group	
	2006	**2005**
	RM	**RM**
United States Dollar	31,328,420	9,970,515
Singapore Dollar	578,595	375,852
Ringgit Malaysia	1,120,411	324,567
Japanese Yen	3,328	–
Euro	–	12,388
	33,030,754	10,683,322

14. Trade Receivables, Other Receivables and Prepaid Expenses (Cont'd)

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Other receivables:				
Third parties	1,933,602	551,911	58,347	22,398
Related parties (Note 16)	2,948,006	502,717	–	–
Refundable deposits	2,999,231	369,848	16,075	16,075
Prepaid expenses	548,010	117,521	5,211	8,450
Accrued interest receivable	270,779	–	270,779	–
	8,699,628	1,541,997	350,412	46,923

The currencies profile of other receivables is as follows:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Chinese Renminbi	2,214,167	–	–	–
Singapore Dollar	1,834,686	409,510	–	–
United States Dollar	531,553	502,717	–	–
Hong Kong Dollar	210,218	–	–	–
Ringgit Malaysia	74,788	142,401	58,347	22,398
Japanese Yen	16,196	–	–	–
	4,881,608	1,054,628	58,347	22,398

Other receivables related to third parties of the Group comprise mainly goods and services tax refundable amounting to RM1,815,325 (2005: RM389,932).

Included in refundable deposits of the Group is an amount of RM1,500,000 (2005: RM Nil) representing earnest deposits paid by a subsidiary company in securing distributorship for certain products.

15. Trade Payables, Other Payables And Accrued Expenses

Trade payables comprise amounts outstanding for trade purchases. The average credit period granted to the Group for trade purchases ranges from 30 to 90 days (2005: 30 to 90 days).

Trade payables consist of amount owing to:

	The Group	
	2006 RM	2005 RM
Third parties	10,238,482	3,020,204
Related party (Note 16)	–	66,271
	10,238,482	3,086,475

15. Trade Payables, Other Payables and Accrued Expenses (Cont'd)

The currencies profile of trade payables is as follows:

	The Group	
	2006	2005
	RM	RM
United States Dollar	6,056,476	1,262,972
Singapore Dollar	3,388,584	1,168,283
Ringgit Malaysia	755,769	585,654
Chinese Renminbi	34,276	–
Japanese Yen	2,637	66,271
Hong Kong Dollar	740	3,295
	10,238,482	3,086,475

Other payables and accrued expenses consist of:

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Other payables:				
Third parties	352,630	574,741	30,833	464,235
Related parties (Note 16)	36,500	84,280	36,500	–
Accrued staff costs	813,448	1,168,885	3,505	45,261
Other accrued expenses	451,181	323,346	167,967	117,223
	1,653,759	2,151,252	238,805	626,719

The currencies profile of other payables is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Singapore Dollar	182,555	82,412	–	–
Ringgit Malaysia	76,522	492,329	30,833	464,235
Hong Kong Dollar	46,803	84,280	–	–
Japanese Yen	46,750	–	–	–
United States Dollar	36,500	–	36,500	–
	389,130	659,021	67,333	464,235

Other payables related to third parties of the Group and the Company in 2005 comprise mainly professional fees payable by the Company amounting to RM457,450. The credit period granted to the Company was 30 days.

16. Holding Company and Related Parties Transactions

Memcorp Holdings Limited ("Memcorp"), a company incorporated in the British Virgin Islands, is regarded by the directors as the immediate and ultimate holding company of the Company.

Amount owing by subsidiary companies, which arose mainly from advances, payments on behalf, management fee receivable and technical fee receivable in prior year, is unsecured, interest-free and has no fixed repayment terms.

The currencies profile of amount owing by subsidiary companies is as follows:

	The Company	
	2006	**2005**
	RM	**RM**
Ringgit Malaysia	9,285,527	6,273,391
Singapore Dollar	3,791,207	7,262,450
	13,076,734	13,535,841

The related parties and their relationship with the Company and its subsidiary companies are as follows:

Name of Related Parties	**Relationship**
Futek Incorporated, a company incorporated in Japan	A subsidiary company of Memcorp and a substantial shareholder of the Company. Also a company in which Mr. Seah Bak Kheow, a director of the Company, is also a director. Mr. Seah Bak Kheow is also deemed interested in the company by virtue of his spouse's and children's substantial shareholdings in Memcorp.
George Ng & Co Ltd, a company incorporated in Hong Kong SAR	A company in which Mr. Ng Kwok Leung, George, a director of the Company, is also a director and shareholder.
Y. Cee Company Ltd, a company incorporated in Hong Kong SAR	A company in which Mr. Ng Kwok Leung, George, a director of the Company, is also a director and shareholder.

Related parties balances as of the end of the financial year are as follows:

	The Group		**The Company**	
	2006	**2005**	**2006**	**2005**
	RM	**RM**	**RM**	**RM**
Futek Incorporated				
Trade receivables (Note14)	28,157,465	7,321,697	–	–
Other receivables (Note 14)	2,737,788	502,717	–	–
Trade payables (Note 15)	–	(66,271)	–	–
Other payables (Note 15)	(36,500)	–	(36,500)	–
George Ng & Co Ltd				
Other payables (Note 15)	–	(84,280)	–	–
Y.Cee Company Ltd				
Other receivables (Note 14)	210,218	–	–	–

The related parties balances are unsecured, interest-free and with a credit period ranging from 30 to 90 days (2005: 30 to 90 days).

16. Holding Company and Related Parties Transactions (Cont'd)

The Group and the Company have undertaken the following significant transactions with the related parties during the financial year:

	The Group		The Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Futek Incorporated				
Sales of goods	117,410,741	16,050,064	–	–
Purchases of goods	84,886,600	2,271,750	–	–
Development cost payable	3,268,700	2,839,537	–	–
Clerical support fee payable (Note 5)	788,646	394,595	–	–
Technical fee payable (Note 5)	185,500	190,000	185,500	190,000
Purchases of property, plant and equipment	–	3,964,796	–	–
George Ng & Co Ltd				
Management fee payable (Notes 5 & 6)	494,535	213,654	–	–

The directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established under terms that are no less favourable than those arranged with independent third parties.

17. Hire-Purchase Payables

	The Group	
	2006 RM	2005 RM
Total outstanding	1,107,277	215,462
Less: Interest-in-suspense	(130,456)	(17,542)
Principal outstanding	976,821	197,920
Less: Amount due within 12 months (shown under current liabilities)	(379,531)	(85,065)
Non-current portion	597,290	112,855

The non-current portion is payable as follows:

	The Group	
	2006 RM	2005 RM
Financial years ending 31 March,		
2007	–	67,075
2008	307,528	45,780
2009	190,587	–
2010	52,642	–
2011	32,583	–
2012 and thereafter	13,950	–
	597,290	112,855

The effective borrowing rates of the hire-purchase obligations range from 2.2% to 3.6% (2005: 2.2% to 4.4%) per annum.

18. Bank Borrowings – Secured

	The Group	
	2006	**2005**
	RM	**RM**
Revolving credit	18,125,332	–
Bank overdrafts (Note 24)	1,517,420	1,023,346
Trust receipts and bankers' acceptances	582,459	847,000
	20,225,211	1,870,346

As of 31 March, 2006, the Group has revolving credit, bank overdrafts and other credit facilities totalling approximately RM27,361,200 obtained from foreign licensed banks. These credit facilities bear interest at rates ranging from 5.25% to 7.00% per annum and are secured by corporate guarantees from the Company and certain subsidiary companies.

In 2005, the Group had bank overdrafts and other credit facilities totalling approximately RM14,921,000 obtained from local and foreign licensed banks. These credit facilities bore interest at rates ranging from 7.3% to 7.5% per annum and were secured by:

(i) certain property, plant and equipment of the Group as mentioned in Note 10;

(ii) guarantees by certain directors of the Company; and

(iii) corporate guarantee from the Company amounting to RM3,000,000.

The currencies profile of bank borrowings is as follows:

	The Group	
	2006	**2005**
	RM	**RM**
Singapore Dollar	19,956,211	639,826
Ringgit Malaysia	269,000	1,230,520
	20,225,211	1,870,346

19. Deferred Tax Assets/(Liabilities)

Deferred Tax Assets

	The Group	
	2006	**2005**
	RM	**RM**
At beginning of year	1,241,598	–
Arising from acquisition of subsidiary companies	–	1,415,973
Transfer to income statements (Note 8)	(54,800)	(174,375)
At end of year	1,186,798	1,241,598

19. Deferred Tax Assets/(Liabilities) (Cont'd)

Deferred tax assets, which are in respect of local subsidiary companies, represent the tax effects of the following:

	The Group Deferred Tax Assets/(Liabilities)	
	2006	**2005**
	RM	**RM**
Temporary differences in respect of:		
Property, plant and equipment	(25,583)	(13,158)
Trade receivables	25,383	–
Trade payables	(4,534)	–
Other payables and accrued expenses	82	–
Unabsorbed capital allowances	931,629	910,411
Unutilised tax losses	259,821	344,345
	1,186,798	1,241,598

The unutilised tax losses and unabsorbed capital allowances are subject to agreement with the tax authorities.

Deferred Tax Liabilities

	The Group	
	2006	**2005**
	RM	**RM**
At beginning of year	(2,289,842)	–
Arising from acquisition of subsidiary companies	(105,756)	(7,753)
Transfer from income statements (Note 8)	(1,295,143)	(2,248,425)
Translation adjustments	16,928	(33,664)
At end of year	(3,673,813)	(2,289,842)

Deferred tax liabilities, which are in respect of foreign subsidiary companies, represent the tax effects of the following:

	The Group Deferred Tax Assets/(Liabilities)	
	2006	**2005**
	RM	**RM**
Temporary differences in respect of:		
Property, plant and equipment	(2,717,003)	(2,403,477)
Development expenditure	(1,174,825)	(574,356)
Unabsorbed capital allowances	93,533	687,991
Unutilised tax losses	124,482	–
	(3,673,813)	(2,289,842)

The unutilised tax losses and unabsorbed capital allowances are subject to agreement with the tax authorities.

20. Share Capital

	The Group and The Company	
	2006	2005
	RM	RM
Authorised:		
Ordinary shares of RM0.10 each		
At beginning of year:		
1,000,000,000 as of 1 April, 2005;		
1,000,000 as of 1 April, 2004	100,000,000	100,000
Created during the year:		
Nil in 2006; 999,000,000 in 2005	–	99,900,000
At end of year:		
1,000,000,000 as of 31 March, 2006 and 2005	100,000,000	100,000,000
Issued and fully paid:		
Ordinary shares of RM0.10 each		
At beginning of year:		
202,978,600 as of 1 April, 2005;		
20 as of 1 April, 2004	20,297,860	2
Issued during the year:		
202,978,600 in 2006; 202,978,580 in 2005	20,297,860	20,297,858
At end of year:		
405,957,200 as of 31 March, 2006;		
202,978,600 as of 31 March, 2005	40,595,720	20,297,860

As approved by the shareholders at an Extraordinary General Meeting held on 27 September, 2005, the issued and paid-up share capital of the Company was increased from RM20,297,860, comprising 202,978,600 ordinary shares of RM0.10 each to RM40,595,720, comprising 405,957,200 ordinary shares of RM0.10 each, by way of a bonus issue of 202,978,600 new ordinary shares of RM0.10 each in the Company through capitalisation of an amount of RM20,297,860 from the share premium account on the basis of one (1) new ordinary share for every one (1) existing ordinary share held in the Company.

The new ordinary shares issued rank pari passu in all respects with the then existing ordinary shares of the Company.

21. Reserves

	The Group		The Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Non-Distributable				
Share premium	22,372,640	42,670,500	22,372,640	42,670,500
Reserve on consolidation	10,873,272	10,873,272	–	–
Translation reserve account	(155,006)	576,082	–	–
	33,090,906	54,119,854	22,372,640	42,670,500
Distributable				
Unappropriated profit/(Accumulated losses)	13,066,013	8,506,408	(1,162,709)	2,448,519
	46,156,919	62,626,262	21,209,931	45,119,019

21. Reserves (Cont'd)

Share Premium

	The Group and The Company	
	2006	**2005**
	RM	**RM**
At beginning of year	42,670,500	–
Capitalisation for bonus issue	(20,297,860)	–
Arising from public issue of 50,745,000 new ordinary shares of RM0.10 each at a premium of RM0.90 per share during the year	–	45,670,500
Listing expenses	–	(3,000,000)
At end of year	22,372,640	42,670,500

Reserve on Consolidation

Reserve on consolidation represents the excess of the Group's interest in the fair values attributable to the identifiable net assets of certain subsidiary companies at the effective date of acquisition over the cost of investment.

Translation Reserve Account

Exchange differences arising from translation of foreign controlled entities are taken to translation reserve account, as described in the accounting policies.

22. Dividends

A final tax-exempt dividend of 10%, amounting to RM2,029,786, proposed in respect of the previous financial year and dealt with in the previous directors' report was paid by the Company during the financial year.

Net dividend per share during the year is Nil (2005: 1 sen).

23. Financial Instruments

Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group has taken measures to minimise its exposure to risks and/or costs associated with the financing, investing and operating activities of the Group.

(i) **Foreign currency risk**

The Group undertakes trade transactions with foreign trade customers and suppliers operating outside Malaysia where the amounts outstanding, denominated primarily in United States Dollar and Singapore Dollar, are exposed to currency translation risks.

The Group did not engage in any transactions involving financial derivatives instruments during the financial year.

23. Financial Instruments (Cont'd)

(ii) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on bank borrowings and short-term deposits. Interest rates of hire-purchase payables are fixed at the inception of the financing arrangements. The interest rates of hire-purchase payables, bank borrowings and short-term deposits are disclosed in Notes 17, 18 and 24, respectively.

(iii) **Credit risk**

The Group is exposed to credit risk mainly from trade receivables. The Group extends credit to its customers based on careful evaluation of the customers' financial condition and credit history.

The Group is dependent on a few key customers, the composition of which may vary from year to year. In line with the Group's effort to enter into transactions with a diversity of credit-worthy parties, the Group continues to diversify its customer base to mitigate the significant concentration of credit risk.

A significant portion of the Group's sales is to a related party, as disclosed in Note 16, and to a multinational third party. During the current financial year, sales by the Group to the said multinational third party amounted to RM21,108,798 (2005: RM12,967,057).

(iv) **Liquidity risk**

The Group practises prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities, as disclosed in Note 18, for contingent funding requirement of working capital.

(v) **Cash flow risk**

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Fair Values of Financial Assets and Liabilities

The carrying amount and the estimated fair value of hire-purchase payables of the Group are as follows:

	The Group 2006		The Company 2005	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Hire-purchase payables (Note 17)	976,821	907,861	197,920	189,879

The fair value of hire-purchase payables is estimated using discounted cash flow analysis based on current financing rates ranging from 2.20% to 3.64% for similar types of financing arrangements.

The carrying amounts of other financial assets and liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments.

24. Cash and Cash Equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	RM	**RM**	**RM**	**RM**
Short-term deposits with licensed banks	16,880,000	37,350,000	16,880,000	36,900,000
Cash and bank balances	35,414,721	21,396,708	4,348,854	83,424
Bank overdrafts (Note 18)	(1,517,420)	(1,023,346)	–	–
	50,777,301	57,723,362	21,228,854	36,983,424

The short-term deposits with licensed banks earn interest at rates ranging from 2.10% to 2.65% (2005: 2.2% to 3.0%) per annum and have an average maturity period of 7 to 365 days (2005: 7 days).

Included in short-term deposits with licensed banks of the Group and the Company is an amount of RM12,600,000 held under lien in respect of a Standby Letter of Credit ("SBLC") facility amounting to RM11,000,000 obtained by the Company from a local licensed bank. As of 31 March, 2006, the SBLC facility remains unutilised.

The currencies profile of cash and cash equivalents is as follows:

	The Group		The Company	
	2006	**2005**	**2006**	**2005**
	RM	**RM**	**RM**	**RM**
Ringgit Malaysia	21,944,046	37,664,040	21,228,854	36,983,424
United States Dollar	29,158,036	14,206,631	–	–
Chinese Renminbi	390,900	3,971,894	–	–
Hong Kong Dollar	151,434	156,947	–	–
Japanese Yen	505,717	3,034	–	–
Singapore Dollar	(1,372,832)	1,720,816	–	–
	50,777,301	57,723,362	21,228,854	36,983,424

25. Segmental Information

Segmental information is presented in respect of the Group's geographical segments by location of assets. No information on business segments is presented as the Group is predominantly involved in the business of precision manufacturing.

Inter-segment transactions are determined based on negotiated terms. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

25. Segmental Information (Cont'd)

Financial Year Ended 31 March, 2006	Malaysia RM	South East Asia other than Malaysia RM	North Asia RM	Eliminations RM	Consolidated RM
Revenue					
External sales	2,345,876	122,385,980	21,118,912	–	145,850,768
Inter-segment sales	5,570,184	3,393,065	–	(8,963,249)	–
Total revenue	7,916,060	125,779,045	21,118,912	(8,963,249)	145,850,768
Financial Results					
Segment results	(735,269)	6,843,900	7,376,547	–	13,485,178
Unallocated expenses					(1,896,027)
Profit from operations					11,589,151
Finance costs					(434,921)
Interest income from short-term deposits					492,165
Profit before tax					11,646,395
Income tax expense					(2,432,533)
Profit after tax					9,213,862
Minority interests					(2,624,471)
Net profit for the year					6,589,391
Consolidated Balance Sheet					
Segment assets	47,202,784	77,467,738	32,657,968	(21,523,800)	135,804,690
Investment in subsidiary companies	27,291,298	–	–	(27,291,298)	–
Consolidated assets					135,804,690
Liabilities					
Segment liabilities	9,678,754	45,442,453	3,908,879	(21,523,800)	37,506,286
Consolidated liabilities					37,506,286
Other Information					
Capital expenditure	301,113	1,303,950	3,118,827	–	4,723,890
Depreciation	95,548	3,060,595	2,342,698	–	5,498,841

25. Segmental Information (Cont'd)

Financial Year Ended 31 March, 2006	**Malaysia RM**	**South East Asia other than Malaysia RM**	**North Asia RM**	**Others RM**	**Consolidated RM**
External Sales by Location of Customers					
Third parties	2,098,313	3,922,673	21,597,146	808,259	28,426,391
Related party	–	–	117,410,741	13,636	117,424,377
	2,098,313	3,922,673	139,007,887	821,895	145,850,768

Financial Year Ended 31 March, 2005	**Malaysia RM**	**South East Asia other than Malaysia RM**	**North Asia RM**	**Eliminations RM**	**Consolidated RM**
Revenue					
External sales	1,114,539	19,162,237	12,967,057	–	33,243,833
Inter-segment sales	4,771,670	7,077,454	–	(11,849,124)	–
Total revenue	5,886,209	26,239,691	12,967,057	(11,849,124)	33,243,833
Financial Results					
Segment results	647,520	7,750,764	4,437,934	–	12,836,218
Unallocated expenses					(353,566)
Profit from operations					12,482,652
Finance costs					(60,562)
Interest income from short-term deposits					141,233
Profit before tax					12,563,323
Income tax expense					(2,282,391)
Profit after tax					10,280,932
Minority interests					(1,761,050)
Net profit for the year					8,519,882

25. Segmental Information (Cont'd)

Financial Year Ended 31 March, 2005	Malaysia RM	South East Asia other than Malaysia RM	North Asia RM	Eliminations RM	Consolidated RM
Consolidated Balance Sheet					
Segment assets	63,167,033	43,074,486	23,357,226	(27,971,486)	101,627,259
Investment in subsidiary companies	15,380,402	–	–	(15,380,402)	–
Consolidated assets					101,627,259
Liabilities					
Segment liabilities	9,121,674	27,669,741	841,363	(27,971,486)	9,661,292
Consolidated liabilities					9,661,292
Other Information					
Capital expenditure	134,860	10,427,261	202,080	–	10,764,201
Depreciation	57,503	1,308,802	1,263,778	–	2,630,083

Financial Year Ended 31 March, 2005	Malaysia RM	South East Asia other than Malaysia RM	North Asia RM	Others RM	Consolidated RM
External Sales by Location of Customers					
Third parties	701,417	1,331,743	15,135,695	24,914	17,193,769
Related party	–	–	16,050,064	–	16,050,064
	701,417	1,331,743	31,185,759	24,914	33,243,833

26. Contingent Liability – Unsecured

As of 31 March, 2006, the Group and the Company have provided unsecured corporate guarantees, amounting to RM27,816,800 (2005: RM3,000,000) and RM9,566,800 (2005: RM3,000,000) respectively, to foreign licensed banks for revolving credit, overdrafts and other credit facilities granted to the subsidiary companies. Accordingly, the Group and the Company are contingently liable to the said licensed banks to the extent of the amount of credit facilities utilised by the Group, which amounted to approximately RM19,957,000 (2005: RM1,230,000) as of 31 March, 2006.

27. Significant Events

(a) On 10 May, 2005, the Company entered into a Memorandum of Understanding with certain shareholders of Natex Pte Ltd ("Natex"), a company incorporated in the Republic of Singapore, to acquire 60% equity interest in Natex, comprising 1,200 ordinary shares of SGD100 each, free from all liens, charges and encumbrances and with all rights attaching to and accruing in respect of them, for an indicative cash consideration of SGD360,000 (equivalent to approximately RM807,000).

On 30 August, 2005, the Group, via M-Precision Centre Pte Ltd, a wholly-owned subsidiary company of the Company, entered and completed a share transfer agreement with the said shareholders of Natex for the acquisition of the said 60% equity interest for a total cash consideration of SGD360,000 (equivalent to approximately RM807,000).

(b) On 17 August, 2005, the Company obtained an approval from Bank Negara Malaysia to increase its investment in Fotronics Incorporated (S) Pte Ltd ("FIS"), a wholly-owned subsidiary company of the Company, by way of capitalisation of up to SGD5,000,000 (equivalent to approximately RM11,533,000) from amount owing by the said subsidiary company. On 9 September, 2005, the Company subscribed for an additional 4,999,998 ordinary shares of SGD1.00 each in FIS at par and increased its investment in FIS from RM5 to RM11,532,901.

(c) On 22 August, 2005, the Company announced that it proposed to undertake a bonus issue of up to RM22,327,646 comprising 223,276,460 new ordinary shares of RM0.10 each to be credited as fully paid-up on the basis of one (1) new ordinary share for every one (1) existing ordinary share held in the Company. The proposed bonus issue, which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 27 September, 2005, was completed on 27 October, 2005 with the listing and quotation of 202,978,600 new ordinary shares.

(d) On 11 September, 2005, the Company incorporated Fotronics Incorporated (Japan), a wholly-owned subsidiary company in Japan, with an issued and paid-up share capital of JPY10.0 million (equivalent to approximately RM378,000), consisting of 200 ordinary shares with no par value.

(e) On 20 June, 2006, the Company announced that the Securities Commission had vide its letter dated 15 June, 2006, granted an extension of time for the Company to meet the 30% Bumiputra equity participation requirement until 29 July, 2007. The Company was originally required to meet the said requirement within one year from 31 March, 2005 as the Group had achieved the profit track record requirement for companies applying for listing on the Second Board of Bursa Malaysia Securities Berhad in its financial year ended 31 March, 2005.

28. Commitments

As of 31 March, 2006, two foreign subsidiary companies have lease commitments in respect of rental of premises amounting to RM2,560,280 (2005: RM3,134,265), of which RM1,655,526 (2005: RM1,385,769) is payable within 1 year and the balance of RM904,754 (2005: RM1,748,496) is payable within 2 to 5 years.

statement by directors

The directors of **FOTRONICS CORPORATION BERHAD** state that, in their opinion, the accompanying balance sheets and statements of income, cash flows and changes in equity, are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as of 31 March, 2006 and of the results of the businesses and the cash flows of the Group and of the Company for the year ended on that date.

Signed in accordance with a resolution of the Directors,

SEAH BAK KHEOW

SEAH BAK SENG

Kuala Lumpur
26 July, 2006

declaration by the director
primarily responsible for the financial management of the Company

I, **KHOO LEE MENG**, the Director primarily responsible for the financial management of **FOTRONICS CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying balance sheets and statements of income, cash flows and changes in equity are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

KHOO LEE MENG

Subscribed and solemnly declared by the abovenamed **KHOO LEE MENG** at **KUALA LUMPUR** this 26th day of July, 2006.

Before me,

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
No. W023
Dato Ng
Mann Cheong
MALAYSIA

18th Floor, Bangunan AmBank Group
Letter Box No: 18D,
55, Jalan Raja Chulan,
50200 Kuala Lumpur.

statistics of shareholdings
as at 10 August, 2006

Authorised Share Capital	:	RM100,000,000/-
Issued and Paid-Up Capital	:	RM40,595,720/-
Class of Shares	:	Ordinary Shares of RM0.10 each
On show of hands	:	One vote per shareholder/proxy present
On a poll	:	One vote per Ordinary Share held

ANALYSIS OF SHAREHOLDINGS

A. Distribution Of Shareholdings

Range of Shareholdings	Number of Shareholders	%	Number of Shares	%
Less than 100	0	0.00	0	0.00
100 – 1000	58	2.17	38,474	0.01
1,001 – 10,000	1,376	51.38	8,970,000	2.21
10,001 – 100,000	1,002	37.42	37,282,330	9.18
100,001 to 20,297,859(*)	240	8.96	224,899,126	55.40
20,297,860 and above (**)	2	0.07	134,767,270	33.20
Total	2,678	100.00	405,957,200	100.00

Remark : * Less than 5% of issued shares
** 5% and above of issued shares

B. Twenty (20) Largest Securities Account Holders

No.	Shareholders	Number of Shares	%
1.	Citigroup Nominees (Asing) Sdn. Bhd. *UBS AG Hong Kong for Memcorp Holdings Limited*	90,975,380	22.41
2.	Memcorp Holdings Limited	43,791,890	10.79
3.	Ng Kwok Leung, George	18,544,370	4.57
4.	Futek Incorporated	18,363,062	4.52
5.	Bumiputra-Commerce Nominees (Asing) Sdn. Bhd. *Pledged Securities Account for Memcorp Holdings Limited*	16,000,000	3.94
6.	Ke-Zan Nominees (Asing) Sdn. Bhd. *Kim Eng Securities Pte. Ltd. for Neo Ah Chap*	7,900,000	1.95
7.	Ng Kwok Leung, George	7,542,768	1.86
8.	Yauw Enterprise Pte. Ltd.	7,360,590	1.81
9.	Futek Incorporated	7,350,238	1.81
10.	Apex Return Sdn. Bhd.	5,970,428	1.47
11.	Mayban Nominees (Asing) Sdn. Bhd. *Ferrell Asset Management Pte. Ltd. for Shu Ang Moh*	5,769,800	1.42
12.	Mayban Nominees (Asing) Sdn. Bhd. *Ferrell Asset Management Pte. Ltd. for Shu Moh Chye*	5,769,800	1.42

statistics of shareholdings
as at 10 August, 2006 (cont'd)

B. Twenty (20) Largest Securities Account Holders (cont'd)

No.	Shareholders	Number of Shares	%
13.	CIMSEC Nominees (Asing) Sdn. Bhd. *Exempt an for CIMB-GK Securities Pte. Ltd. (Retail Clients)*	4,798,400	1.18
14.	CIMSEC Nominees (Asing) Sdn. Bhd. *CIMB for Lee Seng Cheong (PB)*	3,742,500	0.92
15.	Ke-Zan Nominees (Asings) Sdn. Bhd. *Kim Eng Securities Pte. Ltd. for Sun Szu Yen*	3,482,000	0.86
16.	Amanah Raya Berhad *SBB Dana Al-Faiz*	2,928,100	0.72
17.	Mayban Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Ng See Cheng*	2,565,400	0.63
18.	Chuah Su Yin Florence	2,500,000	0.62
19.	Asiasons Capital Sdn. Bhd.	2,478,000	0.61
20.	Kenanga Nominees (Asing) Sdn. Bhd.	2,469,800	0.61
		260,302,526	64.12

C. Substantial Shareholders
(as shown in the Register of Substantial Shareholders)

		Direct		Indirect	
No.	**Name**	**No. of Shares**	**%**	**No. of Shares**	**%**
1.	Memcorp Holdings Limited	150,777,270	37.14	25,713,300 (b)	6.33
2.	Seah Bak Kheow	120,000	0.03	176,490,570 (a)	43.48
3.	Ng Kwok Leung, George	26,087,138	6.43	–	–
4.	Yip Yan Foon	–	–	176,490,570 (c)	43.48
5.	Seah Wee Kiat, Willie	120,000	0.03	176,490,570 (d)	43.48
6.	Seah Wee Ping	120,000	0.03	176,490,570 (d)	43.48
7.	Seah Sze Wei, Cheryl	–	–	176,490,570 (d)	43.48
8.	Seah Sze Min, Charmaine	–	–	176,490,570 (d)	43.48
9.	Futek Incorporated	25,713,300	6.33	–	–

(a) *Deemed interested by virtue of his spouse and children's substantial shareholdings in Memcorp Holdings Limited ("Memcorp") and Memcorp's substantial shareholdings in Futek Incorporated.("FInc")*

(b) *Deemed interested by virtue of its substantial shareholding in FInc.*

(c) *Deemed interested by virtue of her substantial shareholding and her children's substantial shareholdings in Memcorp and Memcorp's substantial shareholdings in FInc.*

(d) *Deemed interested by virtue of his/her substantial shareholdings in Memcorp and his/her mother's substantial shareholdings in Memcorp and Memcorp's substantial shareholdings in FInc.*

statistics of shareholdings
as at 10 August, 2006 (cont'd)

D. Directors' Shareholdings
(as shown in the Register of Directors' Shareholding)

		Direct		Indirect	
No.	**Name**	**No. of Shares**	**%**	**No. of Shares**	**%**
1.	Seah Bak Kheow	120,000	0.03	176,490,570*	43.48
2.	Seah Bak Seng	5,027,400	1.24	–	–
3.	Khoo Lee Meng	1,000,000	0.25	–	–
4.	Ng Kwok Leung, George	26,087,138	6.43	–	–
5.	Yong Kit Fai	120,000	0.03	–	–
6.	Yuen Kin Pheng	120,000	0.03	–	–
7.	Patrick Bernard Andre Bouju	820,000	0.20	–	–
8.	Benoit Jean-Marie Mauffrey	1,020,000	0.25	–	–
9.	Albert Yeo Toon Mok	320,000	0.08	–	–
10.	Dato' Baharuddin Bin Musa	20,000	0.00	70,000**	0.02

* *Deemed interested by virtue of his spouse and children's substantial shareholdings in Memcorp Holdings Limited ("Memcorp") and Memcorp's substantial shareholdings in Futek Incorporated.*

** *Deemed interest by virtue of his spouse's shareholdings in the Company.*

list of properties

Title No./ Location	Approximate Land Area/ Built-up Area	Description/ Existing Use	Tenure	Date of Acquisition	NBV as at 31.03.2006 RM	Age of building (years)
H.S. (D) 7582 Lot P.T. 16 Jalan 51A/227 Seksyen 51A s Town of Petaling Jaya District of Petaling Selangor Darul Ehsana list of properties	16,000 square feet / 11,800 quare feet	Industrial Land / Semi Detached Factory	99 years expiring on 13 March 2074	27.06.1990	886,353	15

notice of third annual general meeting

NOTICE IS HEREBY GIVEN that the Third Annual General Meeting of the Company will be held at Perdana Ballroom, Bukit Jalil Golf and Country Resort, Jalan 3/155B, Bukit Jalil, 57000 Kuala Lumpur on Friday, 22 September, 2006 at 11.00 a.m. for the following purposes:-

Agenda

1. To receive the Audited Financial Statements for the financial year ended 31 March 2006 together with the Reports of the Directors and the Auditors thereon. **(Resolution 1)**

2. To re-elect the following Directors who retire pursuant to Article 92 of the Company's Articles of Association:-

   (i) Mr. Seah Bak Kheow; **(Resolution 2)**
   (ii) Mr. Yuen Kin Pheng; and **(Resolution 3)**
   (iii) Mr. Benoit Jean-Marie Mauffrey **(Resolution 4)**

3 To re-elect Mr. Khoo Lee Meng, who retires pursuant to Article 99 of the Company's Articles of Association. **(Resolution 5)**

4. To re-appoint Dato' Baharuddin Bin Musa, who retires pursuant to Section 129(6) of the Companies Act, 1965. **(Resolution 6)**

5. To re-appoint Messrs. Deloitte & Touche as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **(Resolution 7)**

6. **As Special Business**

   To consider and, if thought fit, to pass the following resolutions as Ordinary and Special Resolutions:-

   ORDINARY RESOLUTION 1

   – AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965 **(Resolution 8)**

   "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion deem fit, provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on the Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

ORDINARY RESOLUTION 2

– **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTION OF A REVENUE OR TRADING NATURE** **(Resolution 9)**

"THAT pursuant to Paragraph 10.09 of the Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company and/or its subsidiaries be and are hereby authorised to enter into recurrent related party transactions of a revenue and trading nature as set out in Section 2.3 Table 1 and Table 2 of the Circular to Shareholders dated 30 August, 2006, from time to time provided that such transactions are necessary for the day-to-day operations and undertaken in the ordinary course of business and at arm's length basis and on normal commercial terms and on terms which are not more favourable to the related party than those generally available to the public and not prejudicial to the shareholders of the Company AND THAT such approval, unless revoked or varied by the Company in general meeting, shall continue in force until:-

(a) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM at which such mandate is passed, at which time it will lapse, unless by a resolution passed at such AGM whereby the authority is renewed;

(b) the expiration of the period within the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or

(c) revoked or varied by ordinary resolution passed by the shareholders in a general meeting;

whichever is earlier.

AND THAT the directors of the Company may execute such documents as may be required upon the terms and conditions as the directors of the Company deem fit to give effect to the transactions contemplated and/or authorised by this resolution."

SPECIAL RESOLUTION 1

PROPOSED AMENDMENTS OF ARTICLES OF ASSOCIATION **(Resolution 10)**

"THAT the alteration, modifications and/or additions to the Articles of Association of the Company as set out in Section 2 of Part II of the Circular to Shareholders of the Company dated 30 August, 2006 be and is hereby approved "

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689)
Company Secretary

Kuala Lumpur
Dated : 30 August, 2006

Explanatory Notes To Special Business:

1. **Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

   The above Ordinary Resolution 1, if passed, will empower the Directors of the Company to issue and allot shares at any time in their absolute discretion without convening a general meeting provided that the aggregate number of shares issued does not exceed 10% of the issued share capital of the Company for the time being.

2. **Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

   The proposed adoption of Ordinary Resolution 2 if passed, will allow Fotronics Group to enter into recurrent related party transactions pursuant to paragraph 10.09 of the Listing Requirements of Bursa Securities. Further information on the Proposed Renewal of Shareholders' Mandate for Recurrent Related Transactions is set out in the Circular to Shareholders dated 30 August, 2006 which is despatched together with the Company's 2006 Annual Report.

3. **Proposed Amendment of Articles of Association**

   The Proposed amendment of Articles of Association is made in line with the revamped of the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market which took effect on 8 May 2006.

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.

2. A member shall be entitled to appoint more than one (1) proxy to attend and vote at the same meeting.

3. Where a holder appoints two or more proxies, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.

4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

5. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.

statement accompanying the notice of annual general meeting

1. Directors who are standing for re-election/re-appointment at the Third Annual General Meeting of the Company are as follows:-

   (a) Article 92 of the Company's Articles of Association

      (i) Mr. Seah Bak Kheow;
      (ii) Mr. Yuen Kin Pheng; and
      (iii) Mr. Benoit Jean-Marie Mauffrey

   (b) Article 99 of the Company's Articles of Association

      (i) Mr. Khoo Lee Meng

   (c) Section 129 (6) of the Companies Act, 1965

      (i) Dato' Baharuddin Bin Musa

2. Further details of the Directors who are standing for re-election/re-appointment are as follows:-

   Details of Directors who are standing for re-election/re-appointment are set out in the Directors' Profile appearing on pages 4 to 8 of the Annual Report. Information relating to the Directors' shareholding in the Company is presented on page 71 of the Annual Report.

3. During the financial year ended 31 March, 2006, five (5) Board meetings were held and the attendance of the Board members were as follows:-

Directors	**Attendance**
Seah Bak Kheow	5/5
Seah Bak Seng	5/5
Khoo Lee Meng (Appointed on 27/2/2006)	N/A
Ng Kwok Leung, George	5/5
Yong Kit Fai	5/5
Yuen Kin Pheng	4/5
Patrick Bernard Andre Bouju	5/5
Benoit Jean-Marie Mauffrey	5/5
Albert Yeo Toon Mok	5/5
Dato' Baharuddin Bin Musa (Appointed on 25/11/2005)	1/1

4. Details and type, place, date and hour of the Third Annual General Meeting are as follows:-

   Type : Third Annual General Meeting
   Date : 22 September 2006
   Time : 11.00 a.m.
   Place : Perdana Ballroom
   Bukit Jalil Golf and Country Resort
   Jalan 3/155B, Bukit Jalil
   57000 Kuala Lumpur

NUMBER OF ORDINARY SHARES HELD

FOTRONICS CORPORATION BERHAD
(Company No. 640352-A)
(Incorporated in Malaysia)

form of proxy

*I/We ____
(Full Name In Capital Letters)

of ____
(Full Address)

being a Member of FOTRONICS CORPORATION BERHAD, do hereby appoint ______________________
(Full Name In Capital Letters)

of ____
(Full Address)

or failing him/her ____
(Full Name In Capital Letters)

of ____
(Full Address)

or failing him/her, the CHAIRMAN OF THE MEETING, as *my/our proxy to attend and vote for *me/us and on *my/our behalf at the Third Annual General Meeting of the Company to be held at Perdana Ballroom, Bukit Jalil Golf and Country Resort, Jalan 3/155B, Bukit Jalil, 57000 Kuala Lumpur on Friday, 22 September, 2006 at 11.00 a.m. and at any adjournment thereof.

The proportions of my/our holding to be represented by my/our proxies are as follows:-

First Proxy "A"	%
Second Proxy "B"	%
	100%

Please indicate with an "X" in the space provided below how you wish your votes to be casted. If no specific direction as to voting is given, the Proxy will vote or abstain from voting at his discretion.

No.	Resolutions	For	Against
1.	To receive the Audited Financial Statements for the financial year ended 31 March 2006 together with the Reports of the Directors and the Auditors thereon.		
2	To re-elect the Director, Mr. Seah Bak Kheow who retires pursuant to Article 92 of the Company's Articles of Association.		
3.	To re-elect the Director, Mr. Yuen Kin Pheng who retires pursuant to Article 92 of the Company's Articles of Association.		
4.	To re-elect the Director, Mr. Benoit Jean-Marie Mauffrey who retires pursuant to Article 92 of the Company's Articles of Association.		
5.	To re-elect the Director, Mr. Khoo Lee Meng who retires pursuant to Article 99 of the Company's Articles of Association.		
6.	To re-appoint the Director, Dato' Baharuddin Bin Musa who retires pursuant to Section 129(6) of the Companies Act, 1965.		
7.	To re-appoint Messrs. Deloitte & Touche as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.		
8.	**Special Business** Ordinary Resolution 1 - Authority to issue shares pursuant to Section 132D of the Companies Act, 1965.		
9.	**Special Business** Ordinary Resolution 2 - Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
10.	**Special Business** Special Resolution 1 - Proposed Amendments of Articles of Association		

* Strike out whichever not applicable.

As witness my/our hand this __________ day of ________________ 2006

____
Signature of Member/Common Seal

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. A member shall be entitled to appoint more than one (1) proxy to attend and vote at the same meeting.
3. Where a holder appoints two or more proxies, the appointment shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur not less than 48 hours before the time for holding the Meeting or at any adjournment thereof.

Then fold here

Affix
Stamp

The Company Secretary
FOTRONICS CORPORATION BERHAD
(Company No.: 640352-A)
Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

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