

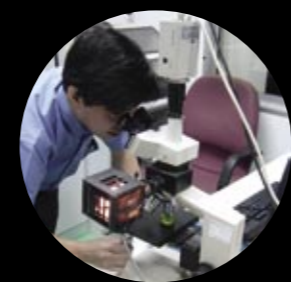


06 annual report

BREAKING THROUGH NEW FRONTIERS

FRONTKEN CORPORATION BERHAD (Co. 651020-T)

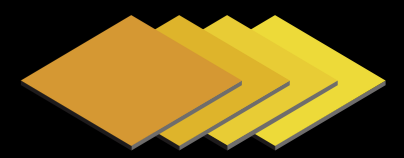
ANNUAL REPORT 2006



www.frontken.com



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46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel: (603) 7968 3312
Fax: (603) 7968 3316
Email: fcb@frontken.com



FRONTKEN
(Co. 651020-T)
Frontken Corporation Berhad

corporate information

BOARD OF DIRECTORS

- **WONG HUA CHOON**
(Executive Chairman / Managing Director)
- **DR TAY KIANG MENG**
(Executive Director/ Chief Scientist)
- **SEE CHUAN SWEE**
(Executive Director/ Chief Financial Officer)
- **DATO' IBRAHIM BIN MAHMUD**
(Non-Independent Non-Executive Director)
- **DATO' HAJI JOHAR BIN MURAT @ MURAD**
(Independent Non-Executive Director)
- **NG WAI PIN**
(Independent Non-Executive Director)

COMPANY SECRETARIES

- Tai Keat Chai (MIA 1688)
- Lim Hooi Chin (MAICSA 7025949)

AUDIT COMMITTEE

- Ng Wai Pin (Chairman)
- Dato' Haji Johar Bin Murat @ Murad
- See Chuan Swee

NOMINATION COMMITTEE

- Ng Wai Pin (Chairman)
- Dato' Haji Johar Bin Murat @ Murad
- Dr Tay Kiang Meng

REMUNERATION COMMITTEE

- Ng Wai Pin (Chairman)
- Dato' Haji Johar Bin Murat @ Murad
- Wong Hua Choon

AUDITORS

Deloitte & Touche
Level 19, Uptown 1
1 Jalan SS21/58
Damansara Uptown
47400 Petaling Jaya
Selangor Darul Ehsan
Tel: (603) 7723 6500
Fax: (603) 7726 3986

SHARE REGISTRAR

Epsilon Registration Services
Sdn Bhd
312, 3rd Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
Tel: (603) 7806 2116 /
7803 1126
Fax: (603) 7806 1261

SPONSOR

HWANGDBS Investment Bank
Berhad (*formerly known as
Hwang-DBS Investment Bank
Berhad*) (*formerly known as
Hwang-DBS Securities Berhad*)
Suite 23A-01
Menara Keck Seng
203, Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: (603) 2143 7888
Fax: (603) 2148 2989

PRINCIPAL BANKERS

- United Overseas Bank
Limited (Singapore)
- Public Bank Berhad
(Malaysia)

REGISTERED OFFICE

Suite 1603, 16th Floor
Wisma Lim Foo Yong
86, Jalan Raja Chulan
50200 Kuala Lumpur
Tel: (603) 2732 1377
Fax: (603) 2732 0338

HEAD OFFICE

Suite 516, Block E
Pusat Dagangan Phileo
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Fax: (603) 7968 3316
Email: fcb@frontken.com

SINGAPORE OFFICE

156A Gul Circle,
Singapore 629614.
Tel: (65) 6863 4500
Fax: (65) 6863 4766

STOCK EXCHANGE LISTING

MESDAQ Market of
Bursa Malaysia Securities
Berhad
Stock Code: FRONTKN
Bursa Code: 0128
Reuters Code: 0128.KL
Bloomberg Code: FRCB MK

CORPORATE WEBSITE

www.frontken.com

corporate profile

Vision

To be a continuing improving leader in performance excellence in advanced surface metamorphosis engineering and Technology.

Mission

To delight our customers with complete satisfaction which include not only the most affordable price and fastest time of delivery but also the highest technical performance and reliability for all our services and products.

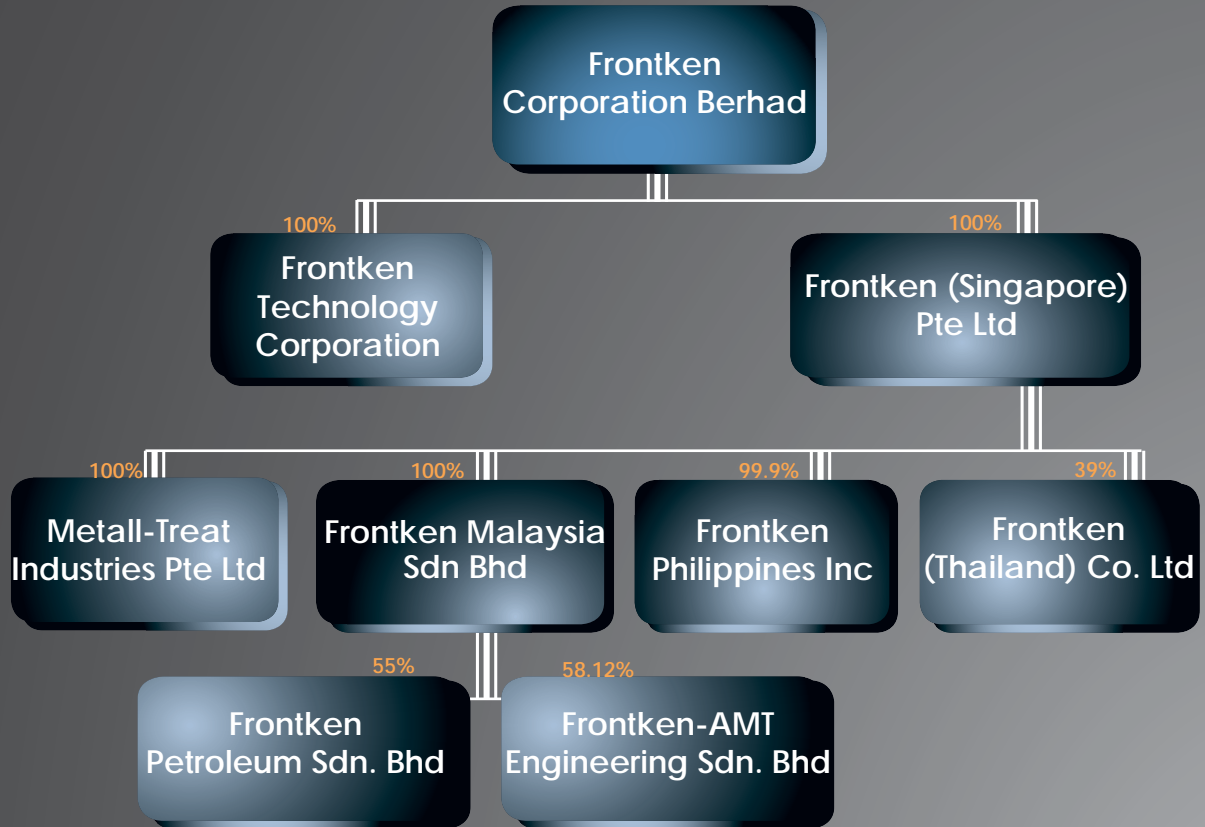
Frontken Corporation Berhad, listed on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), has, since its inception in 1996, established itself as a leading service provider of mission critical surface metamorphosis engineering in the South East Asian region.

The Group utilizes numerous thermal spray coating methods to improve the operations efficiency of various turnkey industries, including the semiconductor, power generation, oil and gas, petrochemical and electronics manufacturing sectors. The Group also undertakes Research & Development in advanced materials and surface engineering technology to produce new and improved coatings for use in the protection against material degradation and to improve the productivity of industrial processes.

To date, the Group has established a significant presence across the Asian region, with three plants in Singapore, six facilities and a sales office in Malaysia, one plant each in Thailand and Philippines, and an office in Taiwan. Furthermore, over the years, the Group has established an international network of representatives – spanning from Brunei, Myanmar and Indonesia to Nigeria and Pakistan – to market the Group's specialized services worldwide.



corporate structure



Frontken (Singapore) Pte Ltd -
Jurong Plant 1 and 2, Metall-Treat Industries Pte Ltd



Frontken Malaysia Sdn Bhd

1. Bukit Mertajam
2. Kulim
3. Shah Alam
4. Kuching
5. Bintulu
6. Kota Kinabalu



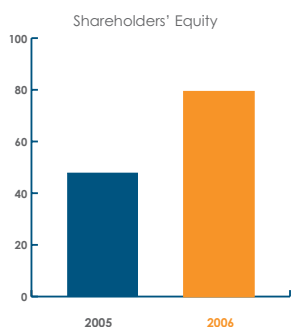
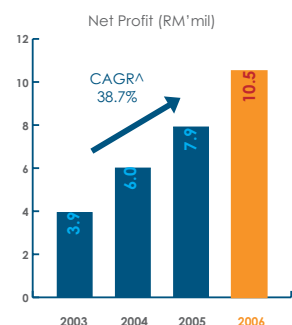
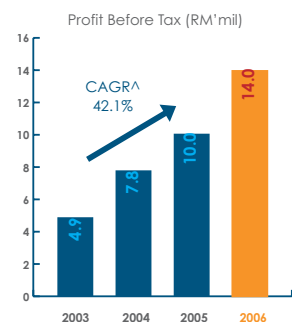
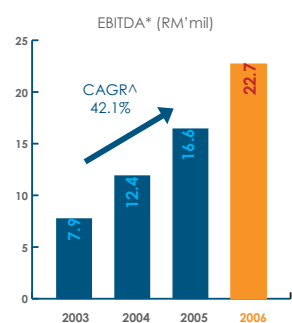
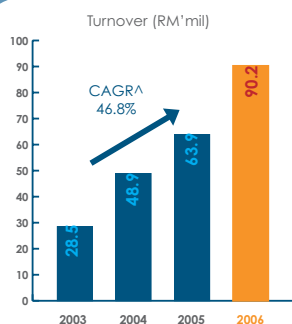
Frontken Philippines Inc.- Laguna



Frontken Thailand Co., Ltd.
- Bangkok



financial highlights



Summarized Group Income Statements (RM'000)

| | Proforma | | | |
|-------------------|----------|--------|--------|--------|
| | 2003 | 2004 | 2005 | 2006 |
| Revenue | 28,506 | 48,892 | 63,863 | 90,239 |
| EBITDA* | 7,897 | 12,360 | 16,584 | 22,665 |
| Profit Before Tax | 4,864 | 7,767 | 10,038 | 13,951 |
| Net Profit | 3,937 | 6,003 | 7,909 | 10,506 |

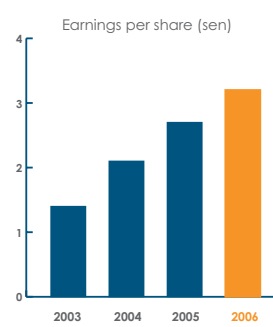
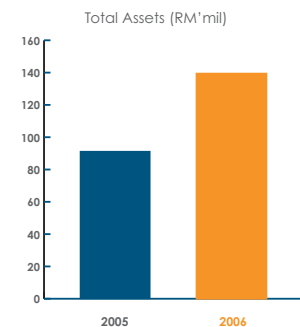
Summarized Group Balance Sheets (RM'000)

| | Proforma | |
|-------------------------------------|---------------|----------------|
| | 2005 | 2006 |
| Non-Current Assets | 60,422 | 81,653 |
| Current Assets | 30,813 | 57,703 |
| Total Assets | 91,235 | 139,356 |
| Shareholders' Equity | 47,747 | 79,217 |
| Minority Interest | 1,077 | 1,160 |
| Total Equity | 48,824 | 80,377 |
| Non-Current Liabilities | 20,669 | 24,350 |
| Current Liabilities | 21,742 | 34,629 |
| Total Liabilities | 42,411 | 58,979 |
| Total Equity and Liabilities | 91,235 | 139,356 |

Summarized Group Cash Flows (RM'000)

| | Proforma 2006 |
|--|---------------|
| Operating Profit Before Working Capital Changes | 17,420 |
| Net Cash Flows From Operating Activities | 17,314 |
| Net Cash Flows From Investing Activities | (26,093) |
| Net Cash Flows From Financing Activities | 26,321 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 17,542 |
| Effect of exchange differences | (12) |
| Cash and Cash Equivalents at Beginning of Year | - |
| Cash and Cash Equivalents at End of Year | 17,530 |

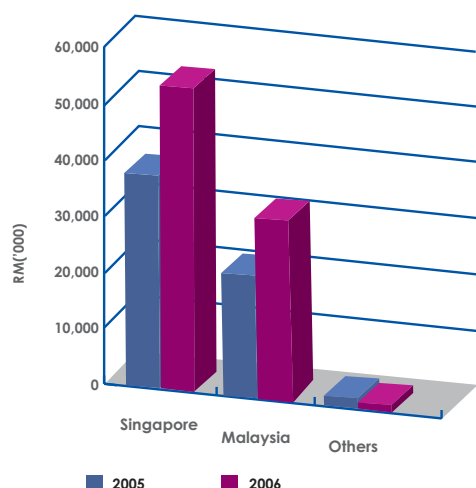
* EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation
 ^ CAGR = Compounded Annual Growth Rate from 2003 to 2006



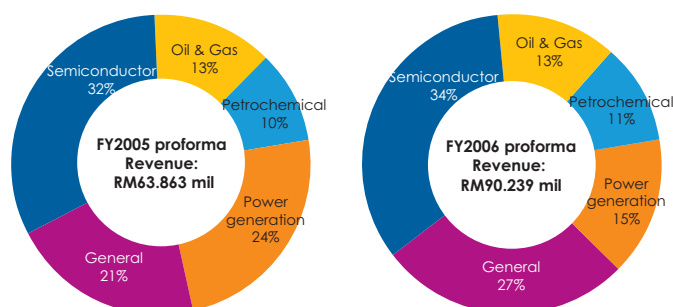
Note: The proforma consolidated results for the past four years were prepared based on the audited financial statements of Frontken Corporation Berhad and its subsidiaries on the assumption that the current structure of the Group has been in existence throughout the financial years ended 31 December 2003 to 31 December 2006.

financial highlights (cont'd)

Segmental Revenue - By Customer Location



Segmental Revenue - By Industry



Segmental Revenue - By Customer Location (RM'000)

Singapore
Malaysia
Others

| | <i>Proforma</i> | | | |
|--------------|-----------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 |
| Singapore | 22,830 | 31,802 | 39,328 | 56,084 |
| Malaysia | 5,644 | 14,128 | 22,740 | 33,167 |
| Others | 32 | 2,962 | 1,795 | 988 |
| Total | 28,506 | 48,892 | 63,863 | 90,239 |

Segmental Revenue - By Industry (RM'000)

Semiconductor
Oil & Gas
Petrochemical
Power generation
General

| | <i>Proforma</i> | | | |
|------------------|-----------------|---------------|---------------|---------------|
| | 2003 | 2004 | 2005 | 2006 |
| Semiconductor | 11,668 | 12,311 | 20,352 | 31,002 |
| Oil & Gas | 5,341 | 9,264 | 8,264 | 11,369 |
| Petrochemical | 4,710 | 4,682 | 6,457 | 9,740 |
| Power generation | 2,658 | 8,038 | 15,388 | 13,455 |
| General | 4,129 | 14,597 | 13,402 | 24,673 |
| Total | 28,506 | 48,892 | 63,864 | 90,239 |

Financial Analysis (RM'000)

Turnover Growth
Profit Before Tax Growth
Net Profit Growth
Operating Profit Margin
Pre-tax Profit Margin
Net Profit Margin

| | <i>Proforma</i> | | |
|--------------------------|-----------------|-------|-------|
| | 2004 | 2005 | 2006 |
| Turnover Growth | 71.5% | 30.6% | 41.2% |
| Profit Before Tax Growth | 59.7% | 29.2% | 39.5% |
| Net Profit Growth | 52.5% | 31.7% | 0.2% |
| Operating Profit Margin | 16.8% | 17.3% | 16.8% |
| Pre-tax Profit Margin | 15.9% | 15.7% | 15.5% |
| Net Profit Margin | 12.3% | 12.4% | 11.6% |

Total assets
Total Borrowings/Equity Ratio
Cash and Cash Equivalents
Return on Average Shareholders' Equity
Return on Average Total Assets
Earnings Per Share (Sen)

| | | |
|--|--------|---------|
| Total assets | 91,235 | 139,356 |
| Total Borrowings/Equity Ratio | | |
| Cash and Cash Equivalents | 4,694 | 20,973 |
| Return on Average Shareholders' Equity | 33.1% | 12.5% |
| Return on Average Total Assets | 17.3% | 6.9% |
| Earnings Per Share (Sen) | 2.1 | 2.7 |

financial highlights (cont'd)

SHARE PRICE PERFORMANCE

For the period 11 July 2006 – 18 May 2007



| | 2006 |
|---------------------------------|------|
| Share Price (sen) (at year end) | 88 |
| EPS (sen) - proforma | 3.2 |
| PE Multiple | 27.5 |

| Market Valuation (18 May 2007) | |
|---------------------------------|--------|
| Market Capitalization (RM' mil) | 387.13 |
| Price/Book Ratio | 10.51 |

a word from the chairman

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the first Annual Report for Frontken Corporation Berhad ("Frontken") and the Group's financial results for the year ended 31 December 2006 ("FY2006").

The year under review saw the Group achieving one of its pinnacle milestones in its corporate history: attaining listed status on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 11 July 2006. This achievement not only reflects positively on Frontken's current level of operations, but also speaks volumes of the growth prospects of the Group moving forward.

ECONOMIC OVERVIEW

The regional economy faced tremendous pressure in 2006, in light of escalating crude oil prices, fluctuations in major foreign currencies and rising interest rates adversely affecting business sentiment. Country-specific threats further compounded the regional outlook, with the effects of the military coup in Thailand, and weak sentiment in the Philippines and Indonesia.

In spite of the dampened outlook, World Bank reports that economies in East Asia and the Pacific region (which include the People's Republic of China, Korea, Indonesia, Malaysia, Thailand and Singapore) grew steadily at an aggregate of 9.2% in 2006 – the highest regional growth rate since 2001. Malaysia's Gross Domestic Product ("GDP") grew 5.9% in the year under review.

From a sectoral viewpoint, foreign direct investments ("FDI") in the South East Asian region rose rapidly across key manufacturing and energy-related industries such as semiconductors, oil and gas and petrochemical industries, according to the World Investment Report 2006 by UNCTAD (United Nations Conference on Trade and Development). This growth was on the back of the rapid industrialization of certain economies and increased oil refining activities overall.



Wong Hua Choon

Executive Chairman / Managing Director

a word from the chairman (cont'd)

FINANCIAL PERFORMANCE

FY2006 saw the Group achieving RM7.93 million in net profit on the back of RM72.48 million revenue.

On a proforma basis, including the pre-acquisition financials before 31 March 2006, the Group achieved commendable financial performance in FY2006, with proforma group revenues amounting to RM90.24 million, 41.3% higher than RM63.86 million achieved the year before.

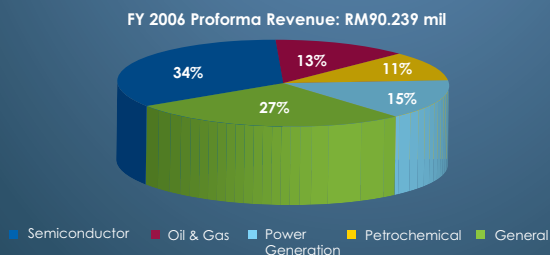
EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) improved 36.7% year on year to RM22.67 million from RM16.42 million previously, while group profit before tax stood at RM13.95 million, compared to RM10.0 million achieved in the previous year. Group net profits saw a marked increase to RM10.5 million in FY2006 compared to RM7.90 million in the previous year.

From a wider perspective, the group revenue recorded compounded annual growth rates ("CAGR") of 46.8% from 2003 to 2006, and CAGR of 38.7% for group net profit. This indicates that the Group has been continuing its steady growth path over the years; an upward trend of sustained sales and profitability.

Shareholders' equity as at end-FY2006 amounted to RM79.22 million, while cash and cash equivalents stood at RM20.97 million. The Group achieved returns on average shareholders' equity of 16.5% in the year under review, and total debt over equity ratio was 0.37 times. All said, the Group is adequately equipped financially for expansion at the opportune time, and will continue its practice of implementing strategies to create value for our shareholders and other stakeholders.

OPERATIONS REVIEW

The semiconductor sector which is the Group's traditional stronghold contributed 34% in FY2006, compared to 32% previously.



The oil and gas sector maintained its 13% contribution to group revenue. In absolute terms, revenue from this burgeoning sector grew 37.6% year-on-year, to RM11.37 million from RM8.26 million in the previous year.

The petrochemical and pharmaceutical sector became a significant contributor to FY2006 group revenue, improving an incredible 51% to RM9.74 million from RM6.46 million previously.

The bulk, or approximately 62%, of FY2006 group revenue was derived from our customer base in Singapore, where we passed stringent qualifications and obtained approvals to work on various critical surface metamorphosis applications with leading industry players. This breakthrough in the semiconductor sector augurs well for our continued growth in the years to come.

The year under review also saw the Group making significant headway in the wafer fabrication sector in Singapore, where we passed stringent qualifications and obtained approvals to work on various critical surface metamorphosis applications with leading industry players. This breakthrough in the semiconductor sector augurs well for our continued growth in the years to come.

37% of group revenues were derived from customers from Malaysia which are served from our plants from Singapore, Shah Alam, Penang, Kulim, Kuching, Bintulu and Kota Kinabalu, and a sales office in Terengganu; compared to 36% contribution in the previous year. It is vital to note that in absolute terms, sales from our Malaysian customers improved 46% to RM33.17 million from RM22.74 million previously. This improvement not only demonstrates the Group's strengthened presence in the Malaysian market, but also indicates the high market demand in line with the country's sustained growth in the industrialization phase.

In the year under review, the Group also successfully acquired Metall-Treat Industries Pte Ltd ("Metall-Treat"), a Singapore-based firm specializing in engineering phosphating technologies, electroplating and niche surface treatment services for a purchase for a purchase consideration of SG\$3.5 million. The exercise was completed on 16 October 2006.

The acquisition not only allows the Group to enhance its suite of products and services, but also effectively grants Frontken access to Metall-Treat's pool of established customers in the oil and gas and aerospace industries. Not only that, the Group will then be able to leverage on Metall-Treat's existing infrastructure and technology.

As has been our practice in the past, Frontken has placed high premium on Research and Development (R&D) activities, as it enables the Group to be in the forefront of cutting-edge technologies. We spent RM1.38 million on R&D projects in FY2006.

a word from the chairman (cont'd)

Our in-house R&D team is led by Dr Tay Kiang Meng who possesses 18 years of experience. On top of that, the Group has established alliances and strategic partnerships with world-renowned R&D experts including Tocalo Co., Ltd, Japan; Lam Research Corporation, USA; OTS, Germany; and Ares Green Technology Corporation ("AGTC"), Taiwan, in which the Group now holds a 19.00% equity stake.

Having introduced the surface metamorphosis technology solution to the world in 2003, we focused significant efforts on this technologies particularly to the power generation and semiconductor industry, and developed many innovative processes, solution and services required, including:

- Technologies for selectively remove unwanted deposits and other particulate material from critical surfaces of semiconductor High purity quartz and ceramics process kits, thereby increasing the process kit's service life used in nanoscale semiconductor manufacturing.
- Nanostructured Coatings produced by HVOF Thermal Spray of Superfine Wc/Co Feedstocks with Improved Coating Properties.
- Innovative method and system using thermal spray coatings on substrates to improve and enhance adhesion of deposits during ultra-high vacuum processing.

Several emerging research areas where Frontken has applicable competencies, and is working on development with materials vendors, equipment suppliers, end-user customers, are:

- Surface treatment technology for ultra-small inner cavities.
- Nano-materials for specialty coating applications.

We have also integrated our business and production processes with Information Technology, to reduce production cycle time and improve customer turnaround-to-delivery time, as well as to provide visibility to keep customers informed at every stage. With this, Frontken will be able to track and control all aspects of the production processes and quality and delivery for customers' satisfaction.

STATUS OF UTILISATION OF IPO PROCEEDS

The Group's Initial Public Offer ("IPO") exercise, completed in July 2006, effectively raised gross proceeds amounting to RM31.439 million. The table below shows the amounts allocated for each purpose, the amounts utilized and balance of the proceeds as at 4 May 2007:

| Purpose | Allocation of IPO Proceeds (RM'000) | Amount Utilized (RM'000) | Balance (RM'000) |
|-------------------------------------|-------------------------------------|--------------------------|------------------|
| Construction of plant | 6,600 | 6,507 | 93 |
| Purchase of machinery and equipment | 9,757 | 5,327 | 4,430 |
| R&D expenditure | 6,300 | 290 | 6,010 |
| Repayment of bank borrowings | 3,000 | 3,000 | - |
| Working capital | 4,082 | 4,082 | - |
| Share issue and listing expenses | 1,700 | 1,700 | - |
| Total | 31,439 | 20,906 | 10,533 |



a word from the chairman (cont'd)

CORPORATE DEVELOPMENTS AND GROWTH PROSPECTS

We at Frontken are moving on the fast plane in expanding our operations and broadening our regional presence to capture greater market share and thus become a formidable player in the surface metamorphosis engineering sector in the regional playing field.

To this end, the Group has identified three strategies to propel the Group in continuing on its growth path moving forward: **regional expansion** through organic means, strategic partnerships or merger and acquisition ("M&A") activities, **new product / process development** through R&D, and **customer base expansion** via proactive marketing activities.

Firstly, under the regional expansion program, the Group will grow organically by penetrating into new geographical markets and establishing a firmer presence in key countries already ventured into. To this end, the current year to date has seen the Group setting foot in Taiwan through the incorporation of a wholly-owned subsidiary Frontken Technology Corporation, Taiwan on 14 March 2007.

The Group is also stepping up its presence in Malaysia, with the setting up of an additional plant in Kota Kinabalu under 55%-owned Frontken Petroleum Sdn Bhd to market the Group's services to the surrounding industries, primarily for oil and gas and petrochemical industries in Sabah and Peninsular Malaysia. We are also progressively equipping our Bintulu plant to serve the oil and gas and process industries there. Moreover, the Group also intends to expand the capacity of its Kulim plant, which has achieved 80% capacity utilization, by embarking on the second phase of expansion. The second phase is planned to occupy approximately five times more floor space than the 32,000 sq ft in its current plant.

In further recognition of our industry expertise, the Group has established strategic alliances with global players in the semiconductor wafer fabrication, power generation and petrochemical industries. Indeed, our business relationships have extended beyond partnerships, where Frontken has gained approvals to become service centres for these customers.

What is most exciting about these alliances and partnerships are that they present opportunities for the Group to tap into the potential business from the multi-billion dollar investments in the each of the wafer fabrication plants to be built across the region.

Industry leaders, including Infineon, Qimonda AG, First Solar, Soitec, Chartered Semiconductor and IM Flash Technologies (a joint venture between Intel and Micron Technology) have each announced further investments into the sectors into Malaysia, Singapore, Taiwan, China and India in 2007 and beyond. The global semiconductor sector is anticipated to grow from US\$36 billion (2006) to US\$39 billion (2007), while the Asia-Pacific region, excluding Japan, is expected to account for over US\$20 billion, or 53% of the global investments. Suffice to say, the Frontken group is poised to capitalize on this tremendous growth trend worldwide.

Also, our strong link with Siemens Power Gen Asia Pacific facilitates our undertaking of more Gas Turbine MRO ("Maintenance, Repair and Overhaul") projects in Malaysia, Singapore, Thailand, Philippines, Vietnam, Indonesia, Taiwan and Korea in the near future. This also allows us to ride on the fast-growth of Siemen's market share in new markets in Asia Pacific. Adding yet another feather to our cap is our petrochemical partner, Elliot Ebara, extending our service partnership beyond Singapore and Malaysia presently to cover Thailand and the Philippines as well. All these positive developments augur well for the Group's sustained profitability moving ahead, and speak volumes of our partners' confidence in the Group.

The Group will also explore opportunities to acquire growth through M&A activities. We believe that vertical expansion will not only allow the Group to offer a more comprehensive range of products and services to its customers, but to also reap the benefits of improved margins through cost-savings.

To this end, the Group recently entered into agreement to increase its equity stake in AGTC to 32.36% which includes the recently-announced acquisition of an additional 4.0 million shares representing about 13.36% for a cash consideration of NT\$148.3 million (approximately RM15.2 million). This strategic acquisition is anticipated to bring about powerful synergies between both companies particularly in the field of R&D, and kick starts Frontken's access into the emerging markets of China and Korea, and even India. The acquisition, once completed, will also make AGTC an associate company of Frontken, and its financial results will be equity-accounted into the Group.

a word from the chairman (cont'd)

Secondly, the Group will continue to undertake initiatives for new product and process development through active R&D. Some of the new products or processes under the Group's present scope of research include selective nickel coating processes, anodizing for semiconductor, vacuum plasma spray or low pressure plasma spray; which will enable us to cater better to the needs of our customers in various industries.

Leveraging on the technological expertise of its international partners, the Group's R&D is aimed at expanding industrial applications of current products through value-added customization, and developing R&D papers for dissemination in industry publications and at global forums.

Thirdly, the Group will endeavor to expand its customer base to broaden its income base and thus mitigate risks inherent in any individual industry. To this end, we intend to expand our sales and marketing team from the present 20 staff to more than 30 strong by 2008. We will also appoint representatives and set up sales offices in new geographical markets, including the emerging economies of Vietnam, Indonesia, China and Middle East to facilitate quicker market penetration and execute awareness creation activities.

Moreover, we intend to achieve greater recognition of the Frontken brand name in the global surface metamorphosis technology industry, by participating in global conferences and trade exhibitions such as the SEMICON® Singapore Exposition, the premier event showcasing the latest technologies in semiconductor manufacturing; and the Oil & Gas Industry Exhibition and Conference (OSEA), the prestigious event for Asia's oil and gas industry. In the long term, the Group aims to penetrate the aerospace, defense, pharmaceutical and steel mills markets within the next five years.

With these strategies in place, we at Frontken are excited at the positive prospects for the Group, and anticipate greater accomplishments in the coming years.

CORPORATE SOCIAL RESPONSIBILITY

The Group is aware of its role as a socially responsible corporate citizen, and will keenly endeavour to implement the appropriate initiatives for the benefit of the wider community in the years to come.

CORPORATE GOVERNANCE

The Board has continued to integrate good and effective corporate governance practices into the overall business direction and management of the Company and its subsidiaries, in compliance with the Best Practices of the Malaysian Code of Corporate Governance. The Board is committed towards ensuring maximum shareholders' value and enhancing the business prosperity of the Group in line with the application of the principles of the said code. The measures implemented are highlighted in the Corporate Governance Statement in the Annual Report.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to all our employees who have worked hard to drive our growth forward to enable it attain the heights it stands at today. A word of thanks also to our valued customers, shareholders, business associates, for their continuous support for the Group.

My sincere appreciation also goes to the relevant government and regulatory authorities and financial community for their continued support and confidence.

Finally, I also take this opportunity to express my gratitude to the Board of Directors for their professionalism and dedicated contribution to steer the Group towards excellence.

Together, we look forward to a brighter future ahead for Frontken.

Wong Hua Choon
Executive Chairman / Managing Director
29 May 2007



corporate milestones

11 July 2006

Frontken Corporation Berhad was successfully listed on the MESDAQ Market of Bursa Malaysia Securities Berhad. The listing exercise, which entailed the public issue of 118,750,000 new shares, raised RM31.4 million in IPO proceeds for the Group.



16 October 2006



Frontken (Singapore) wholly-acquired Metall Treat Industries Pte Ltd, a company incorporated in Singapore.

13 January 2007

Frontken's Kulim plant was officially opened by Yang Berhormat Dato' Seri Rafidah Aziz, Minister of International Trade and Industry, Malaysia.



10 May 2007

Frontken Corporation Berhad entered into agreement to acquire approximately 4.0 million ordinary shares, or 13.36% in Ares Green Technology Corporation, Taiwan. Upon completion of the acquisition, Frontken Corporation Berhad's equity stake in Ares Green Technology Corporation will increase to 32.36% - a move that will bring about powerful synergies between both R&D teams and kick start the Group's expansion in the Asian region.

corporate milestones (cont'd)

Marketing Efforts

Frontken actively participates in international trade exhibitions to provide the latest updates on our products & services to potential customers

Martech 2006



Oil & Gas Industry Exhibition and Conference (OSEA) 2006



Semicon 2006



Human Resource Training

Believing in the empowerment and motivation of the team, Frontken consistently provides employee training to hone the team's skills and harness mutual success. Among the training modules conducted include:

- Communication and Team Work
- Engineering and R&D
- Customer Focused Sales
- Quality Assurance
- Health and Safety



directors' profile



Wong Hua Choon

**Executive Chairman / Managing Director
Malaysian, aged 43**

Wong Hua Choon was appointed as the Executive Chairman / Managing Director of Frontken Corporation Berhad ("FCB") on 10 April 2006. He is a member of the Remuneration Committee. He is the co-founder of the FCB Group and holds a Bachelor of Science in Mechanical Engineering from the University of Idaho, USA.

He is responsible for leading the Group's corporate mission, direction and business performance with a strong breakthrough strategy, by growing market share and offering an integrated products and services. He has more than 17 years of experience in the business of surface technology, including setting up of R&D and engineering application in thermal coating processes.

Prior to starting FS in 1996, he was with Sulzer Metco (Singapore) Pte Ltd, one of the largest thermal spray equipment and material manufacturing company in the world, during which time he has been at the forefront of many of the industry's most significant technology innovations. An engineer by training, Mr Wong began his career at Horiguchi Engineering Co., Ltd in the firm's thermal spray department. During his 5 years' tenure there, he was instrumental in setting up the marketing, R&D and engineering applications in thermal spray technology. He has been instrumental in steering the FCB Group to its present stature.

He also sits on the board of Ares Green Technology Corporation, Taiwan.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest other than disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.

See Chuan Swee was appointed as the Executive Director of FCB on 10 April 2006. He is a member of the Audit Committee. He holds a Master in Business Administration specialised in Finance & Investment Management and a Bachelor of Business Administration in Accounting from Baruch College of City University of New York. He is a provision member of Institute of Certified Public Accountant of Singapore and is also the Chief Financial Officer of the FCB Group.

He is responsible for the Group's corporate finance and investment, accounting and tax as well as treasury functions. Together with the other members of the senior management team, he is involved in formulating corporate and regional expansion plans and strategies. Mr See also oversees the Human Resource Department and charts the Group's overall Human Resource development plan. He has 17 years of financial and management experience, in the area of planning, finance, accounting and equity market. Prior to joining the FCB Group in 2001, he was with Affin-UOB Securities Sdn Bhd.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest other than disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.



See Chuan Swee

**Executive Director/
Chief Financial Officer
Malaysian, aged 43**

directors' profile (cont'd)

Dr Tay Kiang Meng was appointed as the Executive Director of FCB on 10 April 2006. He is a member of the Nomination Committee. Dr Tay holds a Bachelor of Engineering (First Class Honours) in Manufacturing Systems Engineering from University of Portsmouth, and a Master of Science in Advanced Manufacturing Systems and a PhD in Engineering from Brunel University, United Kingdom.

He is also the Chief Scientist of the FCB Group and is responsible for leading the Group's technology roadmap, spearheading R&D activities, formalising the Group's quality systems, developing critical manufacturing technologies for FCB's semiconductor technology and advanced materials engineering, and exploring new technology opportunities for the Group. He is responsible for the commercialization and breakthrough of the Group's R&D activities from a regional to a global scale. He has 18 years of professional experiences in technology development, R&D, and has led some of the most significant technology innovations in semiconductor-related manufacturing technology and advanced materials engineering. Dr Tay has been instrumental in pioneering the semiconductor 300mm copper technology together with the global partners and in achieving the Group's R&D critical milestones. Prior to joining FS in 2003, he was with Eng Tic Lee Engineering Pte Ltd.

An engineer and scientist by training, Dr Tay began his professional R&D experience with research think tank, Gintic Institute of Manufacturing Technology, Singapore. Dr Tay has received honours and awards in many of his academic, research and technology development work. Dr Tay has numerous inventions on his research work and has published in many international journals, books and encyclopedia in the areas of semiconductor manufacturing technology, advanced quality engineering, statistics, as well as advanced manufacturing engineering. His work has also been presented in many international conferences, seminars and workshops.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest other than disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.



Dr Tay Kiang Meng
Executive Director/ Chief Scientist
Singaporean, aged 43



Dato' Ibrahim Bin Mahmud
Non-Independent Non-Executive Director
Malaysian, aged 64

Dato' Ibrahim Bin Mahmud was appointed as the Non-Independent Non-Executive Director of FCB on 10 April 2006. He joined the Sarawak Constabulary on 12 March 1964 as Constable and was promoted to the rank of Inspector in 1966 and thereafter rose through the gazette rank to full superintendent before his retirement as Divisional Superintendent on 1 March 1998. During his service in the Royal Malaysia Police, he had served as Staff Officer Narcotic, Criminal Investigation Department at the Headquarters, Sarawak and Officer in Charge of Police District. He was also seconded to the Anti-Corruption Agency, Kuching as Senior Investigation Officer. Currently, he sits on the board of Kim Hin Industry Berhad and several other private companies.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest with the Company.

directors' profile (cont'd)



Dato' Haji Johar Bin Murat @ Murad

Independent

Non-Executive Director

Malaysian, aged 59

Dato' Haji Johar Bin Murat @ Murad was appointed as the Independent Non-Executive Director of FCB on 10 April 2006. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee. He graduated with a Bachelor degree in Malay Studies from Universiti Malaya in 1971. He has worked in various government agencies, such as the Ministry of Science, Technology & Environment, the Ministry of Finance, the Ministry of Public Enterprises (now known as Ministry of Entrepreneur and Co-operative Development) and Economic Planning Unit of Prime Minister Department. During his tenure of service in the Ministry of Finance (1996-2000), he was a director of the following organisations:

- Yayasan Tun Razak (Tun Razak Foundation)
- Perbadanan Kemajuan Negeri Selangor (Selangor State Economic Development Corporation)
- Majlis Sukan Negara Malaysia (National Sports Council)
- Lembaga Pembangunan Labuan (Labuan Development Authority)
- Syarikat MKIC Malaysia (Malaysia Equity Investment of Malaysia)
- Jawatankuasa Pengurusan Hutan Serantau (Regional Forestry Management Committee)
- Majlis Penyelidikan dan Kemajuan Sains Negara (National Council of Science and Research Development)

When he was the Deputy Secretary General (Operation) of the Ministry of Science, Technology & Environment from 2000 to 2003, Dato' Johar was also an Alternate Director of Lembaga Pengarah Technology Park Malaysia, MIMOS Berhad, SIRIM Berhad, Malaysian Agriculture Research and Development Institute, Malaysia Technology Development Corporation, Composite Technology Research Malaysia Sdn Bhd, Malaysia Design Council and National Science Centre. He was also the Chairman of Audit Committee of MIMOS Berhad and a member of the Board of Tender for MIMOS Berhad and SIRIM Berhad. Presently, he sits on the board of Furniweb Industrial Products Berhad and several other private companies.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest with the Company.



Ng Wai Pin

Independent

Non-Executive Director

Malaysian, aged 41

Ng Wai Pin was appointed as Independent Non-Executive Director of FCB on 10 April 2006. He is the Chairman of the Audit Committee, Nomination Committee and Remuneration Committee. He graduated with a Bachelor of Laws degree from the University of Auckland in 1988 and was practising as a barrister and solicitor in a leading legal firm in New Zealand for a number of years before returning to Malaysia where he joined Shook Lin & Bok, a legal firm in Kuala Lumpur.

He was admitted as an Advocate and Solicitor of the High Court of Malaya in 1993 and later became a Director and Chief Executive Officer of a company listed on Bursa Securities with regional operations, before returning to private practice in law. Presently, he is the Chief Operating Officer of a company listed on Singapore Exchange Limited and sits on the board of Euro Holdings Berhad and BSL Corporation Berhad.

He has no family relationship with any other Directors or major shareholders of the Company. He has not been convicted of any offences other than traffic offences within the past ten years. He has no conflict of interest with the Company.

Corporate Governance Statement

Frontken Corporation Berhad ("FCB") was successfully listed on MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") on 11 July 2006. As a listed company, the Board of Directors of FCB ("the Board") is fully committed towards ensuring that the principles and best practices as set out in the Malaysian Code on Corporate Governance ("the Code") are applied and practised throughout the Group. The Board is therefore pleased to outline below the application of the principles of Part 1 of the Code and would also state herewith that all the best practices of Part 2 of the Code have been complied with accordingly.

(A) THE BOARD OF DIRECTORS

FCB is controlled, led and managed by an experienced Board who is responsible to the shareholders for the management of the Company. In addition, the Board is responsible for the Group's overall strategies and objectives, its acquisition and divestment policies, financial policy and major capital expenditure projects and the consideration of significant financial matters.

The Board's wide spectrum of skills and experience give added strength to the leadership, thus ensuring the Group is under the guidance of an accountable and competent Board. The Board of Directors operates within a robust set of governance as set out below:

- **Composition of the Board**

The Board currently has six (6) members comprising three (3) executive members and three (3) non-executive members. Two (2) out of six (6) members of the Board are independent. The Board has complied with the Listing Requirements of Bursa Securities for the MESDAQ Market for the Board to have at least two (2) independent directors.

The profiles of the Board members are as set out on pages 14 to 16 of this Annual Report.

- **Board Meeting**

The Board governs the operations of the Group. The Board meets regularly, at least once in a quarter, with additional meetings held as necessary to formulate and adopt strategic business plan for the Group, to evaluate the impact of risk affecting the operations of the Group and to formulate appropriate risk management system.

For the financial year ended 31 December 2006, two (2) Board Meetings were held shortly after the Company's listing on the MESDAQ Market of Bursa Securities in July 2006.

The meetings attendance of the Directors is as follows:

| Director | Number of meetings attended |
|------------------------------------|-----------------------------|
| Wong Hua Choon | 2/2 |
| Dr Tay Kiang Meng | 1/2 |
| See Chuan Swee | 2/2 |
| Dato' Ibrahim Bin Mahmud | 2/2 |
| Dato' Haji Johar Bin Murat @ Murad | 2/2 |
| Ng Wai Pin | 2/2 |

- **Supply of and Access to Information and Advice**

The Board has a formal schedule of matters reserved specifically for its decision. The Board is supplied with information in a timely fashion and appropriate quality to enable them to discharge their duties and due notice is given to Directors with regard to issues to be discussed. All resolutions are recorded and thereafter circulated to the Directors for comments before minutes of proceedings are finalised and confirmed.

The Board has full and unrestricted access to all of the Group's information whether as a full board or in their individual capacity to enable them to discharge their duties to their full capacity pertaining to the Group's affairs and business. Towards this end, there is an agreed procedure in place for Directors to acquire independent professional advice to ensure the Board functions effectively. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are met and advises the Board on compliance issues.

Corporate Governance Statement (Cont'd)

- **Directors' Training**

All the Directors of the Group have attended and successfully completed the Mandatory Accreditation Programme (MAP) pursuant to Bursa Securities' guidelines on Training for Directors.

To keep abreast with developments in the market, industry and corporate scene, Directors are encouraged to continuously update themselves with changes in guidelines issued by the relevant authorities and to attend such programmes which can complement their services to the Group. In addition, the Company Secretary also updates the Directors on the latest relevant regulatory requirements.

- **Directors' Appointment and Re-election**

Any appointment to the Board will be made based on the recommendation of the Nomination Committee. Any new nomination received is forwarded to the Board for assessment and endorsement.

All Directors who are appointed by the Board are subject to re-election at the next Annual General Meeting ("AGM") after their appointment in accordance with the Company's Articles of Association ("Articles").

In accordance with the Company's Articles, all the Directors of the Company are due to retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Further, pursuant to Section 129(6) of the Companies Act, 1965, Directors over the age of 70 are required to offer themselves for re-election at every Annual General Meeting.

- **Directors' Remuneration**

The remuneration of Directors is determined at levels that enable the Company to attract, retain and motivate experienced and capable directors to manage the business of the Group and to align the interest of the Directors with those of the shareholders. The Directors play no part in deciding their own remuneration and shall abstain from discussing or voting on their own remuneration.

The remuneration package for the Executive Directors comprises of salary and allowances.

The aggregate remuneration of the Directors for the financial year ended 31 December 2006 is as follows:-

| Directors | 2006 RM |
|---------------------------------|--------------------|
| Executive Directors: | |
| Directors' Salaries | 1,381,730 |
| Directors' Fees | - |
| Percentages | - |
| Bonuses | 92,987 |
| Commission | - |
| Compensation for loss of office | - |
| Benefits in Kind | - |
| TOTAL | 1,474,717 |
| Non-executive Directors: | |
| Directors' Salaries | 26,880 |
| Directors' Fees | 68,129 |
| Percentages | - |
| Bonuses | 4,000 |
| Commission | - |
| Compensation for loss of office | - |
| Benefits in Kind | - |
| Other emoluments | 3,000 |
| TOTAL | 102,009 |

Corporate Governance Statement (Cont'd)

The number of Directors who served during the financial year whose remuneration falls within the respective bands are as follows:

| Directors | Number of Directors 2006 |
|---------------------------------|--------------------------------|
| Executive Directors: | |
| RM250,001 to RM300,000 | 1 |
| RM400,001 to RM450,000 | 1 |
| RM750,001 to RM800,000 | 1 |
| TOTAL | <u>3</u> |
| Non-executive Directors: | |
| Below RM50,000 | 2 |
| RM50,001 to RM100,000 | 1 |
| TOTAL | <u>3</u> |

The Code recommends detailed disclosure to be made for each director's remuneration. The Board is of the opinion that the transparency and accountability aspects of corporate governance as applicable to Directors' remuneration are appropriately served by the disclosures made above.

(B) AUDIT COMMITTEE

The Company has in place an Audit Committee which comprises two (2) non-executive independent directors and one (1) executive director.

The role of the Audit Committee is to oversee the processes for production of the financial data, review the financial reports, all related party transactions, potential conflict of interests' situations and the internal control of the Company.

The report detailing the activities of the Audit Committee is presented on pages 21 to 23 of this Annual Report.

(C) SHAREHOLDERS

- **Dialogue between the Company and Investors**
The Company strives to maintain an open and transparent channel of communication with its shareholders, institutional investors and the investing public at large with the objectives of providing as clear and complete a picture of the Group's performance and position as possible.

Such information is communicated through the following channels -

- The Annual Report;
- The various disclosures and announcement to Bursa Securities including quarterly and annual results;
- The websites developed by the Group known as <http://www.frontken.com/>; and
- Participating in Investor Forum with research analysts, fund managers and investors.

Shareholders may obtain the company's latest corporate, financial and market information via the Bursa Securities' website at <http://www.bursamalaysia.com/>.

- **Annual General Meeting**
The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders. The Board values feedback from its shareholders and encourages them to actively participate in discussion and deliberations. AGM are held yearly to consider the ordinary business of the Company and any other special businesses. Each item of special businesses included in the notice is accompanied by a full explanation of the effects of the proposed resolution. At the meeting, shareholders are given the opportunity to seek clarification or raise questions on relevant and pertinent matters.

Corporate Governance Statement (Cont'd)

(D) ACCOUNTABILITY & AUDIT

- **Financial Reporting**

The Board subscribes to the philosophy of transparent, fair, reliable and easily comprehensible reporting to shareholders. The Board acknowledges and accepts full responsibility for preparing a balanced and comprehensive assessment of the Group's operation and prospects each time it releases its quarterly and annual financial statements to shareholders. On this matter, the Board is assisted by the Audit Committee, whose terms of reference are defined in the Audit Committee Report published in this Annual Report.

The Statement by Directors made pursuant to Section 169 of the Companies Act, 1965, is set out in this Annual Report.

- **Relationship with the Auditors**

The Board on its own and through the Audit Committee has a formal and transparent management for maintaining an appropriate relationship with the Company's auditors. The Audit Committee seeks regular assurance on the effectiveness of the internal control system through independent appraisal by the auditors. Liaison and unrestricted communication exists between the Audit Committee and the external auditors.

The Company's external auditors, Messrs Deloitte & Touche, has continued to report to members of the Group on their findings which are included as part of the Company's financial reports with respect to each year's audit on the statutory financial statements.

- **Internal Control**

The Board is responsible to review the adequacy and integrity of the Company's internal control system. The Group at present does not have an internal audit department. Due to the size of the Group, the Board is of the opinion that the current control mechanism, procedures and policies are adequate for the current level of operations.

During the year, there were no weaknesses in the system of internal control that has resulted in any material losses, contingencies or uncertainties, which require disclosure in the Company's Annual Report.

Information on FCB Group's system of internal control is presented in the Statement on Internal Control in this Annual Report.

(E) RESPONSIBILITY STATEMENT BY DIRECTORS

The Directors are to ensure that the annual financial statements of the Company are drawn up in accordance with the requirements of the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 and the Listing Requirements of Bursa Securities.

The Directors have the responsibility to ensure that the annual financial statements of the Company give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and the results and cash flows for the year then ended.

The Directors have overall responsibility for taking reasonable steps to safeguard the assets of the Company to prevent and detect fraud and other irregularities.

The Directors are satisfied that in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2006, the Group has used the appropriate accounting policies and applied them consistently. The Directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

The Board is satisfied that the Company has, in all material aspects, complied with the best practices of the Code as at 31 December 2006.

Audit Committee Report

The Audit Committee comprises the following members:

Ng Wai Pin

Chairman

Independent Non-Executive Director

Dato' Haji Johar Bin Murat @ Murad

Member

Independent Non-Executive Director

See Chuan Swee

Member

Executive Director

After the listing of the Company on 11 July 2006, the Audit Committee had two (2) meetings during the financial year ended 31 December 2006, which was attended by all members.

SUMMARY OF THE ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee carried out its duties as set out in the terms of reference. These include:

- i. Reviewed the Company's quarterly financial report prior to submission to the Board for consideration and approval, focusing particularly on significant and unusual events and compliance with accounting standards and other legal requirements.
- ii. Reviewed and assessed the adequacy of the scope, functions and resources of the Internal Audit procedures in order to report any weakness or inadequacy to the Board.
- iii. Reviewed the External Audit Planning Memorandum on both the audit strategy and audit approach and reviewed the adequacy of existing external audit arrangements, with emphasis on the scope and quality of the audit.
- iv. Reviewed effectiveness of the internal control and management information systems.
- v. Reviewed the related party transactions and to ensure that they are not more favourable to the related parties than those generally available to the public and complies with the Listing Requirements of Bursa Securities for the MESDAQ Market.

INTERNAL AUDIT FUNCTION

The Group does not have an internal audit division at the moment and is currently in the process of exploring to set up an internal control division or to outsource its internal audit functions to a professional firm. Nevertheless, the Group has put in place sufficient internal control procedures to safeguard the assets of the Group and to prevent and "detect" fraud and other irregularities.

The Company has also conducted ongoing review of the adequacy and effectiveness of the system of internal control. Some internal control weaknesses were identified during the financial year under review, all of which have been or are being addressed by the management. None of these weaknesses has resulted in any material loss that would require disclosure in the Group's financial statement.

TERMS OF REFERENCE

Primary Purposes

The Audit Committee shall:-

1. Provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the corporate accounting and practices for the Group.
2. Improve the Group's business efficiency, the quality of the accounting function, the system of internal controls and audit function and strengthen the confidence of the public in the Group's reported results.
3. Maintain through regularly scheduled meetings, a direct line of communication between the Board and the external auditors as well as the internal auditors.
4. Enhance the independence of both the external and internal auditors function through active participation in the audit process.
5. Strengthen the role of the independent Directors by giving them a greater depth of knowledge as to the operations of the Company and the Group through their participation in the Committee.
6. Act upon the Board of Directors' request to investigate and report on any issues or concerns in regard to the management of the Group.
7. Create a climate of discipline and control which will reduce opportunity to fraud.

Audit Committee Report (Cont'd)

Members

The Board of Directors shall appoint the members of the Audit Committee from amongst themselves, which fulfills the following requirements: -

1. The Audit Committee shall be composed of no fewer than three (3) members;
2. A majority of the Audit Committee must be independent directors;
3. The Chairman of the Audit Committee shall be an independent director; and
4. The Chief Executive Officer shall not be a member of the Audit Committee.

The Board must ensure that no alternate Director is appointed as a member of the Audit Committee.

In the event of any vacancy in the Audit Committee, the Company shall fill in the vacancy within two (2) months, but in any case not later than three (3) months. Thereafter a member of the Audit Committee who wishes to retire or resign should provide sufficient written notice to the Company so that a replacement may be appointed before he leaves.

Authority

The Audit Committee shall in accordance with the procedures determined by the Board and at the cost of the Company:-

- a. have explicit authority to investigate any matter within its terms of reference;
- b. have the resources which are required to perform its duties;
- c. have full and unrestricted access to any information which it requires in the course of performing its duties;
- d. have direct communication channels with the external auditors and person(s) carrying out the internal audit function;
- e. have authority to obtain independent/external professional or other advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- f. be able to convene meetings with the external auditors excluding the attendance of the executive members of the Company, whenever deemed necessary.

Functions and Duties

The functions of the Audit Committee are as follows:-

1. To review the following and report the same to the Board of Directors:-
 - a. the nomination of external auditors;
 - b. the adequacy of existing external auditors audit arrangements, with particular emphasis on the scope and quality of the audit;
 - c. the effectiveness and adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - d. the effectiveness of the internal control and management information systems;
 - e. the financial statements of the Company with both the external auditors and management;
 - f. the external auditors' audit report;
 - g. any management letter sent by the external auditors to the Company and the management's response to such letter;
 - h. any letter of resignation from the Company's external auditors;
 - i. the quarterly and year end financial statements of the Group;
 - j. the assistance given by the employees of the Company to the external auditors;
 - k. all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels; and
 - l. all related party transactions and potential conflict of interests situations that may arise within the Company/Group.
2. To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal and on whether there is reason (supported by grounds) to believe that the Company's external auditors is not suitable for re-appointment.
3. To carry out any other function that may be mutually agreed upon by the Committee and the Board, which would be beneficial to the Company and ensure the effective discharge of the Committee's duties and responsibilities.
4. The Committee's actions shall be reported to the Board of Directors with such recommendations as the Committee deems appropriate.
5. To report to Bursa Securities on any matter reported by it to the Board of the Company which has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Securities for the MESDAQ Market.



Audit Committee Report (Cont'd)

Meetings

1. The committee shall meet at least four (4) times in a year or more frequently as circumstances required with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
2. A minimum of two (2) members present shall form the quorum.
3. Upon the request of any member of the Committee, the external auditors or the internal auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider matters which should be brought to the attention of the directors or shareholders.
4. The external auditors and internal auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so by the Committee.
5. The Committee may invite any Board member or any member of management or any employee of the Company whom the Committee thinks fit to attend its meetings, assist and provide pertinent information as necessary.
6. The Company must ensure that other directors and employees attend any particular Audit Committee meeting only at the Audit Committee's invitation, specific to the relevant meeting.

Procedures of Audit Committee

The Audit Committee may regulate its own procedures, in particular:-

- a. the calling of meetings;
- b. the notice to be given of such meetings;
- c. the voting and proceedings of such meetings;
- d. the keeping of minutes; and
- e. the custody, production and inspection of such minutes.

Minutes

1. The Committee shall cause minutes to be duly entered in the books provided for the purpose of all resolutions and proceedings of all meetings of the Committee. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting and if so signed, shall be conclusive evidence without any further proof of the facts thereon stated.
2. Minutes of each meeting shall also be distributed to all attendees at the meetings and members of the Committee.
3. Detailed minutes of the Committee's meetings will be made available to all Board members. A summary of significant matters and resolutions will be reported to the Board by the Committee.
4. The books containing the minutes of proceedings of any meeting of the Committee shall be kept by the Company at the registered office of the Company and shall be opened to the inspection of any member of the Committee and of the Board.

Secretary

The Company Secretary or other appropriate senior official shall be the Secretary to the Audit Committee.

Statement of Internal Control

The Board is committed to maintaining a sound system of internal control in the Group and is pleased to present below a status review of the Group's state of internal controls, which has been prepared in accordance with the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

ACKNOWLEDGEMENT OF RESPONSIBILITY

The Board recognizes the importance of a sound system of internal control to cover the financial, compliance and operational controls and effective risk management practices in the Group. The Board affirms its overall responsibility and reviews the adequacy and integrity of the system of internal control to safeguard shareholders' investment and the Group's assets. However, due to the inherent limitations of any system of internal control, this system is designed to manage, rather than eliminate the risk of failure to achieve the Group's objectives. Accordingly, the system can only provide reasonable but not absolute assurance against material misstatement or loss.

SYSTEM OF INTERNAL CONTROL

The key process of the Group's Internal Control System includes:

- i) the Group has an established organisation structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority.
- ii) a clear definition of authorisation procedures for major operational functions including purchasing, payment and capital expenditures.
- iii) regular management meetings to monitor the business developments, to discuss and resolve operational and management issues and to review the financial performance against the business plans.
- iv) the Audit Committee would review the effectiveness of the internal financial control environment of the Group upon completion of the internal audit's review.
- v) The Executive Directors undertake site visits to production and operating units and communicate with various levels of staff to gauge first-hand the effectiveness of strategies discussed and implemented.

RISK MANAGEMENT FRAMEWORK

The Board and the Management are continuously identifying, evaluating and managing significant business risks affecting the day-to-day operations of the Group.

The Audit Committee reviews internal control issues identified by the external auditors and management and evaluates the adequacy and effectiveness of the Group's risk management and internal control system.

INTERNAL CONTROL

The Board is satisfied that the current system of internal controls is adequate taking into consideration the size of the Group.

The Board is pleased to inform that the Company is currently exploring the setting up of an internal control division or outsourcing its internal audit function to a professional firm. The purpose of enhancing the Group's functions of internal audit is to ensure that adequate system of internal controls exist to assist the management to address operational, regulatory and financial risks. Currently, the Audit Committee is relying on discussions with the management and Executive Directors, review of financial statements and input from the external auditors to discharge its duties.

CONCLUSION

The Board is of the view that there were no significant weaknesses in the system of internal control of the Group that may have a material impact on the operations of the Group for the financial year ended 31 December 2006. The Board remains committed towards a sound system of internal controls and to take further measure to strengthen and continuously enhance the system to support the Group's operation.

Additional Disclosure

SHARE BUYBACK

During the financial year, the company did not enter into any share buyback transactions.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company did not issue any options, warrants or convertible securities, which were exercised during the financial year.

DEPOSITORY RECEIPTS ("DR")

During the financial year, the Company did not sponsor any DR.

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 year.

NON-AUDIT FEES

During the year, the non-audit fees paid to our external auditor, or a firm or company affiliated to the external auditors for the financial year ended 31 December 2006 amounted to RM170,000.

VARIATION IN RESULTS

There were no variances of 10% or more from any profit estimate/forecast/projection/unaudited results previously announced.

PROFIT GUARANTEE

During the financial year, there was no profit guarantee given by the Company.

MATERIAL CONTRACTS

There were no material contracts entered into by the Company and/or its subsidiaries involving the interest of Directors and/or major shareholders of the Company, other than those in the ordinary course of business entered into by the Company and/or its subsidiaries during the financial year.

REVALUATION POLICY

The Group's property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. At each balance sheet date, the Group's reviews its assets to determine whether there is any indication that those assets have suffered an impairment loss.

As part of the review, the Group will conduct yearly review of the fair values of its landed properties. The Group will also procure a formal valuation from independent professional valuers on its landed properties at least once every five years or any point of time at the request of the banks under the mortgaging agreements.

RECURRENT RELATED PARTY TRANSACTIONS ("RRPT")

| Name of RRPT | Relationship | 2006 RM |
|---|---|------------|
| A&I Engine Rebuilders Sdn Bhd ("A&I") | Sia Chiok Meng, a director and deemed substantial shareholder of Frontken-AMT Engineering Sdn. Bhd., ("FAE"), is also a director and substantial shareholder of A&I. | |
| AMT Engineering Sdn Bhd ("AMT") | AMT Engineering Sdn Bhd is a substantial shareholder of FAE. Sia Chiok Meng, who is a director and deemed substantial shareholder of FAE, is also a director and substantial shareholder of AMT. | |
| Cyglobal Capital Sdn Bhd ("CC") | Wong Hua Choon, a Director and substantial shareholder of FCB, and See Chuan Swee, a Director of FCB, are also directors and substantial shareholders of CC. | |
| Chinyee Engineering & Machinery Pte Ltd ("Chinyee") | Wong Hua Choon, a Director, and substantial shareholder of FCB, and Yeo Lay Poh, a substantial shareholder of FCB, are also directors and substantial shareholders of Chinyee. Dr Tay Kiang Meng, a Director of FCB, is also a Director and shareholder of Chinyee. | |
| Type of RRPT | | |
| Purchases from Chinyee by Frontken (Singapore) Pte Ltd ("FS") | | 1,244,882 |
| Purchases from Chinyee by Frontken Malaysia Sdn Bhd ("FM") | | 118,034 |
| Purchases from A&I by FAE | | 110 |
| Purchases from AMT by FAE | | 72,685 |
| Sales from FS to Chinyee | | 542,267 |
| Sales from FM to Chinyee | | 1,267 |
| Sales from FAE to A&I | | 3,875 |
| Sales from FM to CC | | 17,230 |
| Sales from FAE to AMT | | 41,455 |

The Directors are of the opinion that the above transactions entered into in the ordinary course of the business have been established on terms and conditions that are not materially different from those transactions with unrelated parties.

Directors' Report

The directors of **FRONTKEN 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 December 31, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of investment holding and provision of management services to its subsidiaries.

The principal activities of the subsidiaries 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 of its subsidiaries during the financial year.

SIGNIFICANT CORPORATE EVENTS

During the financial year:

- (i) On March 31, 2006, the Company completed its acquisition of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte Ltd ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 fully satisfied by the issuance of 291,232,780 new ordinary shares of RM0.10 each at par;
- (ii) On July 11, 2006, the entire issued and paid-up share capital of the Company was quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad;
- (iii) On October 16, 2006, the Group, via its wholly-owned subsidiary, FS, completed its acquisition of 100% equity interest in Metall-Treat Industries Pte Ltd for a cash consideration of SGD3,500,000 (RM8,137,500); and
- (iv) On December 20, 2006, the Company entered into a conditional Share Purchase Agreement with Evergreen Development Corporation ("Evergreen"), a company incorporated in the Republic of China, for the acquisition of 5,700,000 ordinary shares of NT\$10 each in Ares Green Technology Corporation ("AGTC"), a company also incorporated in the Republic of China, representing 19% of the issued and paid-up share capital of AGTC for a cash consideration of NT\$210.9 million (equivalent to approximately RM23.4 million).

The said acquisition was completed on March 19, 2007.

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 before tax | 10,591,039 | 27,598 |
| Income tax expense | <u>(2,593,867)</u> | <u>(39,681)</u> |
| Profit/(Loss) for the year | <u>7,997,172</u> | <u>(12,083)</u> |

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.

Directors' Report (Cont'd)

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors also do not recommend the payment of any dividend 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

In conjunction with the listing of the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Malaysia Securities Berhad:

- (i) The Company undertook a sub-division of the par value of its ordinary shares from RM1.00 per ordinary share to RM0.10 per ordinary share on March 8, 2006. Pursuant to the share split, the authorised share capital of the Company was sub-divided from RM100,000 comprising 100,000 ordinary shares of RM1.00 each to RM100,000 comprising 1,000,000 ordinary shares of RM0.10 each and the issued and paid-up share capital of the Company was sub-divided from RM2 comprising 2 ordinary shares of RM1.00 each to RM2 comprising 20 ordinary shares of RM0.10 each.
- (ii) The authorised share capital of the Company was increased from RM100,000 to RM50,000,000 by the creation of an additional 499,000,000 ordinary shares of RM0.10 each on March 8, 2006.
- (iii) The issued and paid-up share capital of the Company was increased from RM2 to RM47,500,000 by the issue and allotment of 474,999,980 new ordinary shares of RM0.10 each as follows:

| | RM |
|---|-------------------|
| (a) Issue and allotment of 291,232,780 new ordinary shares of RM0.10 each at par as purchase consideration for the acquisition of FS | 29,123,278 |
| (b) Renounceable rights issue of 65,017,200 new ordinary shares of RM0.10 each at par on the basis of approximately 2.23 new ordinary shares of RM0.10 each for every 10 ordinary shares of RM0.10 held after the acquisition of FS | 6,501,720 |
| (c) Public issue of 118,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.21 per share payable in full on application | 11,875,000 |
| | <u>47,499,998</u> |

The resulting share premium of RM13,062,500 arising from the public issue has been credited to the share premium account.

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

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

Directors' Report (Cont'd)

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 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 had been written off and that adequate allowance had been made for doubtful debts; 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 written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; 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 its 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 other than those mentioned in Note 29 to the Financial Statements.

Directors' Report (Cont'd)

DIRECTORS

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

Wong Hua Choon (appointed on 10.4.2006)
 Dr. Tay Kiang Meng (appointed on 10.4.2006)
 See Chuan Swee (appointed on 10.4.2006)
 Dato' Ibrahim Bin Mahmud (appointed on 10.4.2006)
 Dato' Haji Johar bin Murat @ Murad (appointed on 10.4.2006)
 Ng Wai Pin (appointed on 10.4.2006)
 Zabedah Binti Abdul Razak (resigned on 12.4.2006)
 Tai Keat Chai (resigned on 12.4.2006)

In accordance with Article 74 of the Company's Articles of Association, all the directors of the Company are due to retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 | | | Balance as of 31.12.2006 |
|--|--|-----------|--------------|--------------------------|
| | Balance as of date of appointment | Bought | Sold | |
| Shares in the Company | | | | |
| Registered in the name of directors | | | | |
| Direct Interest | | | | |
| Wong Hua Choon | 102,574,352 | - | - | 102,574,352 |
| Indirect Interest | | | | |
| Wong Hua Choon | 9,235,328 | 2,801,900 | - | 12,037,228 |
| Dr. Tay Kiang Meng | 9,235,328 | 2,801,900 | - | 12,037,228 |
| Dato' Ibrahim Bin Mahmud | 121,125,000 | - | (21,887,500) | 99,237,500 |

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

Other than as disclosed, the directors do not have any other interest in the shares of the Company or of its related companies during and at the end of financial year.

Directors' Report (Cont'd)

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 directors as disclosed in the Financial Statements or the fixed salary of a full time employee 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.

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.

AUDITORS

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

Signed on behalf of the Board
in accordance with a resolution of the Directors,



WONG HUA CHOON



SEE CHUAN SWEE

Kuala Lumpur,
April 27, 2007

Statement by Directors

To The Members of Frontken Corporation Berhad (Incorporated in Malaysia)

The directors of **FRONTKEN 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 December 31, 2006 and of the results of the businesses and the cash flows of the Group and of the Company of the year ended on that date.

Signed on behalf of the Board in accordance with a resolution of the directors,





WONG HUA CHOON **SEE CHUAN SWEE**

Kuala Lumpur
April 27, 2007

Statutory Declaration

Declaration by The Director Primarily Responsible for The Financial Management of The Company

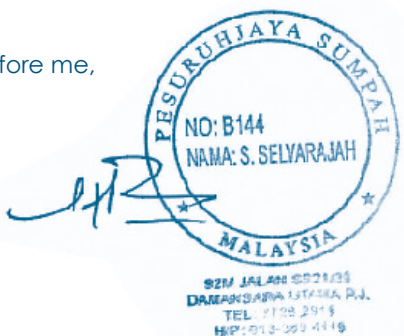
I, **SEE CHUAN SWEE**, the director primarily responsible for the financial management of **FRONTKEN CORPORATION BERHAD**, do solemnly and sincerely declare that the accompanying balance sheets and the related statements of income, cash flows and changes in equity are, in my opinion, correct and I make this solemn declaration consistently believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



SEE CHUAN SWEE

Subscribed and solemnly directed by the above named **SEE CHUAN SWEE** at PETALING JAYA this 27th day of April, 2007.

Before me,



COMMISSIONER FOR OATHS

Report of The Auditors To The Members of Frontken Corporation Berhad (Incorporated in Malaysia)

We have audited the accompanying balance sheets as of December 31, 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 contents 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 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 the 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 December 31, 2006 and of the results and the cash flows of the Group and of the Company for the year ended on the 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 subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

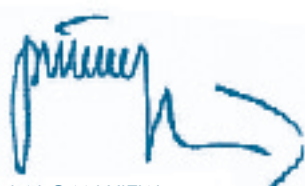
We have considered the financial statements and the auditors' reports of subsidiaries of which we have not acted as auditors, as shown in Note 11 to the Financial Statements, being financial statements that have been included in the consolidated Financial Statements.

We are satisfied that the financial statements of the subsidiaries 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 subsidiaries were not subject to any qualification and did not include and comment made under Sub-section (3) of Section 174 of the Act.



DELOITTE & TOUCHE
AF 0834
Chartered Accountants



LAI CAN YIEW
2179/09/07 (J)
Partner

Kuala Lumpur
April 27, 2007

Income Statements

Year Ended December 31, 2006

| | Note | The Group 2006 RM | The Company | |
|--|------|-------------------------|-----------------|----------------|
| | | | 2006 RM | 2005 RM |
| Revenue | 5 | 72,476,647 | - | - |
| Cost of sales | | (48,066,448) | - | - |
| Gross profit | | 24,410,199 | - | - |
| Other operating income | | 698,242 | 425,098 | - |
| Administrative expenses | | (10,998,564) | (329,611) | - |
| Other operating expenses | | (2,415,021) | (67,889) | (4,000) |
| Finance costs | 6 | (1,113,886) | - | - |
| Share in results of associate | | 10,069 | - | - |
| Profit/(Loss) before tax | 7 | 10,591,039 | 27,598 | (4,000) |
| Income tax expense | 8 | (2,593,867) | (39,681) | - |
| Profit/(Loss) for the year | | 7,997,172 | (12,083) | (4,000) |
| Attributable to: | | | | |
| Equity holders of the Company | | 7,926,575 | | |
| Minority interest | | 70,597 | | |
| | | <u>7,997,172</u> | | |
| Earnings per ordinary share attributable to equity holders of the Company (sen) | | | | |
| | 9 | | | |
| Basic | | 2.4 | | |
| Diluted | | <u>N/A</u> | | |

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

Balance Sheets

As Of December 31, 2006

| | Note | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|--|------|-------------------------|---------------------------|------------|
| ASSETS | | | | |
| Non-Current Assets | | | | |
| Property, plant and equipment | 10 | 77,763,349 | 103,930 | - |
| Investment in subsidiaries | 11 | - | 29,123,278 | - |
| Investment in associate | 12 | 765,911 | - | - |
| Goodwill on consolidation | 13 | 2,842,942 | - | - |
| Intangible assets | 14 | 281,444 | - | - |
| Total Non-Current Assets | | 81,653,646 | 29,227,208 | - |
| Current Assets | | | | |
| Inventories | 15 | 3,334,012 | - | - |
| Trade receivables | 16 | 28,756,850 | - | - |
| Other receivables and prepaid expenses | 16 | 4,638,571 | 24,070 | 181,757 |
| Amount owing by subsidiaries | 11 | - | 18,780,041 | - |
| Fixed deposit with licensed banks | | 10,151,800 | 10,000,000 | - |
| Cash and bank balances | | 10,821,584 | 573,841 | - |
| Total Current Assets | | 57,702,817 | 29,377,952 | 181,757 |
| Total Assets | | 139,356,463 | 58,605,160 | 181,757 |

Balance Sheets (Cont'd)

As Of December 31, 2006

| | Note | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|--|------|-------------------------|---------------------------|----------------|
| EQUITY AND LIABILITIES | | | | |
| Capital and Reserves | | | | |
| Share capital | 17 | 47,500,000 | 47,500,000 | 2 |
| Reserves | 18 | 31,717,122 | 10,981,426 | (9,218) |
| Equity attributable to equity holders of the Company | | 79,217,122 | 58,481,426 | (9,216) |
| Minority interest | | 1,160,230 | - | - |
| Total Equity | | 80,377,352 | 58,481,426 | (9,216) |
| Non-Current Liabilities | | | | |
| Term loans (secured) - non-current portion | 19 | 12,123,113 | - | - |
| Deferred income - non-current portion | 20 | 68,078 | - | - |
| Hire-purchase payables - non-current portion | 21 | 7,896,370 | - | - |
| Deferred tax liabilities | 22 | 4,262,369 | - | - |
| Total Non-Current Liabilities | | 24,349,930 | - | - |
| Current Liabilities | | | | |
| Trade payables | 23 | 11,580,594 | - | - |
| Other payables and accrued expenses | 23 | 11,041,956 | 64,846 | 9,216 |
| Amount owing to subsidiaries | | - | 19,207 | 181,757 |
| Bank borrowings (secured) | 24 | 6,063,486 | - | - |
| Deferred income - current portion | 20 | 59,769 | - | - |
| Hire-purchase payable - current portion | 21 | 3,206,127 | - | - |
| Tax liabilities | | 2,677,249 | 39,681 | - |
| Total Current Liabilities | | 34,629,181 | 123,734 | 190,973 |
| Total Liabilities | | 58,979,111 | 123,734 | 190,973 |
| Total Equity And Liabilities | | 139,356,463 | 58,605,160 | 181,757 |

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

Statements of Changes In Equity

Year Ended December 31, 2006

| The Group | ← Non-distributable → | | | | Distributable Retained earnings/ (Accumulated loss) RM | Attributable to equity holders of the Company RM | Minority interest RM | Total RM | | | | | | | | |
|--|------------------------|------------------------|---|--------------------------------------|---|---|----------------------------|-------------------|---|-------------|---------|--------------|------------|-------------|---|-------------|
| | Share capital RM | Share premium RM | Foreign currency translation reserve RM | Reserve on consolidation RM | | | | | | | | | | | | |
| Balance as of January 1, 2006 | 2 | - | - | - | (9,218) | (9,216) | - | (9,216) | | | | | | | | |
| Net income (expense) recognised directly in equity: | | | | | | | | | | | | | | | | |
| Exchange differences arising from translation of foreign operations | | | | | | | | | - | - | 561,383 | - | - | 561,383 | - | 561,383 |
| Arising from acquisition of subsidiaries | | | | | | | | | - | - | - | 12,235,655 | - | 12,235,655 | - | 12,235,655 |
| Share issue expenses | | | | | | | | | - | (2,059,773) | - | - | - | (2,059,773) | - | (2,059,773) |
| Effect of adopting FRS 3 | | | | | | | | | - | - | - | (12,235,655) | 12,235,655 | - | - | - |
| Profit for the year | - | - | - | - | 7,926,575 | 7,926,575 | 70,597 | 7,997,172 | | | | | | | | |
| Total recognised income and expense | - | (2,059,773) | 561,383 | - | 20,162,230 | 18,663,840 | 70,597 | 18,734,437 | | | | | | | | |
| Arising from acquisition of subsidiaries (Note 11) | - | - | - | - | - | - | 1,089,633 | 1,089,633 | | | | | | | | |
| Issue of ordinary shares (Note 17): | | | | | | | | | | | | | | | | |
| Acquisition of subsidiaries | 29,123,278 | - | - | - | - | 29,123,278 | - | 29,123,278 | | | | | | | | |
| Public issue | 11,875,000 | 13,062,500 | - | - | - | 24,937,500 | - | 24,937,500 | | | | | | | | |
| Rights issue | 6,501,720 | - | - | - | - | 6,501,720 | - | 6,501,720 | | | | | | | | |
| Balance as of December 31, 2006 | <u>47,500,000</u> | <u>11,002,727</u> | <u>561,383</u> | <u>-</u> | <u>20,153,012</u> | <u>79,217,122</u> | <u>1,160,230</u> | <u>80,377,352</u> | | | | | | | | |

Statements of Changes In Equity (Cont'd)

Year Ended December 31, 2006

| The Company | Share capital RM | Non- distributable | Accumulated loss RM | Total RM |
|---|------------------------|------------------------|---------------------------|-------------|
| | | Share premium RM | | |
| Balance as of January 1, 2005 | 2 | - | (5,218) | (5,216) |
| Total recognised income and expense - Loss for the year | - | - | (4,000) | (4,000) |
| Balance as of December 31, 2005/ January 1, 2006 | 2 | - | (9,218) | (9,216) |
| Net income (expense) recognised directly in equity | | | | |
| - Share issue expenses | - | (2,059,773) | - | (2,059,773) |
| Loss for the year | - | - | (12,083) | (12,083) |
| Total recognised income and expense | - | (2,059,773) | (12,083) | (2,071,856) |
| Issue of ordinary shares (Note 17): | | | | |
| Acquisition of subsidiaries | 29,123,278 | - | - | 29,123,278 |
| Rights issue | 6,501,720 | - | - | 6,501,720 |
| Public issue | 11,875,000 | 13,062,500 | - | 24,937,500 |
| Balance as of December 31, 2006 | 47,500,000 | 11,002,727 | (21,301) | 58,481,426 |

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

Cash Flow Statements

For The Year Ended December 31, 2006

| | Note | The Group | The Company | |
|--|------|--------------------|---------------------|------------|
| | | 2006 RM | 2006 RM | 2005 RM |
| CASH FLOWS FROM/(USED IN) | | | | |
| OPERATING ACTIVITIES | | | | |
| Profit/(Loss) for the year | | 7,997,172 | (12,083) | (4,000) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | | 5,740,598 | 12,251 | - |
| Income tax expense recognised in income statements | | 2,593,867 | 39,681 | - |
| Interest expense | | 1,113,886 | - | - |
| Unrealised loss on foreign exchange | | 238,382 | - | - |
| Amortisation of intangible assets | | 121,805 | - | - |
| Interest income | | (232,805) | (425,098) | - |
| Gain on disposal of property, plant and equipment | | (143,231) | - | - |
| Share in results of associate | | (10,069) | - | - |
| Operating Profit/(Loss) Before Working Capital Changes | | 17,419,605 | (385,249) | (4,000) |
| (Increase)/Decrease in: | | | | |
| Inventories | | 4,608,006 | - | - |
| Trade receivables | | (8,927,613) | - | - |
| Other receivables and prepaid expenses | | (490,103) | 157,687 | (181,757) |
| Amount owing by subsidiaries | | - | (18,780,041) | - |
| Increase/(Decrease) in: | | | | |
| Trade payables | | 243,307 | - | - |
| Other payables and accrued expenses | | 6,427,258 | 55,630 | 185,757 |
| Deferred income | | (64,985) | - | - |
| Amount owing to subsidiaries | | - | (162,550) | - |
| Cash Generated From Operations | | 19,215,475 | - | - |
| Income taxes paid | | (1,901,219) | - | - |
| Net Cash From/(Used In) Operating Activities | | 17,314,256 | (19,114,523) | - |

Cash Flow Statements (Cont'd)

For The Year Ended December 31, 2006

| | Note | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|---|------|-------------------------|---------------------------|------------|
| CASH FLOWS FROM/(USED IN) | | | | |
| INVESTING ACTIVITIES | | | | |
| Purchase for property, plant and equipment | | (20,544,453) | (116,181) | - |
| Acquisition of subsidiaries | | (6,045,791) | - | - |
| Proceeds from disposal of property, plant and equipment | | 264,213 | - | - |
| Interest received | | 232,805 | 425,098 | - |
| Net Cash From/(Used In) Investing Activities | | (26,093,226) | 308,917 | - |
| CASH FLOWS FROM/(USED IN) | | | | |
| FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of shares | | 31,439,220 | 31,439,220 | - |
| Share issue expenses | | (2,059,773) | (2,059,773) | - |
| Repayment of term loans | | (1,532,160) | - | - |
| Interest paid | | (1,113,886) | - | - |
| Payment of hire-purchase payables | | (412,808) | - | - |
| Net Cash From Financing Activities | | 26,320,593 | 29,379,447 | - |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 17,541,623 | 10,573,841 | - |
| Effect of exchange rate changes | | (12,060) | - | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | - | - | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 25 | 17,529,563 | 10,573,841 | - |

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 liability company, incorporated and domiciled in Malaysia, and listed on the MESDAQ Market of Bursa Malaysia Securities Berhad.

The principal activity of the Company is that of investment holding and provision of management services to its subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 11.

There have been no significant changes in the nature of the activities of the Company and of its subsidiaries during the financial year.

The registered office of the Company is located at Suite 1603, 16th Floor, Wisma Lim Foo Yong, No. 86, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia.

The principal place of business of the Company is located at Suite 516, Block E, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements of the Group and of the Company have been authorised by the Board of Directors for issuance on April 27, 2007.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 ("MASB") approved accounting standards in Malaysia.

Adoption of New and Revised Financial Reporting Standards

In the current financial year, the Group and the Company adopted all of the new and revised Financial Reporting Standards ("FRS") issued by MASB that are relevant to their operations and effective for annual period beginning on or after January 1, 2006 as follows:

| | |
|---------|---|
| FRS 3 | Business Combinations |
| FRS 101 | Presentation of Financial Statements |
| FRS 102 | Inventories |
| FRS 108 | Accounting Policies, Changes in Accounting Estimates and Errors |
| FRS 110 | Events After the Balance Sheet Date |
| FRS 116 | Property, Plant and Equipment |
| FRS 121 | The Effects of Changes in Foreign Exchange Rates |
| FRS 127 | Consolidated and Separate Financial Statements |
| FRS 128 | Investment in Associates |
| FRS 132 | Financial Instruments: Disclosure and Presentation |
| FRS 133 | Earnings per Share |
| FRS 136 | Impairment of Assets |
| FRS 138 | Intangible Assets |

The application of FRS 3 has resulted in a change in the accounting treatment for the excess of the Group's interest in the net fair values of identifiable assets, liabilities and contingent liabilities over cost of business combination (previously referred to as "reserve on consolidation") arising from the acquisition of subsidiaries during the current financial year. This is further explained under "Business Combination" in Note 3.

Notes to The Financial Statements (Cont'd)

The application of the revised FRS 101 has resulted in a change in the presentation of the income statements, balance sheets, statements changes in equity and cash flow statements. The changes in presentation have been applied retrospectively.

With the exception of FRS 3 and FRS 101 as explained above, the adoption of the other new/revised FRSs above has no material effect on the financial statements of the Company.

Accounting Standards Issued but Not Effective

The following new and revised FRSs, amendments to FRSs and IC Interpretations have been issued but are not yet effective until future periods:

| | |
|---------------------------------------|--|
| FRS 6 | Exploration for and Evaluation of Mineral Resources |
| FRS 117 | Leases |
| FRS 124 | Related Party Disclosures |
| FRS 139 | Financial Instruments: Recognition and Measurement |
| Amendments to FRS 119 ²⁰⁰⁴ | Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures |
| Amendments to FRS 121 | The Effects of Changes in Foreign Exchange Rates |
| Interpretation 1 | Changes in Existing Decommissioning, Restoration & Similar Liabilities |
| Interpretation 2 | Members' Shares in Co-operative Entities & Similar Instruments |
| Interpretation 5 | Rights to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds |
| Interpretation 6 | Liabilities arising from Participating in a Specific Market - Waste Electrical & Electronic Equipment |
| Interpretation 7 | Applying the Restatement Approach under FRS 129 ²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies |
| Interpretation 8 | Scope of IFRS 2 |

(a) FRS 6 Exploration for and Evaluation of Mineral Resources

FRS 6 is effective for financial period beginning on or after January 1, 2007. This standard is not relevant to the Group's and the Company's operations as the Group and the Company do not carry out exploration for and evaluation of mineral resources.

(b) FRS 117 Leases

FRS 117 is effective for accounting period beginning on or after October 1, 2006. The directors anticipate that the adoption of FRS 117 will not have a material effect on the financial statements of the Group and of the Company. The Group and the Company will apply this standard from financial period beginning on January 1, 2007.

Currently, the Group's and the Company's long leasehold land and long leasehold building are classified as property, plant and equipment and are reflected at cost less accumulated depreciation and any impairment loss.

Upon the adoption of FRS 117 for the financial period beginning on January 1, 2007, the Group's and the Company's leasehold land will be accounted for as operating leases and will be reclassified to prepaid lease payments.

The prepaid lease payments will be amortised evenly over the remaining terms of the lease.

(c) FRS 124 Related Party Disclosures

FRS 124 is effective for accounting period beginning on or after October 1, 2006 and will affect the identification of related parties and some other related party disclosures. The Group and the Company will apply this standard from financial period beginning on January 1, 2007.

Notes to The Financial Statements (Cont'd)

(d) FRS 139 Financial Instruments: Recognition and Measurement

The effective date of FRS 139 is yet to be determined by MASB. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Company will apply this standard when it becomes effective.

(e) Amendments to FRS 119₂₀₀₄ Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

The amendment is effective for accounting period beginning on or after January 1, 2007. This amendment is not relevant to the Group's or the Company's operations as the Group and the Company do not have any defined benefit plans.

(f) Amendments to FRS 121 The Effects of Changes in Foreign Exchange Rates

The amendment is effective for accounting period beginning on or after July 1, 2007. The Group and the Company will apply this standard from financial period beginning on January 1, 2008.

(g) IC Interpretations

The above Interpretations are not relevant to the Group's and the Company's operations as the Group and the Company do not have any operations/transactions relating to the above Interpretations.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group made up to the end of the financial year. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Group owns, directly or indirectly through subsidiaries, more than half of the voting power of the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

Minority interest in the net assets of consolidated subsidiary is identified separately from the Group's equity therein. Minority interest consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to The Financial Statements (Cont'd)

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 3, Business Combinations, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 5, Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statements.

FRS 3, which is effective for accounting period beginning on or after January 1, 2006, applies to business combinations for which the date of agreement is on or after January 1, 2006.

The agreements relating to the business combination involving acquisition of Frontken (Singapore) Pte Ltd and its subsidiaries ("FS Group"), which was completed on March 31, 2006, were dated earlier than January 1, 2006 and, accordingly, the excess of the Group's interest in the net fair values of FS Group's identifiable assets, liabilities and contingent liabilities over the cost of business combination (previously referred to as "reserve on consolidation") has been captured as part of reserves which constitute the Group's total equity at the date of the acquisition. However, in accordance with the transitional provision of FRS, the reserve on consolidation was immediately derecognised with a corresponding increase in retained earnings.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales tax, trade discounts and allowances and after eliminating sales within the Group.

The Group recognises revenue when the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group, upon satisfying the conditions of the Group's activities as set out below:

(i) **Sale of Goods**

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

(ii) **Services**

Revenue from services is recognised when the services are rendered and upon customer's acceptance.

(iii) **Management Fee and Interest Income**

Management fee and interest income is recognised on an accrual basis.

Notes to The Financial Statements (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency

The individual financial statements of the subsidiaries are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Ringgit Malaysia, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statements for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statements for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Ringgit Malaysia using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the income statements in the period in which the foreign operations is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Employee Benefits

Wages, salaries, paid annual leaves, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group and of the Company. Sick leaves are recognised when the absences occur.

The Company and its subsidiaries make statutory contributions to approved provident funds and contributions are charged to the income statements. Once the contributions have been paid, there are no further payment obligations. The approved provident funds are defined contribution plans.

Notes to The Financial Statements (Cont'd)

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or recoverable).

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet "liability" method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statements, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the income statements, except when they relate to items credited or debited from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Impairment of Assets excluding Goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statements, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to The Financial Statements (Cont'd)

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of Assets excluding Goodwill (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statements, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Property, Plant and Equipment and Depreciation

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Group or to the Company and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to income statements in the period in which they are incurred.

Freehold land is not depreciated. Freehold buildings are depreciated on a straight-line basis over 50 years while the long leasehold land and long leasehold building are depreciated over the remaining terms of the lease of 50 years. Depreciation of other property, plant and equipment is computed on the straight-line basis at rates based on the estimated useful lives. The principal annual rates used are as follows:

| | |
|------------------------|---------------|
| Factory renovation | 10% |
| Plant and machinery | 10% - 20% |
| Workshop tools | 20% |
| Office equipment | 33 1/3% |
| Furniture and fittings | 20% - 33 1/3% |
| Motor vehicles | 14% |
| Computers | 33% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

At each balance sheet date, the property, plant and equipment residual values and useful lives are reviewed, and the effect of any changes are recognised prospectively.

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.

Leased Assets

Assets under leases which in substance transfer the risks and benefits of ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the fair value of the leased assets which approximates the present value of the minimum lease payments, at the beginning of the respective lease terms.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease period so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.



Notes to The Financial Statements (Cont'd)

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Property, Plant and Equipment Acquired under Hire-Purchase Agreements

Property, plant and equipment acquired under hire-purchase agreements are capitalised in the financial statements and the corresponding obligations 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.

Investments

Investment in unquoted shares of subsidiaries, which is eliminated on consolidation, is stated in the Company's financial statements at cost less any impairment losses.

Investment in unquoted shares of associate is stated in the Company's financial statements at cost less any impairment losses.

Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence is presumed to exist when the Group owns, directly or indirectly not less than 20% of the voting power of the investee.

The results and assets and liabilities of associate are incorporated in the financial statements of the Group using the equity method of accounting based on the latest audited financial statements of the associate made up to December 31, 2006, except when the investment is classified as held for sale, in which case it is accounted for under FRS 5, Non-current Assets Held for Sale and Discontinued Operations, while dividends received are reflected as a reduction of the investment in the consolidated balance sheet.

Under the equity method, investments in associate are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised unless the Group has incurred obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where losses provide evidence of an impairment of the asset transferred, in which case, appropriate provision is made for impairment.

Notes to The Financial Statements (Cont'd)

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequent measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investment in Associate" above.

Intangible assets

Intangible asset acquired separately is reported at cost less accumulated amortisation and any impairment losses. Intangible asset with finite useful life is amortised on a straight-line basis over its estimated useful lives of 5 years. The estimated useful life and amortisation method are reviewed at the end of each annual accounting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible asset with indefinite useful life is not amortised. Each period, the useful life of such asset is reviewed to determine whether events and circumstances in accordance with the policy described under "Impairment of Assets excluding Goodwill" above.

Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. The cost of raw materials comprises the original cost of purchase plus the cost of 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, other direct cost and appropriate production overheads. Net realisable value represents the estimated selling price less all other estimated costs to be incurred in marketing, selling and distribution.

Receivables

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.

Notes to The Financial Statements (Cont'd)

3. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Deferred Income and Government Grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheets and transferred to income statements on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the period necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group which no future related costs are recognised in the income statements in the period in which they become receivable.

Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and when a reliable estimate of the amount can be made. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

At each balance sheet date, the provisions are reviewed by the directors and adjusted to reflect the current best estimate. The provision is reversed if it is no longer probable that the Group and the Company will be required to settle the obligation.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible to a known amount of cash with insignificant risk of changes in value.

Bank overdrafts which are repayable on demand included as a component of cash and cash equivalents are shown within bank borrowings in current liabilities.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

(i) **Critical judgements in applying the Group's and the Company's accounting policies**

In the process of applying the Group's and the Company's accounting policies, which are described in Note 3 above, management is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial statements and consolidated financial statements.

(ii) **Key sources of estimation uncertainty**

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year except for impairment of goodwill.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was RM2,842,942.

Notes to The Financial Statements (Cont'd)

5. **REVENUE**

| | The Group 2006 RM |
|-----------------------|----------------------------------|
| Provision of services | 62,297,493 |
| Sales of goods | 10,179,154 |
| | <u>72,476,647</u> |

6. **FINANCE COSTS**

| | The Group 2006 RM |
|----------------------|----------------------------------|
| Interest expense on: | |
| Term loans | 576,720 |
| Hire-purchase | 452,772 |
| Bank overdraft | 84,394 |
| | <u>1,113,886</u> |

Notes to The Financial Statements (Cont'd)

7. PROFIT/(LOSS) BEFORE TAX

Profit/(Loss) before tax is arrived at after crediting/(charging):

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|--|-------------------------|---------------------------|------------|
| Staff costs | (16,777,283) | (11,813) | - |
| Purchase of finished goods | (13,297,291) | - | - |
| Depreciation of property, plant and equipment | (5,740,598) | (12,251) | - |
| Directors' remuneration: | | | |
| Salary and other emoluments | (1,196,782) | (68,129) | - |
| Research and development expenditure | (1,102,909) | - | - |
| Auditors' remuneration | (172,002) | (25,000) | (1,000) |
| Amortisation of intangible assets | (121,805) | - | - |
| Gain on disposal of property, plant and equipment | 143,231 | - | - |
| Interest income | 232,805 | 425,098 | - |
| Gain on foreign exchange - net: | | | |
| Realised | 161,905 | - | - |
| Unrealised | 238,382 | - | - |
| Government grants | 417,339 | - | - |
| Changes in inventories of work-in-progress and finished goods | 1,582,974 | - | - |

Staff costs include salaries, contributions to statutory defined contribution plans and all other staff related expenses. Contributions to statutory defined contribution plans made by the Group and by the Company during the financial year amounted to RM1,043,279 and RM1,251 (2005: RMNil).

Notes to The Financial Statements (Cont'd)

8. INCOME TAX EXPENSE

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|------------------------------|-------------------------|---------------------------|------------|
| Estimated tax payable: | | | |
| Malaysian: | | | |
| Current year | 146,080 | 39,681 | - |
| Overprovision in prior years | (17,174) | - | - |
| | <u>128,906</u> | <u>39,681</u> | <u>-</u> |
| Foreign - Current year | 1,569,767 | - | - |
| | <u>1,698,673</u> | <u>39,681</u> | <u>-</u> |
| Deferred tax (Note 22): | | | |
| Current year | 895,194 | - | - |
| | <u>2,593,867</u> | <u>39,681</u> | <u>-</u> |

A reconciliation of income tax expense at the applicable statutory income tax rate to income tax expense at the effective income tax rate is as follows:

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|---|-------------------------|---------------------------|------------|
| Profit/(Loss) before tax | 10,591,039 | 27,598 | (4,000) |
| Tax at the applicable tax rate of 28% | 2,965,491 | 7,727 | (1,120) |
| Effect of different tax rate of other tax jurisdictions | (701,442) | - | - |
| Tax effects of: | | | |
| Non-deductible expenses | 378,360 | 31,954 | 1,120 |
| Tax exempt income | (48,542) | - | - |
| | <u>2,593,867</u> | <u>39,681</u> | <u>-</u> |

A local subsidiary is entitled to claim reinvestment allowance under Schedule 7A of the Income Tax Act, 1967. As of December 31, 2006, the cumulative reinvestment allowance claimed is approximately RM5,700,000 which is still subject to agreement by the Inland Revenue Board. The said amount has not been utilised to offset against the said subsidiary business income as of December 31, 2006.

Notes to The Financial Statements (Cont'd)

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

| | The Group 2006 |
|---|---------------------------|
| Profit for the year attributable to equity holders of the Company (RM) | <u>7,926,575</u> |
| | 2006 Shares |
| Number of shares in issue as of January 1 | 2 |
| Effects of: | |
| Share split | 18 |
| Issue arising from acquisition of subsidiaries | 220,219,856 |
| Rights issue | 45,957,363 |
| Public issue | <u>58,561,644</u> |
| Weighted average number of ordinary shares of RM0.10 each | <u>324,738,883</u> |
| Basic earnings per ordinary share attributable to equity holders of the Company (sen) | <u>2.4</u> |

There is no potential ordinary share in issue as of balance sheet date and therefore, no diluted earnings per share is presented.

10. PROPERTY, PLANT AND EQUIPMENT

| The Group | COST | | | | | | Balance as of December 31, 2006 RM |
|-------------------------|--|---|---|------------------------|-----------------|----------------|--|
| | Balance as of January 1, 2006 RM | Acquisition of subsidiaries RM | Foreign currency translation differences RM | Reclassification RM | Additions RM | Disposal RM | |
| Freehold land | - | 1,863,085 | - | (310,451) | - | - | 1,552,634 |
| Freehold buildings | - | 850,000 | - | 310,451 | - | - | 1,160,451 |
| Long leasehold land | - | - | - | - | 1,569,659 | - | 1,569,659 |
| Long leasehold building | - | 17,951,623 | 96,232 | - | 6,055,000 | - | 24,102,855 |
| Factory renovation | - | 8,668,282 | 46,418 | - | 455,718 | - | 9,170,418 |
| Plant and machinery | - | 48,126,205 | 209,727 | - | 10,020,582 | - | 58,356,514 |
| Workshop tools | - | 480,507 | - | - | 111,811 | - | 592,318 |
| Office equipment | - | 1,809,358 | 9,702 | - | 720,298 | - | 2,539,358 |
| Furniture and fittings | - | 136,984 | (78) | - | 321,642 | - | 458,548 |
| Motor vehicles | - | 2,884,333 | 14,374 | - | 1,074,062 | (345,659) | 3,627,110 |
| Computers | - | 176,189 | (43) | - | 215,681 | - | 391,827 |
| Total | - | 82,946,566 | 376,332 | - | 20,544,453 | (345,659) | 103,521,692 |

Notes to The Financial Statements (Cont'd)

10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

| The Group | Balance as of January 1, 2006 RM | ACCUMULATED DEPRECIATION | | | | Balance as of December 31, 2006 RM | NET BOOK VALUE |
|-------------------------|-------------------------------------|-----------------------------------|--|---------------------------|------------------|---------------------------------------|---------------------------------------|
| | | Acquisition of subsidiaries RM | Foreign currency translation differences RM | Charge for the year RM | Disposals RM | | Balance as of December 31, 2006 RM |
| Freehold land | - | - | - | - | - | - | 1,552,634 |
| Freehold buildings | - | 55,250 | - | 34,482 | - | 89,732 | 1,070,719 |
| Long leasehold land | - | - | - | 17,441 | - | 17,441 | 1,552,218 |
| Long leasehold building | - | 2,580,852 | 16,105 | 615,023 | - | 3,211,980 | 20,890,875 |
| Factory renovation | - | 1,290,986 | 7,574 | 398,777 | - | 1,697,337 | 7,473,081 |
| Plant and machinery | - | 13,477,255 | 39,406 | 3,742,982 | - | 17,259,643 | 41,096,871 |
| Workshop tools | - | 145,637 | - | 80,707 | - | 226,344 | 365,974 |
| Office equipment | - | 1,129,643 | 5,907 | 312,440 | - | 1,447,990 | 1,091,368 |
| Furniture and fittings | - | 60,900 | (60) | 42,863 | - | 103,703 | 354,845 |
| Motor vehicles | - | 1,348,272 | 5,089 | 441,859 | (224,677) | 1,570,543 | 2,056,567 |
| Computers | - | 79,629 | (23) | 54,024 | - | 133,630 | 258,197 |
| Total | - | 20,168,424 | 73,998 | 5,740,598 | (224,677) | 25,758,343 | 77,763,349 |

| The Company | Balance as of January 1, 2006 RM | COST | | ACCUMULATED DEPRECIATION | | Balance as of December 31, 2006 RM | NET BOOK VALUE |
|------------------------|-------------------------------------|-----------------|---------------------------------------|-------------------------------------|---------------------------|---------------------------------------|---------------------------------------|
| | | Additions RM | Balance as of December 31, 2006 RM | Balance as of January 1, 2006 RM | Charge for the year RM | | Balance as of December 31, 2006 RM |
| Factory renovation | - | 47,329 | 47,329 | - | 3,155 | 3,155 | 44,174 |
| Office equipment | - | 28,839 | 28,839 | - | 3,967 | 3,967 | 24,872 |
| Furniture and fittings | - | 26,770 | 26,770 | - | 3,633 | 3,633 | 23,127 |
| Computers | - | 13,243 | 13,243 | - | 1,496 | 1,496 | 11,747 |
| Total | - | 116,181 | 116,181 | - | 12,251 | 12,251 | 103,930 |

As of 31 December 2006, freehold land and buildings, and certain of the leasehold land and buildings of the Group with total net book value totalling RM19,028,265 have been pledged as collateral to certain banks for term loans and bank overdrafts facilities granted to the Group as mentioned in Note 19.

Included in property, plant and equipment of the Group are property, plant and equipment acquired under hire-purchase arrangements with net book value totalling to RM15,841,403.

Notes to The Financial Statements (Cont'd)

11. INVESTMENT IN SUBSIDIARIES

| | The Company | |
|---------------------------|-------------|------------|
| | 2006 RM | 2005 RM |
| Unquoted shares - at cost | 29,123,278 | - |

Details of the subsidiaries are as follows:

| Name of Companies | Country of Incorporation | Effective Equity Interest | | Principal Activities |
|--|--------------------------|---------------------------|-----------|--|
| | | 2006 % | 2005 % | |
| Direct Subsidiaries | | | | |
| Frontken (Singapore) Pte Ltd ¹ | Singapore | 100 | - | Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. |
| Frontken Malaysia Sdn Bhd | Malaysia | 100 | - | Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. |
| Metall-Treat Industries Pte Ltd ² | Singapore | 100 | - | Electroplating and plating of metals and formed products. |
| Frontken Philippines Inc ³ | Philippines | 99.99 | - | Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. |
| Indirect Subsidiary | | | | |
| Frontken-AMT Engineering Sdn Bhd | Malaysia | 58.2 | - | Provision of surfacemetamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. |

¹ The financial statements of this company are examined jointly by a member firm of Deloitte & Touche and another auditors other than the auditors of the Company.

² The financial statements of this company are examined by member firm of Deloitte & Touche.

³ The financial statements of this company are examined by auditors other than the auditors of the Company.

Notes to The Financial Statements (Cont'd)

11. **INVESTMENT IN SUBSIDIARIES** (Cont'd)

Amount owing by/to subsidiaries, which arose mainly from unsecured advances and payments on behalf, is interest-free and has no fixed repayment terms.

As mentioned in Note 28, the Company acquired FS and Metall-Treat Industries Pte Ltd on March 31, 2006 and October 16, 2006, respectively.

The effects of the acquisition on the financial results of the Group are as follows:

| | The Group 2006 RM |
|---------------------|----------------------------------|
| Revenue | 72,476,647 |
| Profit for the year | <u>8,009,255</u> |

Notes to The Financial Statements (Cont'd)

11. INVESTMENT IN SUBSIDIARIES (Cont'd)

The effects of the acquisition on the financial position of the Group are as follows:

| | FS Group RM | Metall-Treat RM | The Group 2006 RM |
|--|----------------|--------------------|-------------------------|
| Property, plant and equipment | 59,296,813 | 3,481,329 | 62,778,142 |
| Investment in associate | 749,063 | - | 749,063 |
| Intangible assets | 398,616 | - | 398,616 |
| Inventories | 7,825,323 | 49,603 | 7,874,926 |
| Trade receivables | 17,996,299 | 1,697,369 | 19,693,668 |
| Other receivables and prepaid expenses | 3,885,755 | 47,916 | 3,933,671 |
| Cash and bank balances | 2,142,630 | 1,972,114 | 4,114,744 |
| Term loans | (15,533,274) | (741,664) | (16,274,938) |
| Deferred Income | (191,178) | - | (191,178) |
| Hire-purchase payables | (11,416,567) | - | (11,416,567) |
| Deferred tax liabilities | (3,057,528) | (316,753) | (3,374,281) |
| Trade payables | (11,006,276) | (238,644) | (11,244,920) |
| Other payables and accrued expenses | (4,183,038) | (181,793) | (4,364,831) |
| Bank overdrafts | (2,023,035) | - | (2,023,035) |
| Tax liabilities | (2,435,037) | (474,919) | (2,909,956) |
| Net assets | 42,448,566 | 5,294,558 | 47,743,124 |
| Minority interest | (1,089,633) | - | (1,089,633) |
| Net assets acquired | 41,358,933 | 5,294,558 | 46,653,491 |
| Goodwill on consolidation | - | 2,842,942 | 2,842,942 |
| Reserve on consolidation | (12,235,655) | - | (12,235,655) |
| Total cost of acquisition | 29,123,278 | 8,137,500 | 37,260,778 |
| Less: Shares issued as purchase consideration | (29,123,278) | - | (29,123,278) |
| Cash and cash equivalents acquired: | | | |
| Cash and bank balances | (2,142,630) | (1,972,114) | (4,114,744) |
| Bank overdrafts | 2,023,035 | - | 2,023,035 |
| | (119,595) | (1,972,114) | (2,091,709) |
| Net cash outflow/(inflow) on acquisition, net of cash and cash equivalents acquired | (119,595) | 6,165,386 | 6,045,791 |

Notes to The Financial Statements (Cont'd)

12. INVESTMENT IN ASSOCIATE

| | The Group | |
|---------------------------|----------------|------------|
| | 2006 RM | 2005 RM |
| Unquoted shares - at cost | <u>765,911</u> | <u>-</u> |

Details of the associate are as follows:

| Name of Company | Country of Incorporation | Effective Equity Interest | | Principal Activity |
|----------------------------|--------------------------|---------------------------|-----------|--|
| | | 2006 % | 2005 % | |
| Frontken (Thailand) Co Ltd | Thailand | 39 | - | Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. |

13. GOODWILL ON CONSOLIDATION

| | The Group 2006 RM |
|--|-------------------------|
| At beginning of year | - |
| Arising from acquisition of subsidiaries (Note 11) | <u>2,842,942</u> |
| At end of year | <u>2,842,942</u> |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit ("CGU") that is expected to benefit from that business combination. Before recognition of any impairment losses, the carrying amount of goodwill had been allocated to Metall-Treat Industries Pte Ltd as one single CGU.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rate using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

The growth rates and changes in selling prices and direct costs are based on expectations of future changes in the market.

Notes to The Financial Statements (Cont'd)

14. INTANGIBLE ASSETS

| | The Group 2006 RM |
|--|-------------------------|
| Licence fees - at cost: | |
| At beginning of year | - |
| Arising from acquisition of subsidiaries | 781,935 |
| At end of year | 781,935 |
| Accumulated amortisation: | |
| At beginning of year | - |
| Arising from acquisition of subsidiaries | 383,319 |
| Charge for the year | 121,805 |
| At end of year | (505,124) |
| Foreign currency translation differences | 4,633 |
| Net | 281,444 |

15. INVENTORIES

| | The Group 2006 RM |
|------------------|-------------------------|
| Raw materials | 1,751,038 |
| Work-in-progress | 974,174 |
| Finished goods | 608,800 |
| | 3,334,012 |

Notes to The Financial Statements (Cont'd)

16. **TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES**

Trade receivables of the Group comprise amounts outstanding for the provision of services and sales of goods. The credit period granted to customers ranges from 30 to 60 days (2005: 30 to 60 days).

Included in trade receivables of the Group are the following amounts owing to related parties:

| | The Group 2006 RM |
|---------------------------------|----------------------------------|
| A & I Engine Rebuilders Sdn Bhd | 720 |
| Cyglobal Capital Sdn Bhd | <u>15,690</u> |
| | <u>16,410</u> |

The said amount, which arose mainly from trade transactions, is unsecured, interest-free and has no fixed repayment terms.

The related parties and their relationship with the Group are as follows:

| Name of related party | Relationship |
|---------------------------------|---|
| A & I Engine Rebuilders Sdn Bhd | A company in which Sia Chiok Meng, a director of a subsidiary, is a director and has financial interests |
| Cyglobal Capital Sdn Bhd | A company in which Wong Hua Choon and See Chuan Swee, directors of the Company, are also directors and have financial interests |

Significant transactions undertaken with related parties during the financial year are as follows:

| | The Group 2006 RM |
|--|----------------------------------|
| A & I Engine Rebuilders Sdn Bhd | |
| Sales | 3,875 |
| Purchases | 110 |
| Cyglobal Capital Sdn Bhd | |
| Sales | <u>17,230</u> |

Notes to The Financial Statements (Cont'd)

16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES (Cont'd)

Other receivables and prepaid expenses consist of:

| | The Group 2006 | The Company 2006 | 2005 |
|---------------------|-------------------|---------------------|----------------|
| Other receivables | 3,587,544 | - | - |
| Refundable deposits | 547,894 | 24,070 | - |
| Prepayments | 484,694 | - | 181,757 |
| Tax recoverable | 18,439 | - | - |
| | <u>4,638,571</u> | <u>24,070</u> | <u>181,757</u> |

The currency exposure profile of trade and other receivables of the Group is as follows:

| | The Group 2006 RM |
|--------------------------|-------------------------|
| Trade receivables | |
| Singapore Dollar | 16,637,760 |
| Ringgit Malaysia | 8,184,791 |
| United States Dollar | 3,004,461 |
| Philippines Peso | 929,838 |
| | <u>28,756,850</u> |
| Other receivables | |
| Singapore Dollar | 2,910,559 |
| Ringgit Malaysia | 460,965 |
| Philippines Peso | 216,020 |
| | <u>3,587,544</u> |

Notes to The Financial Statements (Cont'd)

17. SHARE CAPITAL

| | The Company | |
|--|-------------------|----------------|
| | 2006 RM | 2005 RM |
| Authorised: | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of year | 100,000 | 100,000 |
| Reclassified to ordinary shares of RM0.10 each | <u>(100,000)</u> | - |
| At end of year | <u>-</u> | <u>100,000</u> |
| Ordinary shares of RM0.10 each | | |
| At beginning of year | - | - |
| Reclassified from ordinary shares of RM1.00 each | 100,000 | - |
| Created during the year | <u>49,900,000</u> | - |
| At end of year | <u>50,000,000</u> | - |
| Issued and fully paid: | | |
| Ordinary shares of RM1.00 each | | |
| At beginning of year | 2 | 2 |
| Reclassified to ordinary shares of RM0.10 each | <u>(2)</u> | - |
| At end of year | <u>-</u> | <u>2</u> |
| Ordinary shares of RM0.10 each | | |
| At beginning of year | - | - |
| Reclassified from ordinary shares of RM1.00 each | 2 | - |
| Issued during the year: | | |
| Acquisition of subsidiaries | 29,123,278 | - |
| Public issue | 11,875,000 | - |
| Rights issue | 6,501,720 | - |
| | <u>47,499,998</u> | - |
| At end of year | <u>47,500,000</u> | - |

In conjunction with the listing of the entire issued and paid-up share capital of the Company on the MESDAQ Market of Bursa Malaysia Securities Berhad:

- (i) The Company undertook a sub-division of the par value of its ordinary shares from RM1.00 to RM0.10 per ordinary share. On March 8, 2006, pursuant to the share split, the authorised share capital of the Company was sub-divided from RM100,000 comprising 100,000 ordinary shares of RM1.00 each to RM100,000 comprising 1,000,000 ordinary shares of RM0.10 each and the issued and paid-up share capital of the Company was sub-divided from RM2 comprising 2 ordinary shares of RM1.00 each to RM2 comprising 20 ordinary share of RM0.10 each.

Notes to The Financial Statements (Cont'd)

17. SHARE CAPITAL (Cont'd)

- (ii) The authorised share capital of the Company was increased from RM100,000 to RM50,000,000 by the creation of an additional 499,000,000 ordinary shares of RM0.10 each on 8 Mar 2006;
- (iii) The issued and paid-up share capital of the Company was increased from RM2 to RM47,500,000 by the issue and allotment of 474,999,980 new ordinary shares of RM0.10 each as follows:

| | RM |
|---|-------------------|
| (a) Issue and allotment of 291,232,780 new ordinary shares of RM0.10 each at par as purchase consideration for the acquisition of FS | 29,123,278 |
| (b) Renounceable rights issue of 65,017,200 new ordinary shares of RM0.10 each at par on the basis of approximately 2.23 new ordinary shares of RM0.10 each for every 10 ordinary shares of RM0.10 held after the acquisition of FS | 6,501,720 |
| (c) Public issue of 118,750,000 new ordinary shares of RM0.10 each at an issue price of RM0.21 per share payable in full on Application | <u>11,875,000</u> |
| | <u>47,499,998</u> |

18. RESERVES

| | The Group 2006 | The Company 2006 | 2005 |
|--------------------------------------|-------------------|---------------------|----------------|
| Non-distributable: | | | |
| Share premium | 11,002,727 | 11,002,727 | - |
| Foreign currency translation reserve | 561,383 | - | - |
| | <u>11,564,110</u> | <u>11,002,727</u> | - |
| Distributable: | | | |
| Retained earnings/(Accumulated loss) | <u>20,153,012</u> | <u>(21,301)</u> | <u>(9,218)</u> |
| | <u>31,717,122</u> | <u>10,981,426</u> | <u>(9,218)</u> |

Share premium

Share premium arose from the public issue of 118,750,000 ordinary shares at a premium of RM0.11 per ordinary share, net of share issue expenses of RM2,059,773.

Foreign currency translation reserve

Foreign currency translation differences arising from the translation of the financial statements of foreign subsidiaries are taken to the foreign currency translation reserve as described in the significant accounting policies.

Notes to The Financial Statements (Cont'd)

19. TERM LOANS (SECURED)

| | The Group 2006 RM |
|--|----------------------------------|
| Principal outstanding | 14,742,778 |
| Less: Portion due within one year (Note 24) | <u>(2,619,665)</u> |
| Non-current portion | <u>12,123,113</u> |
| The non-current portion is repayable as follows: | |
| 2008 | 2,291,887 |
| 2009 | 3,868,252 |
| 2010 | <u>5,962,974</u> |
| | <u>12,123,113</u> |

As of December 31, 2006, the Group has the following term loan facilities:

- (a) a term loan facility of RM1,243,239, obtained by a local incorporated subsidiary, which bears interest at 7.25% per annum and is repayable in equal monthly instalments over 96 to 120 months respectively;
- (b) four term loans facilities totalling RM12,874,586, obtained by a Singapore incorporated subsidiary, which bears interest at rates ranging from 4.25% to 5.00% per annum and is repayable over 120 to 144 months; and
- (c) a term loan facility of RM624,952, obtained by another Singapore incorporated subsidiary, which bears interest at 4.75% per annum and is repayable over 36 months.

The term loans and bank overdrafts as mentioned in Note 24 are secured by the following:

- (a) legal charges over the freehold land and factory building of the subsidiaries as disclosed in Note 10; and
- (b) a corporate guarantee by the Company.

Notes to The Financial Statements (Cont'd)

20. DEFERRED INCOME

This represents asset-related government grants and is recognised in the income statement over the useful lives of the related assets.

| | The Group 2006 RM |
|--|----------------------------------|
| Deferred income | |
| At beginning of year | - |
| Arising from acquisition of subsidiaries (Note 11) | 191,178 |
| Foreign currency translation differences | 1,654 |
| | <u>192,832</u> |
| At end of year | 192,832 |
| Transferred to income statements | <u>(64,985)</u> |
| | 127,847 |
| Less: To be transferred to income statements within one year | <u>(59,769)</u> |
| | <u>68,078</u> |

21. HIRE-PURCHASE PAYABLES

| | The Group 2006 RM |
|---|----------------------------------|
| Total outstanding | 12,911,952 |
| Less: Interest in suspense | <u>(1,809,455)</u> |
| Principal outstanding | 11,102,497 |
| Less: Amount due within 12 months (included under current liabilities) | <u>(3,206,127)</u> |
| Non-current portion | <u>7,896,370</u> |

Notes to The Financial Statements (Cont'd)

21. HIRE-PURCHASE PAYABLES (Cont'd)

The non-current portion is payable as follows:

| | The Group 2006 RM |
|-------------------------------------|----------------------------------|
| Financial years ending December 31: | |
| 2008 | 3,000,816 |
| 2009 | 2,453,114 |
| 2010 and thereafter | <u>2,442,440</u> |
| | <u>7,896,370</u> |

It is the Group's policy to acquire certain of its property, plant and equipment under hire-purchase arrangements. The average term of hire purchase is about 3 to 5 years. The interest rates implicit in the hire-purchase obligations ranges from 2.5% to 5.5% per annum.

The Group's hire purchase payables are secured by the financial institutions' charge over the assets under hire-purchase.

22. DEFERRED TAX LIABILITIES

| | The Group 2006 RM |
|--|----------------------------------|
| At beginning of year | - |
| Arising from acquisition of subsidiaries (Note 11) | 3,374,281 |
| Transfer from income statements (Note 8) | 895,194 |
| Foreign currency translation differences | <u>(7,106)</u> |
| At end of year | <u>4,262,369</u> |

The net deferred tax liabilities are in respect of the tax effects of the following:

| | Deferred Tax (Asset)/ Liability The Group 2006 RM |
|---|--|
| Temporary differences arising from property, plant and equipment | 4,589,021 |
| Unused tax losses | (3,746) |
| Unabsorbed capital allowances | <u>(322,906)</u> |
| | <u>4,262,369</u> |

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

Notes to The Financial Statements (Cont'd)

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

Trade payables of the Group comprise amounts outstanding for trade purchases. The credit period granted to the Group for trade purchases ranges from 30 to 60 days.

The currency exposure profile of trade payables of the Group is analysed as follows:

| | The Group 2006 RM |
|----------------------|----------------------------------|
| Singapore Dollar | 6,218,160 |
| United States Dollar | 3,016,484 |
| Ringgit Malaysia | 2,321,360 |
| Philippines Peso | 12,781 |
| Euro | 11,809 |
| | <u>11,580,594</u> |

Other payables and accrued expenses consist of:

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|------------------|----------------------------------|------------------------------------|--------------------|
| Other payables | 7,610,747 | 49,070 | - |
| Accrued expenses | 3,431,209 | 15,776 | 9,216 |
| | <u>11,041,956</u> | <u>64,846</u> | <u>9,216</u> |

The currency exposure profile of other payables of the Group and of the Company is as follows:

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|------------------|----------------------------------|------------------------------------|--------------------|
| Singapore Dollar | 4,103,572 | - | - |
| Ringgit Malaysia | 3,204,992 | 49,070 | - |
| Philippines Peso | 302,183 | - | - |
| | <u>7,610,747</u> | <u>49,070</u> | <u>-</u> |

Notes to The Financial Statements (Cont'd)

24. BANK BORROWINGS - SECURED

| | The Group 2006 RM |
|--|-------------------------|
| Bank overdrafts | 3,443,821 |
| Term loans - current portion (Note 19) | <u>2,619,665</u> |
| | <u>6,063,486</u> |

As of December 31, 2006, the Group has bank overdraft facilities totalling RM5,324,750 obtained from licensed banks. The amount utilised bears interest at rates ranging from 5% to 8% per annum. The securities for the bank overdraft facilities are disclosed in Note 19.

25. CASH AND CASH EQUIVALENTS

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

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|------------------------------------|-------------------------|---------------------------|------------|
| Fixed deposits with licensed banks | 10,151,800 | 10,000,000 | - |
| Cash and bank balances | <u>10,821,584</u> | <u>573,841</u> | - |
| | 20,973,384 | 10,573,841 | - |
| Less: Bank overdrafts (Note 24) | <u>(3,443,821)</u> | - | - |
| | <u>17,529,563</u> | <u>10,573,841</u> | - |

Fixed deposits with licensed bank earn interest at 3% per annum and have average maturity period 30 days.

The currency exposure profile of cash and cash equivalents is as follows:

| | The Group 2006 RM | The Company 2006 RM | 2005 RM |
|----------------------|-------------------------|---------------------------|------------|
| Ringgit Malaysia | 9,212,843 | 10,573,841 | - |
| Singapore Dollar | 5,968,231 | - | - |
| United States Dollar | 1,930,031 | - | - |
| Philippines Peso | <u>418,458</u> | - | - |
| | <u>17,529,563</u> | <u>10,573,841</u> | - |



Notes to The Financial Statements (Cont'd)

26. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The operations of the Group are subject to a variety of financial risks, including foreign exchange 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 certain trade transactions in Singapore Dollar and United States Dollar with foreign entities and therefore is exposed to foreign currency risks. Exposures to foreign currency risk are monitored on an on-going basis.

(ii) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing short-term borrowings and term loans. The interest rates of term loans and bank borrowings of the Company are disclosed in Notes 19 and 24. Interest rate of hire-purchase payables, which is disclosed in Note 21, is fixed at the inception of the financing arrangement.

(iii) **Credit risk**

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

(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 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.

Financial Assets

The principal financial assets of the Group are cash and bank balances, fixed deposit with licensed banks, and trade and other receivables.

The principal financial assets of the Company also include amount owing by subsidiaries.

The accounting policies applicable to the major financial instruments are as disclosed in Note 3.

Financial Liabilities

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

Significant financial liabilities of the Group include trade and other payables, hire-purchase payables, bank overdrafts and term loans, which are stated at their nominal values.

Notes to The Financial Statements (Cont'd)

26. FINANCIAL INSTRUMENTS (Cont'd)

Financial Liabilities (Cont'd)

The principal financial liabilities of the Company also include amount owing to subsidiaries.

Term loans are recorded at the proceeds received. Finance charges are accounted for on an accrual basis.

Fair Values

The carrying amount of the financial assets and financial liabilities of the Group reported in the balance sheets approximate their fair values because of the immediate or short maturity period for these financial instruments except for the following:

| | The Group 2006 Carrying Amount RM | Fair Value RM |
|----------------------------------|--|------------------------------|
| Financial liabilities | | |
| Term loans (Note 19) | 14,742,778 | 11,695,875 |
| Hire-purchase payables (Note 21) | 11,102,497 | 12,911,952 |

Hire-purchase payables and term loans

The fair values of hire-purchase payables and term loans are estimated using discounted cash flow analysis based on current financing/borrowing rates for similar types of financing/borrowing arrangements.

27. CAPITAL COMMITMENTS

As of December 31, 2006, the Group has the following capital commitments:

| | The Group 2006 RM |
|----------------------------------|----------------------------------|
| Contracted but not provided for: | |
| Property, plant and equipment | 2,394,615 |
| Other investment (Note 28) | 23,372,119 |
| | <u>25,766,734</u> |

28. SIGNIFICANT CORPORATE EVENTS

During the financial year:

- (i) On March 31, 2006, the Company completed its acquisition of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte Ltd ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 fully satisfied by the issuance of 291,232,780 new ordinary shares of RM0.10 each at par;
- (ii) On July 11, 2006, the entire issued and paid-up share capital of the Company was quoted on the MESDAQ Market of Bursa Malaysia Securities Berhad;

Notes to The Financial Statements (Cont'd)

28. SIGNIFICANT CORPORATE EVENTS (Cont'd)

- (iii) On October 16, 2006, the Group, via its wholly-owned subsidiary, FS, completed its acquisition of 100% equity interest in Metall-Treat Industries Pte Ltd for a cash consideration of SGD3,500,000 (RM8,137,500); and
- (iv) On December 20, 2006, the Company entered into a conditional Share Purchase Agreement with Evergreen Development Corporation ("Evergreen"), a company incorporated in the Republic of China, for the acquisition of 5,700,000 ordinary shares of NT\$10 each in Ares Green Technology Corporation ("AGTC"), a company also incorporated in the Republic of China, representing 19% of the issued and paid-up share capital of AGTC for a cash consideration of NT\$210.9 million (equivalent to approximately RM23.4 million).

The said acquisition was completed on March 19, 2007.

29. SUBSEQUENT EVENTS

- (i) On January 26, 2007, the Group, via its indirect wholly-owned subsidiary, Frontken Malaysia Sdn. Bhd., had acquired 137,500 ordinary shares of RM1 each in Frontken Petroleum Sdn. Bhd. ("FP"), a company incorporated in Malaysia, representing 55% of the issued and paid-up capital of FP for a cash consideration of RM137,500. The intended principal activity of FP is marketing of the Group's surface metamorphosis services.
- (ii) On March 14, 2007, the Group incorporated a wholly-owned subsidiary, Frontken Technology Corporation, ("FTC"), in the Republic of China. The authorised and issued and paid-up share capital of FTC is TWD1,000,000 (equivalent to approximately RM104,480) comprising ordinary shares of TWD10 each. The intended principal activity of FTC is investment holding.
- (iii) On March 19, 2007, the Group completed the acquisition of AGTC as mentioned in Note 28 (iv) above.
- (iv) The Company had proposed to issue 47,500,000 new ordinary shares of RM0.10 each through a private placement exercise ("Proposed Private Placement"). The said proposal was approved by Securities Commission on April 12, 2007.

30. SEGMENT REPORTING

The Group is principally engaged in one business segment, which is in the provision of engineering services.

The following table provide an analysis of Group's revenue, segment assets, segment liabilities and capital expenditure by geographical segments.

| | Revenue RM | Segment Assets RM | Capital Expenditure RM |
|-------------|-------------------|-------------------------|------------------------------|
| Malaysia | 2,220,194 | 56,511,921 | 14,599,564 |
| Singapore | 68,765,570 | 78,500,380 | 5,696,270 |
| Philippines | 1,490,883 | 3,578,251 | 248,619 |
| Thailand | - | 765,911 | - |
| | <u>72,476,647</u> | <u>139,356,463</u> | <u>20,544,453</u> |

31. COMPARATIVE FIGURES

As the consolidated financial statements are drawn up for the first time, no comparative figures are presented.

List of Properties

The details of landed properties owned and leased by Frontken Corporation Berhad and its subsidiaries are set out below:

| Address | Land Area (Built-Up Area) Sq Metre | Description of Property and Existing Use | Approximate Age of Building | Tenure | Audited Net Book Value as at 31.12.06 (RM'000) | Date of last Revaluation*/ Acquisition# |
|---|---|--|-----------------------------------|---|--|---|
| FS | | | | | | |
| Pte Lot A12843 (to be known as Pte Lot A21020) | 11,154 (5,623) | 2 factory buildings with mezzanine office to house Production Facilities | 10 years & 20 years | Leasehold: Expiring on 20.01.2019 | 5,236 | 01.08.2001# |
| Bearing postal address: 156A Gul Circle Singapore 629614 | | | | | | |
| FS | | | | | | |
| Pte Lot A22490 (to be known as Pte Lot A1355600) | 4,877 (4,778) | 4-storey factory building to house production facilities and R&D activities | 5 years | Leasehold: Expiring on 30.04.2026 | 7,079 | 18.03.2005# |
| Bearing postal address: 15 Gul Drive Singapore 629466 | | | | | | |
| MT | | | | | | |
| Pte Lot No. 3294K Bearing postal address: 57 Tuas View Walk 2 Singapore 637628 | 672 (993) | 2-storey intermediate terrace factory to house production facility | 5 years | Leasehold: Expiring on 30.06.2046 | 2,538 | 27.07.2001# |
| FM | | | | | | |
| H.S. (D) 79995 Lot P.T. 14308 Mukim Damansara Daerah Petaling Selangor Darul Ehsan | 2,023 (1,006) | 1½ storey detached factory building to house production facilities | 10 years | Freehold | 2,088 | 17.03.2003# |
| Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan | | | | | | |

List of Properties (Cont'd)

| Address | Land Area (Built-Up Area) Sq Metre | Description of Property and Existing Use | Approximate Age of Building | Tenure | Audited Net Book Value as at 31.12.06 (RM'000) | Date of last Revaluation*/ Acquisition# |
|---|---|---|-----------------------------------|--|--|---|
| FM H.S. (D) 40495 & 40609 Lots 12049 & 12063 Mukim 14, Daerah Seberang Perai Tengah Penang Bearing postal address: No. 18 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang | 414 (362) | 1½ storey semi-detached factory to House production facilities and R&D activities | 4 years | Freehold | 536 | 07.07.2003# |
| FM H.S. (D) 40496 & 40610 Lots 12050 & 12064 Mukim 14, Daerah Seberang Perai Tengah Penang Bearing postal address: No. 20 Jalan Pala 12 Kawasan Industri Ringan Permatang Tinggi 14100 Bukit Mertajam Penang | 389 (341) | 1½ storey semi-detached Factory to house production facilities and R&D activities | 4 years | Freehold | | |
| FM H.S. (D) 1600 P.T. No. 1923, Mukim Padang Cina, Daerah Kulim, Kedah Darul Aman. Jalan Hi Tech 2/3 Industrial Zone Phase I, Kulim Hi-Tech Industrial Park, 09000 Kulim Kedah Darul Aman | 130,680 (32,000) | Single storey detached factory building to house Production Facilities and R&D activities | 1 year | Leasehold: Expiring on 09.05.2066 with an option to extend for a further term of 39 years | 7,590 | 23.12.2005# |
| TOTAL | | | | | 25,067 | |

Shareholding Statistics

As at 4 May 2007

| | | |
|----------------------------|---|-------------------------------|
| Authorised Share Capital | : | 1,000,000,000 |
| Paid-up and Issued Capital | : | 475,000,000 |
| Type of Shares | : | Ordinary Shares (RM0.10 each) |
| No. of Shareholders | : | 1,572 |
| Voting Rights | : | One vote per share |

ANALYSIS OF SHAREHOLDINGS BY RANGE

| Holdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Issued Capital |
|--|---------------------|-------------------|--------------------|---------------------|
| Less than 100 | 2 | 0.13 | 100 | 2.1 ⁻⁰⁵ |
| 100 to 1,000 | 335 | 21.30 | 229,400 | 0.05 |
| 1,001 to 10,000 | 672 | 42.75 | 3,729,100 | 0.79 |
| 10,001 to 100,000 | 403 | 25.64 | 14,979,900 | 3.15 |
| 100,001 to less than 5% of issued shares | 157 | 9.99 | 235,424,055 | 49.56 |
| 5% and above of issued shares | 3 | 0.19 | 220,637,445 | 46.45 |
| Total | 1,572 | 100.00 | 475,000,000 | 100.00 |

SUBSTANTIAL SHAREHOLDERS

The Substantial Shareholders of the Company and the number of shares held by them as recorded in the Register of Substantial Shareholders at the date of this statement are as follows:

| Name of Substantial Shareholder | Direct Interest | | Indirect Interest | |
|---------------------------------|-----------------|-------|-------------------------|-------|
| | No. of shares | % | No. of shares | % |
| Wong Hua Choon | 102,574,352 | 21.60 | 12,037,228 ¹ | 2.53 |
| Quantum Spire Sdn Bhd | 95,237,500 | 20.05 | - | - |
| Dato' Ibrahim bin Mahmud | - | - | 95,237,500 ² | 20.05 |
| Zulkifli bin Ali | - | - | 95,237,500 ² | 20.05 |
| Yeo Lay Poh | 26,938,093 | 5.67 | 12,037,228 ¹ | 2.53 |

Notes:

¹ Deemed interested by virtue of his interest in Frontken Holdings Pte Ltd

² Deemed interested by virtue of his interest in Quantum Spire Sdn Bhd

DIRECTORS' SHAREHOLDINGS

| No. | Name of shareholders | Direct Interest | | Indirect Interest | |
|-----|--------------------------|-----------------|-------|-------------------------|-------|
| | | Direct | % | Indirect | % |
| 1. | Wong Hua Choon | 102,574,352 | 21.60 | 12,037,228 ¹ | 2.53 |
| 2. | Dato' Ibrahim bin Mahmud | - | - | 95,237,500 ² | 20.05 |
| 3. | Dr. Tay Kiang Meng | - | - | 12,037,228 ¹ | 2.53 |

Notes:

¹ Deemed interested by virtue of his interest in Frontken Holdings Pte Ltd

² Deemed interested by virtue of his interest in Quantum Spire Sdn Bhd

Top 30 Shareholders

(Shown in the Record of Depositors) As at 4 May 2007

| No. | Name of Shareholders | No. of Shares | % of Issued Share Capital |
|--------------|--|--------------------|---------------------------|
| 1 | WONG HUA CHOON | 102,574,352 | 21.60 |
| 2 | QUANTUM SPIRE SDN. BHD. | 91,125,000 | 19.18 |
| 3 | YEO LAY POH | 26,938,093 | 5.67 |
| 4 | LEMBAGA TABUNG HAJI | 23,700,000 | 4.99 |
| 5 | TAN CHOON HOCK | 18,610,000 | 3.92 |
| 6 | FONG PIK NA | 15,000,000 | 3.16 |
| 7 | LIM POH SUAN | 12,346,900 | 2.60 |
| 8 | FRONTKEN HOLDINGS PTE LTD | 12,037,228 | 2.53 |
| 9 | CIMSEC NOMINEES (ASING) SDN BHD FOR CIMB-GK SECURITIES PTE LTD (RETAIL CLIENTS) | 11,944,000 | 2.52 |
| 10 | PRIVILEGE BARGAIN SDN BHD | 8,712,017 | 1.83 |
| 11 | ANNE WONG MOI YIN | 6,213,000 | 1.31 |
| 12 | AIBB NOMINEES (ASING) SDN BHD FOR YEE HUANG KHIM | 6,000,000 | 1.26 |
| 13 | AIBB NOMINEES (ASING) SDN BHD FOR QUEK GEK PHONG | 6,000,000 | 1.26 |
| 14 | HLG NOMINEE (TEMPATAN) SDN BHD - PB TRUSTEE SERVICES BERHAD FOR HLG GROWTH FUND | 5,790,200 | 1.22 |
| 15 | MAYBAN SECURITIES NOMINEES (TEMPATAN) SDN BHD FOR MOHD HANIFF BIN ABD AZIZ | 5,000,000 | 1.05 |
| 16 | QUANTUM SPIRE SDN. BHD. | 4,112,500 | 0.87 |
| 17 | TA NOMINEES (TEMPATAN) SDN BHD FOR MOHD HANIFF BIN ABD AZIZ | 4,000,000 | 0.84 |
| 18 | KENANGA NOMINEES (TEMPATAN) SDN BHD FOR CHIENG HOCK NGIE | 3,991,600 | 0.84 |
| 19 | CHAN BEE LIAN | 3,665,500 | 0.77 |
| 20 | NGUI NYUK JIN | 3,439,500 | 0.72 |
| 21 | TA NOMINEES (TEMPATAN) SDN BHD FOR KHO CHAI YAM | 3,000,000 | 0.63 |
| 22 | EXION ASIA PTE LTD | 2,733,500 | 0.57 |
| 23 | INTER-PACIFIC EQUITY NOMINEES (ASING) SDN BHD FOR TAY YAN LIM | 2,519,800 | 0.53 |
| 24 | LEE YIH KANG | 2,228,600 | 0.47 |
| 25 | NAKAHIRA AKIRA | 2,047,600 | 0.43 |
| 26 | HDM NOMINEES (TEMPATAN) SDN BHD FOR OH KIM SUN | 2,000,000 | 0.42 |
| 27 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD FOR HAMZAH BIN MOHD SALLEH | 2,000,000 | 0.42 |
| 28 | NIK ISMAIL B.TENGGU BESAR INDRA RAJA | 1,900,000 | 0.40 |
| 29 | RHB CAPITAL NOMINEES (TEMPATAN) SDN BHD FOR TING SIEW PIN | 1,815,000 | 0.38 |
| 30 | EB NOMINEES (TEMPATAN) SDN BHD FOR HAMZAH BIN MOHD SALLEH | 1,800,000 | 0.38 |
| TOTAL | | 393,244,390 | 82.79 |

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Third Annual General Meeting of the Company will be held at East VIP Lounge, Kuala Lumpur Golf & Country Club, No. 10 1/70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Tuesday, 26 June 2007 at 10.00 a.m. for the transaction of the following business:-

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the year ended 31 December 2006 together with the Reports of the Directors and Auditors thereon.
2. To re-elect the following Directors who retire pursuant to Article 74 of the Company's Articles of Association:-

| | |
|------------------------------------|----------------|
| Wong Hua Choon | (Resolution 1) |
| Dr Tay Kiang Meng | (Resolution 2) |
| See Chuan Swee | (Resolution 3) |
| Dato' Ibrahim bin Mahmud | (Resolution 4) |
| Dato' Haji Johar bin Murat @ Murad | (Resolution 5) |
| Ng Wai Pin | (Resolution 6) |
3. To approve the payment of Directors' remuneration amounting to RM68,129 for the financial year ended 31 December 2006. (Resolution 7)
4. To re-appoint Messrs Deloitte & Touche as Auditors of the Company for the financial year ending 31 December 2007 and to authorise the Board of Directors to fix their remuneration. (Resolution 8)

SPECIAL BUSINESS

5. To consider and if thought fit, to pass the following Resolutions as:-

ORDINARY RESOLUTION 1

AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965 (Resolution 9)

"THAT, subject always to the Companies Act, 1965 ("Act"), the Memorandum and Articles of Association of the Company and the approvals of Bursa Malaysia Securities Berhad and the relevant regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Act, to issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate numbers of shares to be issued does not exceed 10% of the total issued share capital of the Company for the time being."

ORDINARY RESOLUTION 2

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE (Resolution 10)

"THAT subject to the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market, approval be and is hereby given to the Company and its subsidiaries to enter into the recurrent transactions of a revenue or trading nature as set out in Section 2.1.2 of the Circular to Shareholders dated 4 June 2007 with the related parties mentioned therein which are necessary for the Group's day to day operations.

THAT the Company and its subsidiaries be and are hereby authorized to enter into the recurrent transactions with the related parties mentioned therein provided that:

- (a) the transactions are carried out in the ordinary course of business and on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company;
- (b) the disclosure of the aggregate value of the transactions conducted pursuant to the shareholders mandate during the financial year will be made in the Annual Report for the said financial year.

NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

THAT such approval shall commence immediately upon passing of the resolution and remain in force until:-

- (a) the conclusion of the next annual general meeting of the Company following the general meeting at which the Proposed Renewal of Shareholders' Mandate is passed, at which time it will lapse, unless by a resolution passed at the Meeting, the authority is renewed; or
- (b) the expiration of the period within which the next annual general meeting after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("the Act") (but shall not extend to such extensions as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier;

AND THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this resolution."

6. To consider and if thought fit, to pass the following resolution as:-

**SPECIAL RESOLUTION 1
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY**

(Resolution 11)

"THAT the alteration, modifications and/or additions to the Articles of Association of the Company as set out in Appendix I of the Circular to Shareholders dated 4 June 2007, be and are hereby approved."

7. To transact any other business of which due notice shall have been given.

BY ORDER OF THE BOARD

Tai Keat Chai (MIA 1688)
Lim Hooi Chin (MAICSA 7025949)
Company Secretaries

Kuala Lumpur
Date: 4 June 2007

NOTES:

1. The Agenda No.1 is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of shareholders and hence, is not put forward for voting.
2. A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at Suite 1603, 16th Floor, Wisma Lim Foo Yong, No. 86 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.

NOTICE OF ANNUAL GENERAL MEETING (Cont'd)

6. Explanatory Notes on Special Business :-

- a. The proposed Ordinary Resolution 1, if passed, is primarily to give the Board of Directors the authority to issue and allot shares at any time and for such purposes as the Directors in their absolute discretion consider to be in the best interest of the Company, without having to convene a general meeting. This authority, unless revoked or varied by the Company in general meeting, will expire at the next Annual General Meeting of the Company.
- b. The proposed Ordinary Resolution 2, if passed, will empower the Company and its subsidiaries ("FCB Group") to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the FCB Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company. Please refer to the Circular to Shareholders dated 4 June 2007 which is dispatched together with this Annual Report for more information.
- c. The proposed Special Resolution 1, if passed, will allow the Company to incorporate the proposed amendments to the Articles of Association to comply with the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market. The details of the Proposed Amendments to the Articles of Association are set out in Appendix 1 of the Circular to Shareholders dated 4 June 2007.

Statement Accompanying Notice of Annual General Meeting

1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION

The Directors of the Company who are standing for re-election at the Third Annual General Meeting of the Company are as follows:-

- i. Wong Hua Choon
- ii. Dr. Tay Kiang Meng
- iii. See Chuan Swee
- iv. Dato' Ibrahim bin Mahmud
- v. Dato' Haji Johar bin Murat @ Murad
- vi. Ng Wai Pin

The Directors are subject to retirement pursuant to Article 74 of the Articles of Association of the Company. The details of the directors who are standing for re-election and their particulars are set out in the Directors' Profile of the Board of Directors which appear on pages 14 to 16 of the Annual Report.

2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Two (2) Board of Directors' Meetings were held during the financial year ended 31 December 2006. Details of attendance of Directors at the Board Meetings are as follows:-

| Name of Directors | Attendance | Percentage of attendance (%) |
|------------------------------------|------------|------------------------------|
| Wong Hua Choon | 2/2 | 100 |
| Dr Tay Kiang Meng | 1/2 | 50 |
| See Chuan Swee | 2/2 | 100 |
| Dato' Ibrahim bin Mahmud | 2/2 | 100 |
| Dato' Haji Johar bin Murat @ Murad | 2/2 | 100 |
| Ng Wai Pin | 2/2 | 100 |

3. DATE, TIME AND VENUE OF THE THIRD ANNUAL GENERAL MEETING

Date : 26 June 2007, Tuesday
 Time : 10.00 am
 Venue : East VIP Lounge, Kuala Lumpur Golf & Country Club, No. 10 1/70D,
 Off Jalan Bukit Kiara, 60000 Kuala Lumpur.

Proxy Form

| |
|-----------------------|
| Number of shares held |
| |

/We,..... I.C. or Company No..... (Full name in block letters)
.....CDS Account No.....of.
(Full address)

being a member / members of FRONTKEN CORPORATION BERHAD hereby appoint.....
(Full name in block letters) I.C. No. of
(New and old I.C. No.) of.....

(Full address) or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the
Third Annual General Meeting of the Company to be held at East VIP Lounge, Kuala Lumpur Golf & Country Club, No. 10 1/
70D, Off Jalan Bukit Kiara, 60000 Kuala Lumpur on Tuesday, 26 June 2007 at 10.00 a.m. or at any adjournment thereof.

The proxy is to vote on the Resolutions set out in the Notice of the Meeting as indicated with an "X" in the appropriate spaces.
If no specific direction as to the voting is given, the Proxy will vote or abstain from voting at his/her discretion.

| Resolutions | | For | Against |
|---------------|---|-----|---------|
| Resolution 1 | - Re-election of Wong Hua Choon | | |
| Resolution 2 | - Re-election of Dr Tay Kiang Meng | | |
| Resolution 3 | - Re-election of See Chuan Swee | | |
| Resolution 4 | - Re-election of Dato' Ibrahim bin Mahmud | | |
| Resolution 5 | - Re-election of Dato' Haji Johar bin Murat @ Murad | | |
| Resolution 6 | - Re-election of Ng Wai Pin | | |
| Resolution 7 | - Approval of the payment of Directors' remuneration | | |
| Resolution 8 | - Re-appointment of Auditors | | |
| Resolution 9 | - Approval for Directors to issue shares pursuant to Section 132D | | |
| Resolution 10 | - Proposed Renewal of Shareholders' Mandate for recurrent party transactions of a revenue or trading nature | | |
| Resolution 11 | - Proposed amendments to the Articles of Association | | |

Dated thisday of 2007

.....
Signature/Common Seal of Appointer

NOTES:

1. The Agenda No.1 is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of shareholders and hence, is not put forward for voting.
2. A member entitled to attend and vote at this Meeting is entitled to appoint a proxy/proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
4. Where the appointer is a corporation, this form must be executed under its common seal or under the hand of an officer or attorney duly authorised.
5. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at Suite 1603, 16th Floor, Wisma Lim Foo Yong, No. 86 Jalan Raja Chulan, 50200 Kuala Lumpur not less than forty-eight (48) hours before the time fixed for convening the Meeting or any adjournment thereof.

Please fold here to seal

Stamp

The Secretary
FRONTKEN CORPORATION BERHAD
(Company No. 651020-T)
Suite 1603, 16th Floor
Wisma Lim Foo Yong
86, Jalan Raja Chulan
50200 Kuala Lumpur

Please fold here to seal