

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



*Front Row (Left to Right):
Dr Tay Kiang Meng, Wong Hua Choon,
See Chuan Swee*

*Back Row (Left to Right):
Dato' Haji Johar Bin Murat @ Murad,
Ng Wai Pin, Dato' Ibrahim Bin Mahmud*

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 (AF 0834)
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
G-01, Ground Floor, Plaza Permata
Jalan Kampar, Off Jalan Tun Razak
50400 Kuala Lumpur
Tel : (603) 4047 3999
Fax : (603) 4042 6352

SPONSOR

HwangDBS Investment Bank 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 Damansara 1
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46350 Petaling Jaya
Selangor Darul Ehsan
Tel : (603) 7968 3312
Fax : (603) 7968 3316
Email : fcb@frontken.com

SINGAPORE OFFICE

156A Gul Circle,
Singapore 629614
Singapore
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

THE FRONTKEN GROUP

Frontken Corporation Berhad, listed on the MESDAQ Market of Bursa Malaysia Securities Berhad (Bursa SecuritiesTM), 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 a wide-reaching international network of representatives and agents – spanning from Brunei, Myanmar and Indonesia to Nigeria and Pakistan – to market the Group's specialized services worldwide.



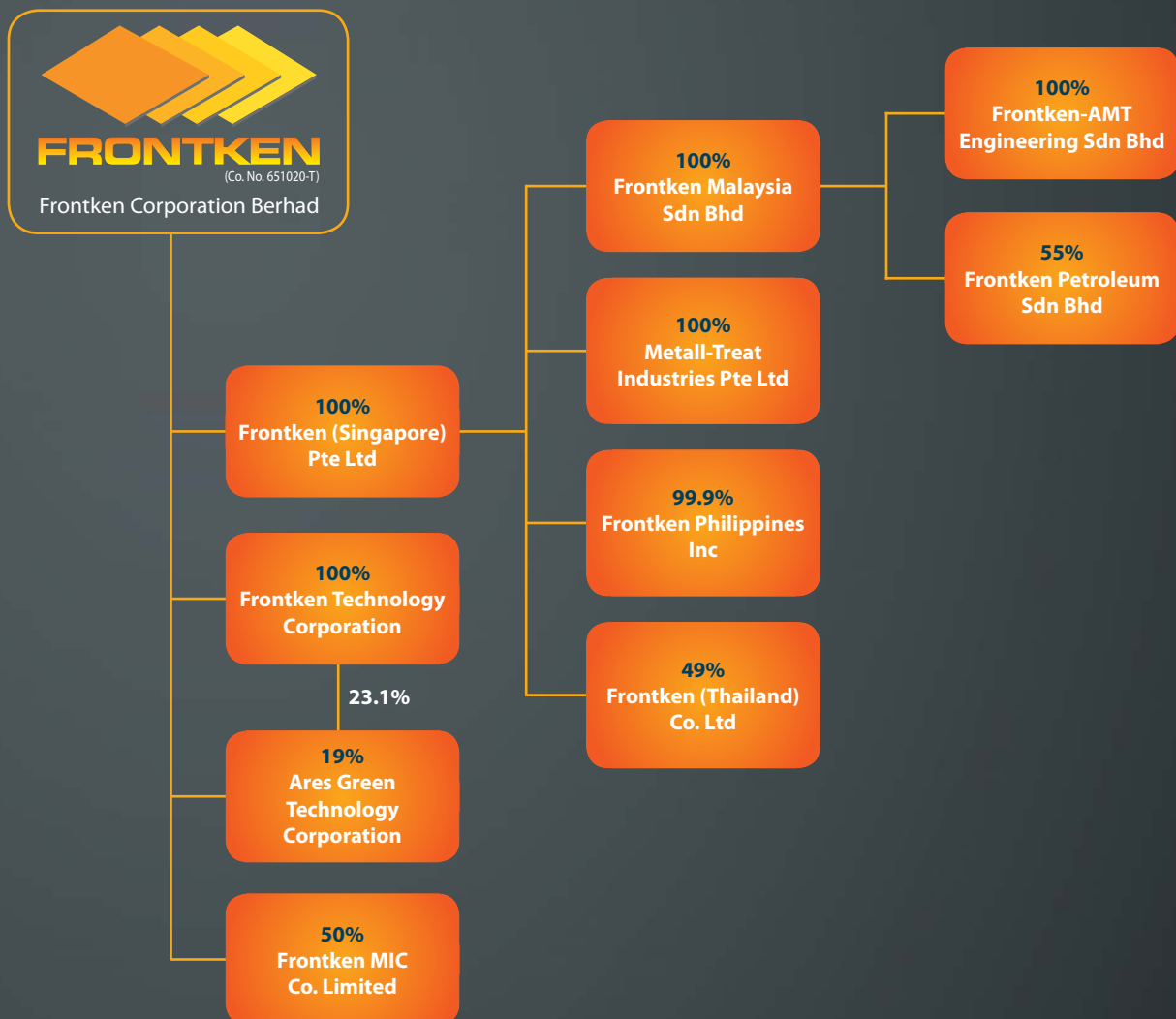
OUR VISION

“To be a continuing improving leader in performance **excellence** in advanced surface metamorphosis engineering and technology.”

OUR MISSION

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

CORPORATE STRUCTURE



FINANCIAL HIGHLIGHTS

Summarized Group Income Statement

Year Ended 31 Dec (RM'000)	Proforma				Audited
	2003	2004	2005	2006	2007
Revenue	28,506	48,892	63,863	90,239	105,352
EBITDA*	7,897	12,360	16,584	23,135	16,766
Operating Profit	5,213	8,201	11,024	19,118	19,406
Profit Before Tax	4,864	7,767	10,037	13,951	6,870
PAT	3,944	6,065	8,010	10,589	4,404
Net Profit	3,937	6,003	7,909	10,506	4,006

* EBITDA = Earnings Before Interest, Tax, Depreciation and Amortization

Summarized Group Balance Sheet

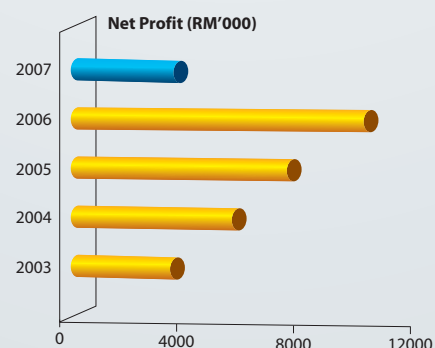
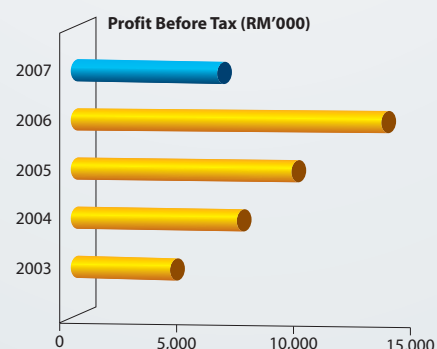
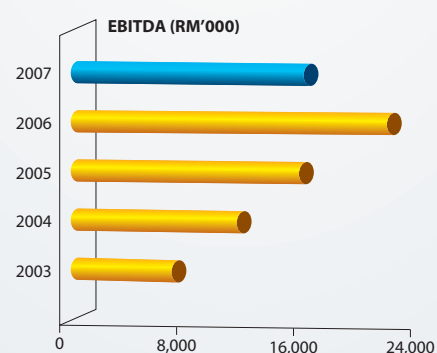
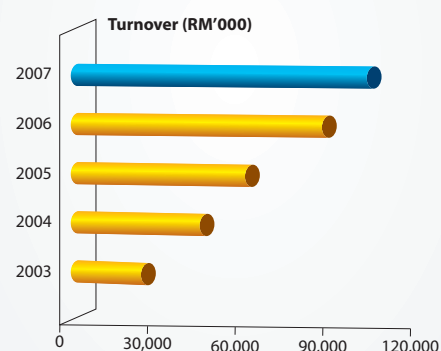
As at 31 Dec (RM'000)

	2006	2007
Non-Current Assets	81,653	148,577
Current Assets	57,703	59,992
Total Assets	<u>139,356</u>	<u>208,569</u>
Share Capital	47,500	49,474
Reserves	31,717	48,520
Shareholders' Equity	79,217	97,994
Minority Interests	1,160	1,670
Total Equity	<u>80,377</u>	<u>99,664</u>
Non-Current Liabilities	24,350	49,532
Current Liabilities	34,629	59,373
Total Liabilities	58,979	108,905
Total Equity and Liabilities	<u>139,356</u>	<u>208,569</u>

Summarized Group Cash Flows

Year Ended 31 Dec (RM'000)

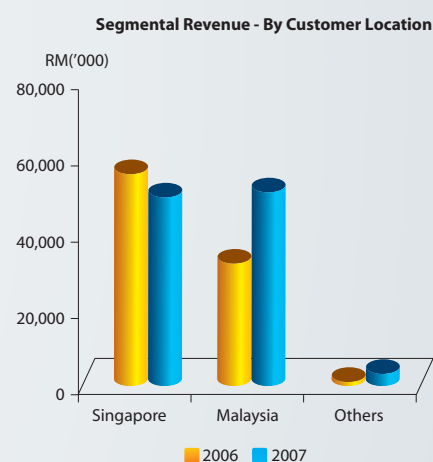
	2006	2007
Net Cash Flows From Operating Activities	17,314	16,717
Net Cash Flows Used In Investing Activities	(26,093)	(74,702)
Net Cash Flows From Financing Activities	26,321	54,331
Net Increase/(Decrease) in Cash and Cash Equivalents	17,542	(3,653)
Cash and Cash Equivalents at Beginning of Year	-	17,530
Effect of exchange differences	(12)	40
Cash and Cash Equivalents at End of Year	<u>17,530</u>	<u>13,917</u>



FINANCIAL HIGHLIGHTS (CONT'D)

Segmental Revenue - By Customer Location (RM'000)	Proforma				Audited
	2003	2004	2005	2006	2007
Singapore	22,830	31,802	39,328	56,084	49,966
Malaysia	5,644	14,128	22,740	33,167	52,010
Others	32	2,962	1,795	988	3,376
	28,506	48,892	63,863	90,239	105,352

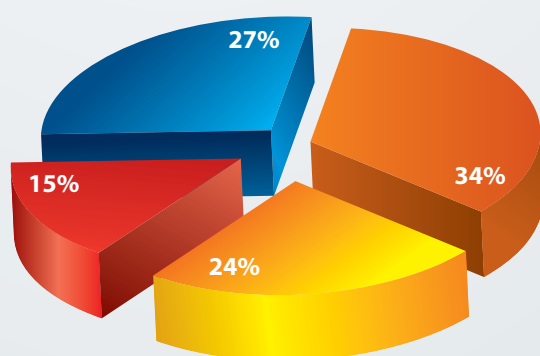
Segmental Revenue - By Industry (RM'000)	Proforma				Audited
	2003	2004	2005	2006	2007
Oil & Gas*	10,051	13,946	14,721	21,109	32,092
Power generation	2,658	8,038	15,388	13,455	20,104
Semiconductor	11,668	12,311	20,352	31,002	35,437
General**	4,129	14,597	13,402	24,674	17,719
	28,506	48,892	63,864	90,239	105,352



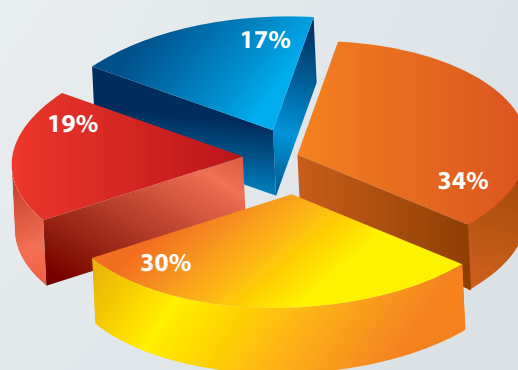
* Includes the upstream petrochemical sector

** Comprises aerospace, marine, steel, cement, wood processing, pulp & paper, printing, agriculture, industrial manufacturing, food, construction and other sectors

FY2006 Revenue: RM90.239 mil



FY2007 Revenue: RM105.352 mil



■ Semiconductor ■ Oil & Gas*
■ Power generation ■ General**

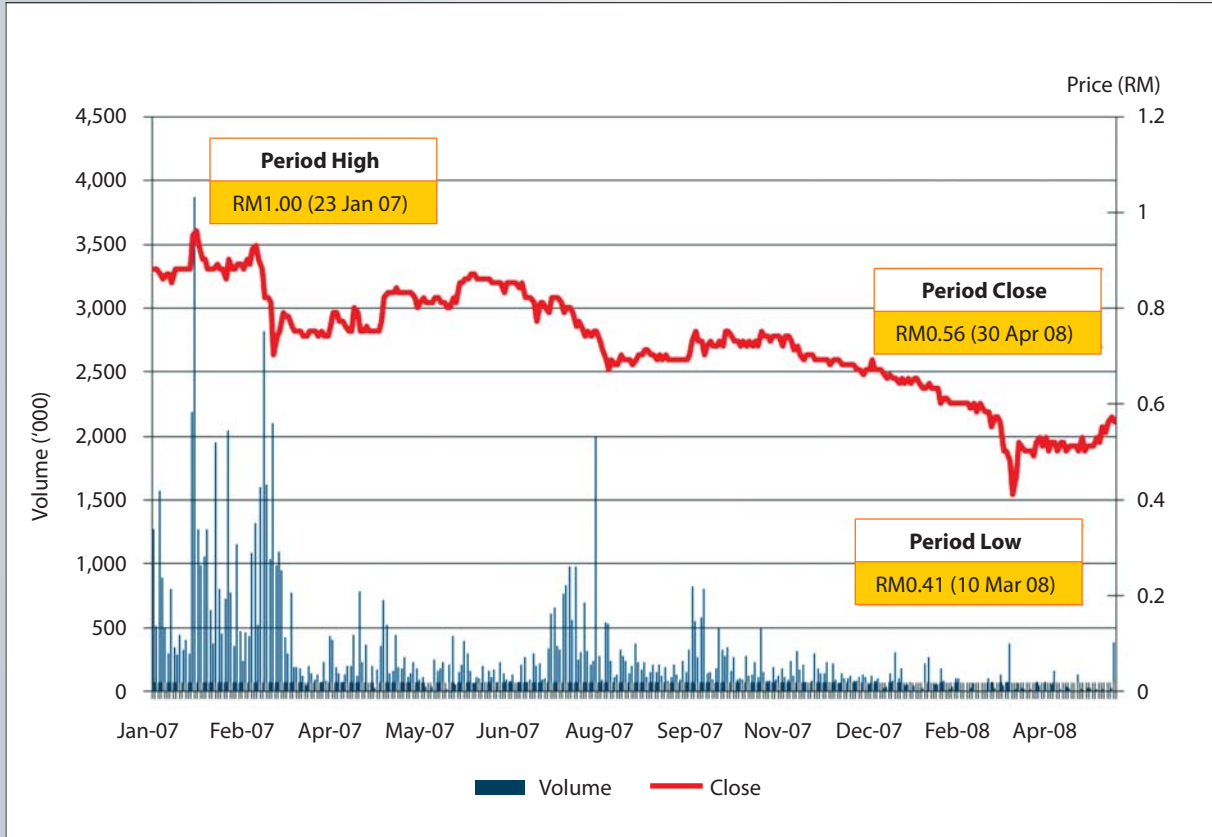
Financial Analysis (RM'000)

	2004	2005	2006	2007
Turnover Growth	71.5%	30.6%	41.3%	16.7%
Profit Before Tax Growth	59.7%	29.2%	39.0%	-50.8%
Net Profit Growth	52.5%	31.7%	32.8%	-61.9%
Operating Profit Margin	16.8%	17.3%	21.2%	18.4%
Pre-tax Profit Margin	15.9%	15.7%	15.5%	6.5%
Net Profit Margin	12.3%	12.4%	11.6%	3.8%
Gearing Ratio (Net of Cash)			0.1	0.6
Return on Average Shareholders' Equity			16.5%	4.5%
Return on Average Total Assets			9.1%	2.3%
Earnings Per Share (Sen)			3.2 [^]	0.8

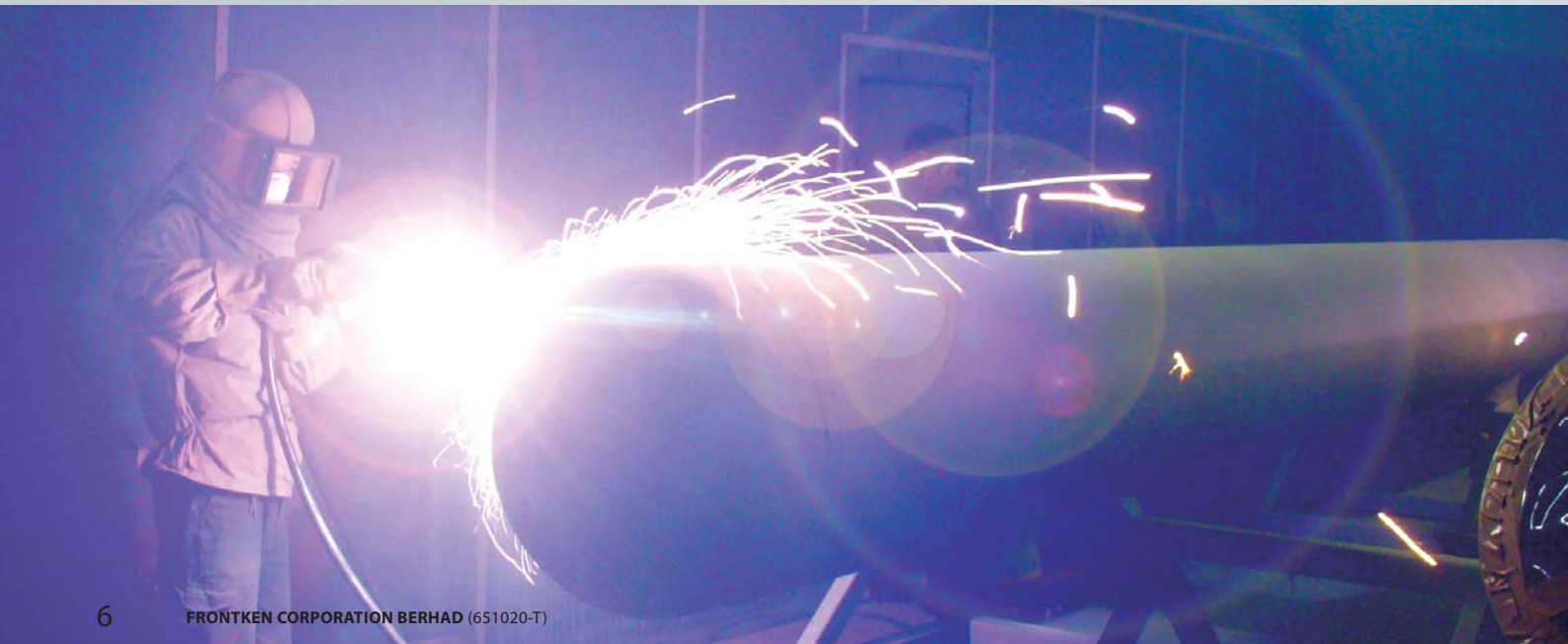
[^] Computed based on proforma earnings

SHARE PRICE PERFORMANCE

SHARE PRICE PERFORMANCE FOR THE PERIOD 1 JANUARY 2007 TO 30 APRIL 2008



Market Value Ratios (on 30 April 2008)	
Market Capitalization (RM'mil)	279.91
Historical PE Multiple	69.9x
Price/Book Ratio	2.94



A WORD FROM THE CHAIRMAN

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the 2007 Annual Report of Frontken Corporation Berhad (“Frontken” or “the Group”) for the financial year ended 31 December 2007 (“FY2007”).

BUSINESS ENVIRONMENT

The year 2007 witnessed the global economy facing a multitude of uncertainties, with indications of a possible recession in the world’s largest economy amidst the credit crunch faced by financial institutions. Accordingly, businesses across the region took on a more cautious outlook in anticipation of slower demand for exports, in addition to soaring prices of commodities.

Despite the weak business sentiment, Asia Pacific countries – the Group’s main market – continued to be a favoured destination for Foreign Direct Investments (“FDI”) in view of their tremendous growth opportunities and cost advantages. According to the latest Investment Brief by UNCTAD, the year under review saw FDI in the region surge to a high of US\$224.0 billion, an increase of 12.3% in comparison with 2006. More significantly while China, India and Singapore were the top three recipients of FDI, other regional economies such as Malaysia and Indonesia continued to draw increased interest from foreign investors in FY2007.

On the local scene, the Malaysian economy remained largely robust, with strong domestic consumption and investment activities largely cushioning the impact of the dampened external demand. Malaysia registered commendable Gross Domestic Product growth of 6.3% in 2007 – one of the highest growth rates in a decade.



WONG HUA CHOON
Executive Chairman / Managing Director

A WORD FROM THE CHAIRMAN (CONT'D)

(FY07) saw the Group
expanding our operations
 through **organic** means
 and via **merger** and
acquisition

FINANCIAL PERFORMANCE

Against this backdrop, the Group recorded a laudable 16.7% increase in revenue to RM105.4 million in FY2007, compared with proforma RM90.2 million previously. The higher revenue recorded was mainly due to higher demand for the Group's surface metamorphosis services in tandem with growing awareness, as well as from full-year contributions from the Group's wholly-owned subsidiary, Metall-Treat Industries Pte Ltd.

In spite of the commendable growth in revenue, the Group's financial performance in the year under review was adversely affected by two separate incidents of fire in our Singapore and Kulim plants, as well as flood in our Bukit Mertajam plant, which resulted in one-off losses amounting to RM11.2 million, arising from the write-off of stocks and fixed assets affected by fire incidents, compensation to customers for damaged inventories and parts, and post-fire maintenance costs. Fortunately, the Group's operations were not affected to a large extent, as we were able to take immediate remedial action to minimize disruption to operations by shifting our service requirements to other plants for support.

As at 31 December 2007, the Group had received a total of RM4.9 million from the insurance company as interim payment for the claims and another RM2.9 million in the first quarter of 2008. The Group expects to receive further payment pending the approval of insurance claims submitted in the current financial year.

The year under review also saw the Group expanding our operations through organic means and via merger and acquisition activities, as well as the in-tandem increase in our engineering team. These developments resulted in higher incurrence of professional fees and financing costs. Nevertheless, the Board is of the view that these activities and corporate developments do indeed propel the Group forward in claiming greater market share in our target markets and achieving higher growth in the long term.

With this, the Group's profit before tax in FY2007 stood at RM6.9 million, compared to proforma RM14.0 million in FY2006, while group net profits amounted to RM4.01 million, versus RM10.5 million in the previous financial year.

Correspondingly, earnings per share decreased to 0.8 sen for the financial year under review, from proforma 3.2 sen a year ago.

Shareholders' equity stood at RM98.0 million as at 31 December 2007, compared with RM79.2 million just a year before; while share capital increased to RM49.5 million from RM47.5 million as a result of the private placement exercise undertaken in July last year.

OPERATIONS REVIEW

In the domestic scene, contributions from the Group's local customers improved to 49.4% or RM52.0 million of FY2007 group revenue, compared to 36.8% or RM33.2 million in the preceding year. We believe that this improved performance indicates the Group's strengthened position in the local surface metamorphosis technology industry, in line with greater market awareness of the benefits of these technologies as well as the value-added enhancements of Group's end-to-end integrated service offerings.

On the foreign front, meanwhile, an incident of fire at the Group's plant located in Singapore in FY2007 had adverse short-term impact on our top line. Accordingly, the year under review saw the Group's Singapore-based customers contributed 47.4% or RM50.0 million to total revenue, representing a slight decline of 10.7% from RM56.0 million recorded in the previous year.

A WORD FROM THE CHAIRMAN (CONT'D)



In terms of industries, the semiconductor sector still remained the largest contributor to the Group's FY2007 total revenue. While the overall contribution decreased slightly to 33.6% compared to 34.4% previously, the semiconductor industry improved to RM35.4 million from RM31.0 million previously in absolute terms. Alongside the Group's target to mitigate risks inherent in any individual industry, the year under review saw Frontken's oil & gas and petrochemical ("oil and gas") sector charting fastest sector growth by contributing 30.5% or RM32.1 million to group revenue, compared with 23.4% previously.

At the same time, the power generation sector contributed 19.1% to FY2007 group revenue, compared to 14.9% contribution in FY2006. Parallel to these results, the sector grew 49.4% to RM20.1 million from RM13.46 million recorded in the previous year.

Amongst other developments in the foreign front in the year under review, FY2007 saw the Group acquiring a 42.1% stake in Taiwan-based Ares Green Technology Corporation in three tranches, comprising a total of 12,633,534 ordinary shares of NT\$10 each for an aggregate cash consideration of NT\$467.4 million (approximately RM49.7 million). Frontken also made further inroads into new geographical markets by entering into a Joint Venture Agreement with China-based Marketech International Corporation to jointly develop, market and implement surface metamorphosis engineering business in China. The Board believes that these strategies allow the Group to effectively tap into the semiconductor industry in Taiwan and China, as well as strategically lay the groundwork for future market expansion, particularly in the North Asian markets.

In addition, the Group through its subsidiary, Frontken Singapore Pte Ltd, signed a cross license agreement with a US-based thermal spray company, Cincinnati Thermal Spray ("CTS"), in the year under review, which allows the Group and CTS to leverage on each other's expertise of advanced technologies. We opine that this collaboration would not only benefit our end-users, but also speaks volumes of our tried-and-tested technologies in the industry.

RESEARCH AND DEVELOPMENT ("R&D")

True to our stance to continue innovating and developing new technologies, the year under review saw the Group invested approximately RM2.1 million on R&D projects. Among the Group's ongoing projects that are anticipated to be completed in the current year are:-

- Special surface treatment of aluminium materials used in ultra high vacuum chamber application in semiconductor related manufacturing and solar manufacturing;
- Development of an advanced technique and cost effective method to refurbish and recover a critical component for high vacuum processing; and
- New improved coating for corrosive advanced high plasma chamber in semiconductor manufacturing application.

Going forward in line with industry trends, the Group has identified several key research areas to further improve our service offerings. Among the initiatives the Group is currently focusing on include:-

- Development of an anti-fouling technology for the marine and subsea oil and gas industry;
- Special surface treatment method and unique thermal spray technique for corrosion protection in deep sea and sub-low temperature environment;
- Development of HACAS coating and Kolmoxide coating for critical parts used in the extreme wear conditions via abrasion and erosion/cavitation wear environment for the oil and gas industry oil and gas industry; and
- Development of plasma spray ACME re-coating, refurbishment and re-manufacturing of chamber linear to its original specification for the global semiconductor industry.

CORPORATE DEVELOPMENTS AND GROWTH PROSPECTS

Moving forward, the Group will undertake a three-pronged growth plan, comprising market expansion, strategic alliances and product development efforts to propel the Group's progress forward.

A WORD FROM THE CHAIRMAN (CONT'D)

Undertake a three-pronged
growth plan...

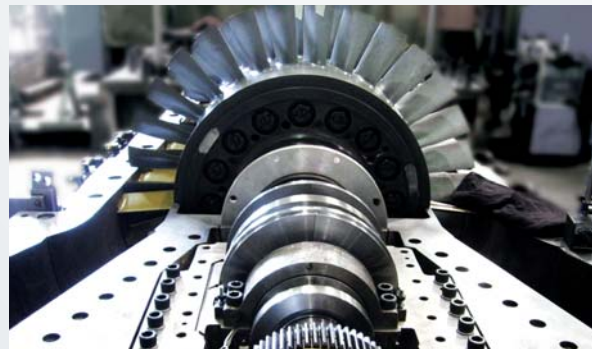
market expansion, strategic alliances and product development

MARKET EXPANSION

To begin with, the Group will focus on expanding our presence and representation in existing markets, as well as venturing into new markets and industry segments. One such initiative is the Group's recent agreement to establish a service plant in Johor's Iskandar Malaysia (formerly known as the Iskandar Development Region). We believe that the facility would allow the Group to broaden our customer base not only from the existing oil and gas clientele in Iskandar Malaysia, but also present the Group the opportunity to serve the needs of industries in the high-growth catchment area.

In addition, on 14 April 2008, Frontken acquired the remaining stake of its subsidiary, Frontken-AMT Engineering Sdn Bhd, to grow our customer base particularly in the oil & gas and petrochemical sectors. In tandem with the increased exploration and production activities in East Malaysia, this acquisition would enable the Group to ride on wave of opportunities, as well as be in strategic position to develop a higher-margin services mix. Further strengthening our position in the East Malaysia market, Frontken Petroleum Sdn Bhd has begun to commence operations in the Kota Kinabalu plant, targeting primarily the oil & gas and petrochemical industries in the region.

Moving on to our regional establishment, on 31 January 2008, the Group increased its stake in Frontken Thailand Co Ltd ("Frontken Thailand") from 39% to 49% via the subscription of 392,000 new ordinary shares of THB10 each at par, by way of capitalization of part of the amount owing by Frontken Thailand amounting to THB3.9 million (approximately RM0.4 million). The Group is also at the initial stages of exploring business opportunities overseas, namely in Abu Dhabi and Vietnam, as well as Batam Island and Jakarta in Indonesia, as part of our efforts to achieve greater recognition in the global surface metamorphosis technology industry. To this end, we have appointed an agent in Abu Dhabi for the Group's sales and marketing purposes.



STRATEGIC ALLIANCES

The Group will also establish strategic alliances with global and regional market leaders in order to boost our service offerings to offer greater value to our customers. One such example is the Group's establishment of a strategic alliance with French-based Balazs NanoAnalysis, a globally renowned analytical services company, to provide nano-level contamination control services for the advanced microelectronics and process industries in the South East Asian countries and Taiwan. Together, this alliance would help to support the Group's technological advancement and uplift our standard of service offerings in precision cleaning.

Not only that, the Group recently forged a business alliance with Carboline, a US-based coatings specialist, to jointly undertake joint customer servicing and development efforts, which will further enhance our reputation in the surface metamorphosis technology industry in the region. This collaboration in effect allows the Group to leverage on Carboline's customer base, as well as improve our overall product and service offerings to become more integrated and cost-effective for our customers. In addition, this union will also boost the technical competency of our workforce to a new level.

PRODUCT DEVELOPMENT

In addition to the aforementioned list of services that the Group intends to undertake in the current financial year, the Group will continue to explore – both in-house and in collaboration with partners – various new methods and procedures with a view to expand our scope of services to cater to the Group's portfolio of diverse industries and fuel our business growth.

A WORD FROM THE CHAIRMAN (CONT'D)



Other developments in our product line include undertaking integrated equipment engineering and strengthening current capabilities in Frontken On-site Specialised Services. To this end, the Group is also involved in new parts engineering for the aerospace industry as we endeavour to transform Frontken into an integrated technological solutions provider to stay ahead of global competition.

All said, the Group is confident of charting continuous growth in the coming years, and strengthening our position in the regional surface metamorphosis technology sector.

CORPORATE SOCIAL RESPONSIBILITY

We are cognizant of the need to be a corporately responsible citizen, and placed great emphasis in undertaking various initiatives to contribute to the wellbeing of the society.

CORPORATE GOVERNANCE

The Board is committed to the maintenance of the highest standards of Corporate Governance practices within the Group, in compliance with the Best Practices of the Malaysian Code of Corporate Governance. This lays the groundwork in the discharge of our responsibilities to maximize shareholders' value, while enhancing the business prosperity of the Group. The measures implemented are highlighted in the Corporate Governance Statement in the Annual Report.

ACKNOWLEDGEMENT

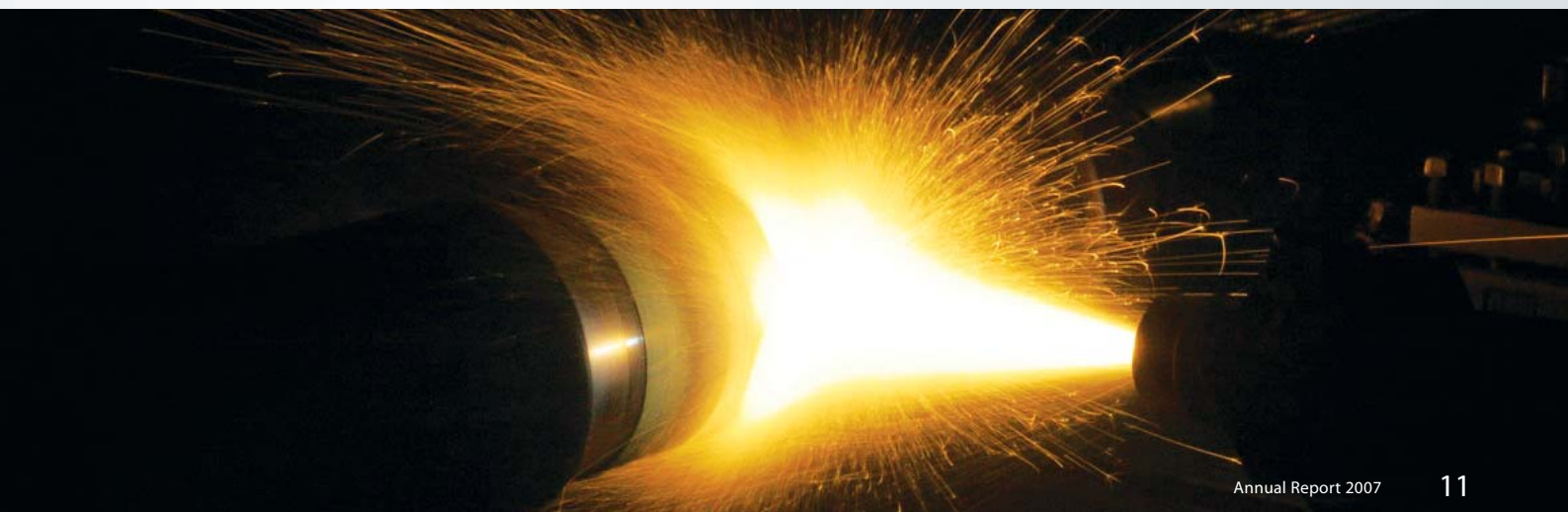
On behalf of the Board of Directors, I would like to acknowledge the management team and all the employees of Frontken for their stewardship and contribution to the Group. It is my desire to see that we continue on this journey together to achieve greater heights.

I would also like to take this opportunity to forward my utmost appreciation to the various government and regulatory authorities as well as the financial and investing community for their unwavering support and trust in the Group.

Finally, a word of gratitude also goes out to our valued shareholders, customers, and business associates for their continued support rendered to the Group.

WONG HUA CHOON

Executive Chairman / Managing Director
23 May 2008



CORPORATE MILESTONES

13~15 June 2007

Joint participation with Elliott Ebara at Asian Oil, Gas and Petrochemical Engineering Exhibition (OGA) 2007 in Kuala Lumpur, Asia's biggest oil and gas show



26 June 2007

The Company held its 3rd Annual General Meeting at Bukit Kiara, Kuala Lumpur



21 July 2007

Celebrate our 11th anniversary at the Group's Annual Dinner & Dance 2007.



Frontken, US firm in tech deal

By Zaidi Ikhram Ismail
biz@stp.com.my

ENGINEERING firm Frontken Corp Bhd has signed a cross-license technological agreement with US-based Cincinnati Thermal Spray (CTS), which allows both companies to utilize technologies developed by the other party for their respective customers.

In a statement yesterday, Frontken's chairman and managing director, Willie Wong said the agreement will give the company more expertise in the aerospace industry and adopt other industry-specific technologies.

"At the same time, CTS would benefit from our tried-and-tested technologies in our areas of expertise," said Wong.

CTS president Dan Clauson said CTS is recognized as a leading company in the thermal spray and surface modification industry in the US, which makes it a good fit with Frontken who has similar expertise in Asia.

This cross licensing agreement with Frontken will provide CTS with additional surface technologies and processes to facilitate future growth in new markets, and be another milestone in fulfilling our vision of becoming a world class supplier of surface enhancement services and cost-effective components," he added.

Frontken's customer base to date consists of key players in the semiconductor, oil and gas, power generation and petrochemical industries in Singapore, Malaysia and other countries such as Philippines, Indonesia, Thailand, Myanmar, Vietnam, Taiwan, Japan and Germany.

"In the long run, we aim to build our expertise in the various areas of growth such as the oil and gas, power generation and aerospace sectors as one way to enable Frontken to ride the waves of growth while at the same time establish greater presence in the individual industries," Wong said.

Established in 1996, Frontken's services help increase the efficiency and extend the lifespan of machinery and equipment, therefore improving the customer's cost effectiveness in machinery operation and maintenance.

The Group has three plants in Singapore, five facilities and two sales offices in Malaysia, one plant each in Thailand and Philippines, and an office in Taiwan.

CTS' mainline provides coating services to General Electric, GEI Aero Engine and CTS's sub-tier component suppliers.

Today, with four plants in the US, CTS supplies coating services to all major aero engine manufacturers, land based gas turbines, automotive, pump-and-valve, steel industries and has expanded into a range of additional major and niche markets.

24 September 2007

Frontken (Singapore) Pte Ltd signs Technology Cross License Agreement with Cincinnati Thermal Spray, Inc.

26 September 2007

Shareholders approve the proposed acquisition of Ares Green Technology Corporation at an Extraordinary General Meeting



27 November 2007

Frontken Corporation Berhad signs Joint Venture Agreement with Marktech International Corporation to jointly develop surface metamorphosis engineering business in China.

Frontken makes headway into China

by Basil Foo
biz@stp.com

KUALA LUMPUR: Frontken Corporation Bhd is partnering Taiwanese Marktech International Corporation to provide semiconductor equipment and precision cleaning services in China.

Under the agreement signed yesterday, Frontken and Marktech would set up a joint venture company - Frontken MIC (Wuxi) Co. Ltd (FMC) - in China. Frontken would subscribe for 200,001 new US\$1 (RM3.38) shares in FMC, at the factory in Wuxi would be the springboard to make headway into new markets in China.

"This JV is in line with our new strategy to venture overseas with a partner who has already established a presence there, thereby mitigating our business risks and capturing market share through stronger collaboration," said Frontken chairman and managing director Willie Wong said yesterday.

He said the JV would enable it to expand its sales coverage while the factory in Wuxi would be the springboard to make headway into new markets in China.

FMC would operate from a 10,000 sq ft plant in Wuxi which would start operating in the first half of 2008. FMC would provide semiconductor equipment and process its maintenance, precision cleaning and rebuilding services.

Wong said Wuxi had the largest production base for computer hardware in China and is also home for multinational hi-tech companies involved in precision machinery, chemicals and bio-pharmaceutical sectors.

He added the JV with Marktech would enable Frontken to speed up the growth in its traditional stronghold of semiconductor but also venture into growing industries including petrochemical and the oil and gas sector.

Wong added Marktech was a market leader in providing infrastructure and services to the semiconductor-related industry.

CORPORATE MILESTONES (CONT'D)

27 November 2007

Metall-Treat Industries Pte Ltd (MTI) was accredited with **ISO 9001:2000** and **EN/JISQ/AS9100:2004** for special processes



19 December 2007

Frontken Malaysia Sdn Bhd upgraded to **ISO14001:2004** Environment Management System



14 December 2007

Frontken Engineer Management Get Together to build rapport among management staff and inculcate a deep sense of belonging towards the Group.



5 March 2008

MTI relocated to bigger and modernise plant facilities in Gul Avenue, Singapore, to prepare for capacity expansion.



26~28 March 2008

Participated in **Asia Pacific Maritime 2008** in Singapore, a gateway to the maritime industry in Asia, to showcase Frontken's achievement and growing leadership in the global maritime industry.



4 April 2008

Signing of MOU with Iskandar Regional Development Authority to commemorate Frontken's entry into the IDR in Johor.



8 April 2008

Frontken (Singapore) Pte Ltd became an Approved Vendor of Singapore Aerospace Manufacturing (SAM), a market leader in the design and manufacture of technology based aerospace components, which key customers include Boeing, EADS, GE Aircraft Engines, GKN Aerospace Services, Goodrich, Honeywell Aerospace, MAN Technologies, Pratt & Whitney, Rolls-Royce, Snecma Moteurs and other renowned aerospace OEMs.



Frontken to assume full control of Kuching plant

PETALING JAYA: Frontken Corporation Bhd, a specialist in surface metamorphosis technology, has proposed to acquire the remaining 41.86% stake in Frontken-AMT Engineering Sdn Bhd (FAMT) it does not already own for RM2.55 million. Frontken said pursuant to the proposal, its Kuching plant, under FAMT would focus its efforts on growing its customer base particularly in the oil and gas sector.

The vendors are AMT Engineering Sdn Bhd, Sim Geak Huiat and Sam Grak Seng. "Our Kuching plant, set up in 2003, had built up a customer base comprising mainly the general industries, such as plywood, steel and manufacturing industries in East Malaysia. "In recent years, we have seen an increasing shift towards more oil & gas as well as petrochemical industries, in tandem with the

increase in exploration and production activities in these sectors," a statement yesterday. He said the strategy of targeting more customers in the oil and gas sector would help to improve its services mix to include more higher-margin projects. The Kuching plant posted 56% compounded annual growth from 2004 to 2007.

FAMT contributed 7% to group revenues in FY2007. "The capacity utilisation rate of this Kuching facility averages about 70% currently. Our long-term plan is to empower FAMT to play a bigger role in supporting Frontken's regional operations," said Wong. "This way, we are hopeful of raising FAMT's contribution to group revenue to at least 10% in the near future," he added.

11 April 2008

Frontken-AMT Engineering Sdn Bhd became a wholly-owned subsidiary of the Company.

DIRECTORS' PROFILE



Wong Hua Choon
Malaysian, aged 44

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 FCB and its subsidiaries ("FCB Group" or "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 18 years of experience in the business of surface technology, including setting up of research and development ("R&D") and engineering application in thermal coating processes.

Prior to starting Frontken (Singapore) Pte Ltd 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 within the past ten years. He has no conflict of interest other than those disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.



Dr Tay Kiang Meng
Singaporean, aged 43

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, formalizing 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 300 mm copper technologies 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 within the past ten years. He has no conflict of interest other than those disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.

DIRECTORS' PROFILE (CONT'D)



See Chuan Swee
Malaysian, aged 43

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 non-practising 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 accounting, 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 within the past ten years. He has no conflict of interest other than those disclosed under Additional Disclosure (Recurrent Related Party Transactions) which appears on page 25 in this Annual Report.



Dato' Ibrahim Bin Mahmud
Malaysian, aged 65

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 within the past ten years. He has no conflict of interest with the Company.

DIRECTORS' PROFILE (CONT'D)



Dato' Haji Johar Bin Murat @ Murad
Malaysian, aged 61

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 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. Currently, 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 within the past ten years. He has no conflict of interest with the Company.



Ng Wai Pin
Malaysian, aged 43

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 Malaysia Securities Berhad with regional operations, before returning to private practice in law. Currently, 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 within the past ten years. He has no conflict of interest with the Company.

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of FCB recognises the importance of maintaining good corporate governance as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value. The Board has therefore taken steps, as far as practical, towards compliance with the principles and best practices as set out in the Malaysian Code on Corporate Governance ("Code").

The following statement sets out how the Group has applied the Principles of Corporate Governance and the extent of compliance with the best practices. The Company has complied with the Best Practices in Corporate Governance as set out in Part 2 of the Code save for the appointment of a Senior Independent Non-Executive Director, composition of the Audit Committee and Nomination Committee, and details of remuneration for each director.

(A) BOARD OF DIRECTORS

Board Responsibilities

The Group is led and directed by an effective Board consisting of competent individuals with appropriate specialized skills and knowledge to ensure capable management of the Group. The Board is primarily entrusted with the responsibility of charting the direction of the Group and has taken steps to adopt the following specific responsibilities listed by the Code which facilitates the discharge of the Board's stewardship responsibilities.

- Review and adopt strategic plans for the FCB Group;
- Oversee the conduct of the Group's business operations and performance;
- Identify and effectively manage the principal risks affecting the Group;
- Implement succession planning for business continuity;
- Review the adequacy and the integrity of the Group's internal control systems;
- Maintain effective communication with stakeholders and the general public.

Board Balance

The Board currently has six (6) members, comprising three (3) executive members and three (3) non-executive members. The Independent Non-Executive Directors constitute one-third of the membership of the Board. A brief profile of each Director is presented on pages 14 to 16 of this Annual Report.

The Board does not consider it necessary to nominate a senior independent non-executive director to whom concerns may be conveyed as the Chairman of the Board encourages active participation of each and every Board member in the decision making process. Queries and concerns regarding the Company may be conveyed by shareholders or investors via fax no. 03 – 7968 3316 or by mail to the Company's head office. Such queries will be reviewed and addressed by the Board accordingly.

Although the Executive Chairman is also the Managing Director, the Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers of decision. Furthermore, there are sufficient independent directors on the Board who are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

The Board is satisfied that the current Board composition fairly reflects the interests of minority shareholders in the Company.

Board Meetings and Supply of Information

The Board plans at least four (4) scheduled meetings annually, with additional meetings to be held, as and when necessary. All proceedings of the Board Meetings are minuted which are then circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

Directors receive a set of Board papers prior to each Board meeting. This is to enable the Directors to study matters to be discussed and obtain further explanations, where necessary, before the meeting. All Directors have full access to all information within the Group or to obtain independent advice at the Company's expense, whether as a full Board or in their individual capacity, in furtherance of their duties. The Directors also have access to the advice and services of the Company Secretaries who are responsible for ensuring that all Board procedures are followed and that applicable laws and regulations are complied with.

STATEMENT OF CORPORATE GOVERNANCE (CONT'D)

(A) BOARD OF DIRECTORS (CONT'D)

For the financial year ended 31 December 2007, four (4) Board Meetings were held and the summary of attendance of each Director at the Board Meetings held during the financial year under review is as follows:

Directors	Number of Board Meetings	
	Held	Attended
Wong Hua Choon	4	4
Dr Tay Kiang Meng	4	4
See Chuan Swee	4	4
Dato' Ibrahim Bin Mahmud	4	4
Dato' Haji Johar Bin Murat @ Murad	4	4
Ng Wai Pin	4	4

Directors' Training

All Directors have attended and completed the Mandatory Accreditation Programme (MAP) in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market.

During the year, the Directors were updated on the Companies Act, 1965, the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market, the Capital Markets & Services Act 2007 and the revised Code. Courses attended by one of the Directors during the year include Strategies to Grow Markets in Asia, Accounting for Decision Making & Control, and Corporate Finance for Strategic Decision Making.

The Directors are encouraged to 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.

Appointment to the Board

The Board has delegated certain responsibilities to several board committees which operate within clearly defined terms of reference.

The Nomination Committee (NC), consisting mainly of Non-Executive Directors, comprises the following members:

Ng Wai Pin, *Chairman*
 Dato' Haji Johar Bin Murat @ Murad, *Member*
 Dr Tay Kiang Meng, *Member*

The NC is responsible for reviewing the proposed candidate based on the selection criteria expected of a Director and makes recommendation to the Board if the proposed candidate is found to be suitable. The decision on new appointment of Directors rests with the Board after considering the recommendation of the NC. The NC also assesses the effectiveness of the Board as a whole and the contribution of each individual Director on an ongoing basis.

The Board is of the view that the current mix of skills and competency of its members are sufficient for the discharge of its responsibilities in an effective manner. However, the Board shall, with the assistance of the NC, look into the required mix of skills from time to time in order to identify candidates with the requisite qualification and experience who will complement the Board and be of contribution to the Group.

Although the Code requires a nominating committee to comprise fully of non-executive directors, the Board is of the view that the ability of the NC of the Company to effectively discharge its responsibility will not be impaired by an executive director serving as a member of the NC, since the Chairman of the NC leads the process of Board appointments and all appointments are also subject to the review and approval of the full Board.

Re-election

The Company's Articles of Association provide that all Directors who are appointed by the Board shall retire from office and be subject to re-election by shareholders at the Annual General Meeting after their appointment. Furthermore, at least one-third (1/3) of the Board are subject to retirement and re-election by rotation at least once in every three (3) years.

STATEMENT OF CORPORATE GOVERNANCE (CONT'D)

(A) BOARD OF DIRECTORS (CONT'D)

Directors' Remuneration

The Remuneration Committee (RC), consisting mainly of Non-Executive Directors, comprises the following members:

Ng Wai Pin, *Chairman*

Dato' Haji Johar Bin Murat @ Murad, *Member*

Wong Hua Choon, *Member*

The RC is responsible for recommending to the Board the remuneration of the Executive Directors. The Company has adopted the objective as recommended by the Code to determine the remuneration of the Directors so as to ensure that the Company attracts and retains Directors of the quality needed to manage the business of the Group effectively.

The remuneration packages of all Directors are devised to attract, retain and motivate them, and is reflective of the individual Director's experience and responsibilities. The remuneration for Executive Directors is structured to link rewards to performance and responsibility level. The remuneration of Non-Executive Directors is determined by the Board as a whole. None of the Directors participates in any way in determining their individual remuneration packages.

The RC met once during the financial year under review to deliberate on key remuneration matters.

The aggregate remuneration of the Directors for the financial year ended 31 December 2007 is as follows:

	Executive Directors	Non-Executive Directors
	RM	RM
Salaries	1,490,565	27,240
Fees	-	144,000
Bonuses	134,435	3,000
	<u>1,625,000</u>	<u>174,240</u>

The number of Directors whose remuneration falls within the respective bands is as follows:

	Number of	
	Executive Directors	Non-Executive Directors
Below RM50,000	-	2
RM100,001 to RM150,000	-	1
RM300,001 to RM350,000	1	-
RM450,001 to RM500,000	1	-
RM800,001 to RM850,000	1	-
	<u>3</u>	<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.

STATEMENT OF CORPORATE GOVERNANCE (CONT'D)

(B) ACCOUNTABILITY AND AUDIT

Audit Committee

The composition of the Audit Committee (AC), consisting mainly of Non-Executive Directors, is set out on page 21 of this Annual Report.

In line with the Code as revised in 2007, which requires the AC to comprise fully of non-executive directors, the Board shall comply with this provision for the financial year beginning 1 January 2009.

Further information on the Audit Committee is set out in the Audit Committee Report on pages 21 to 22 of this Annual Report.

Financial Reporting

The Board endeavours to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects to shareholders, primarily through the annual reports, quarterly announcements of the Group's results and other price-sensitive public reports. The Board is assisted by the Audit Committee in overseeing the Group's financial reporting processes and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards, as well as the reasonableness and prudence in making estimates, statements and explanations.

Internal Control

The Board has overall responsibility of maintaining a system of internal controls, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations as well as with internal policies and procedures.

The Board recognises that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimising and managing them and to provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Statement on Internal Control of the Group is set out on pages 23 of this Annual Report. The Statement provides an overview of the Group's approach in maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

Relationship with Auditors

The Board on its own and through the Audit Committee maintains a formal and transparent professional relationship with the Group's auditors. The roles of the Audit Committee in relation to the auditors are described in the Audit Committee Report set out on pages 21 to 22 of this Annual Report.

Directors' Responsibilities in Respect of Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements which give a true and fair view of the state of affairs of the Group and of the Company as at the end of each financial year and of the results and cash flows of the Group and of the Company for the financial year then ended. The Directors ensure that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgments and estimates have been made, in the preparation of the financial statements. The Directors also ensure that applicable approved accounting standards have been followed. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy the financial position of the Group and of the Company and to enable them to ensure that the financial statements comply with the Companies Act, 1965.

(C) SHAREHOLDERS

The Group communicates with its shareholders and investors primarily through timely release of financial results on a quarterly basis, press releases and announcements which gives the shareholders an overview of the Group's performance and operation. The Company's Annual General Meeting is the principal forum for dialogue with shareholders who are encouraged to enquire about the Group's activities and prospects. The Group maintains regular dialogues with financial analysts and fund managers as a means of maintaining and improving investors relation.

Shareholders and members of the public can obtain information on the Company through the Company's website at www.frontken.com or Bursa Malaysia Securities Berhad's website at www.bursamalaysia.com.

AUDIT COMMITTEE REPORT

(A) COMPOSITION

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

(B) TERMS OF REFERENCE

Functions and Duties

The functions and duties 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, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - (d) the internal audit programme and the results of the internal audit processes, and where necessary, ensure that appropriate actions are taken on the recommendations of the internal auditors;
 - (e) any appraisal or assessment of the performance of members of the internal audit function and approve any appointment or termination of internal auditors;
 - (f) the effectiveness of the internal control and management information systems;
 - (g) the financial statements of the Company with both the external auditors and management;
 - (h) the external auditors' audit report;
 - (i) any management letter sent by the external auditors to the Company and the management's response to such letter;
 - (j) any letter of resignation from the Company's external auditors;
 - (k) the quarterly and year end financial statements of the Group;
 - (l) the assistance given by the employees of the Company to the external auditors;
 - (m) all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels; and
 - (n) 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 Malaysia Securities Berhad 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 Malaysia Securities Berhad for the MESDAQ Market.

AUDIT COMMITTEE REPORT (CONT'D)**(B) TERMS OF REFERENCE (CONT'D)****Authority**

The Audit Committee shall have the authority to:-

- (a) 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) 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) convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary.

(C) SUMMARY OF THE ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year under review, the Audit Committee had four (4) meetings, which were attended by all its members.

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

- (a) Reviewed quarterly and year-end financial statements prior to recommending the same for the Board's approval, focusing particularly on significant and unusual events and compliance with accounting standards and other legal requirements.
- (b) Reviewed the external auditors' Audit Planning Memorandum comprising their scope of audit, key audit areas, audit approach and timetable.
- (c) Reviewed the external auditors' report and recommendations regarding opportunities for improvement to internal controls based on observations made in the course of the audit.
- (d) 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 comply with the Listing Requirements of Bursa Malaysia Securities Berhad for the MESDAQ Market.
- (e) Evaluated the performance of the external auditors' function based on timeliness, competency and adequacy of resources to achieve the agreed scope of audit before recommending the re-appointment of external auditors to the Board.

(D) INTERNAL AUDIT FUNCTION

The Company has outsourced its internal audit function to an independent internal audit service provider. The principal role of the internal audit is to undertake such systematic reviews of the internal control systems within the Group so as to provide reasonable assurance that such systems are adequate and functioning as intended. Its responsibilities include provision of independent and objective reports on the state of internal control of the various operating units within the Group to the Audit Committee so that remedial actions can be taken in relation to weaknesses noted in the systems and controls of the respective operating units.

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 recognises 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 Group has an established organisational structure with clearly defined lines of responsibilities and appropriate levels of delegation and authority. It maintains a clear definition of authorisation procedures and segregation of duties for major operational functions such as purchasing, payment and capital expenditures and investments. These procedures are subject to review and improvements to reflect the changing risks or resolve operational deficiencies. A process of hierarchical reporting is established which provides a documented and auditable trail of accountability.

The Group conducts regular management meetings to monitor business developments, discuss and resolve operational and management issues, and to review financial performance against business plans. During these meetings, the Group's business objectives, strengths, weaknesses, opportunities, threats and key business risks are identified and action plans are formulated thereon. The Executive Directors undertake regular 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.

The Group has documented policies and procedures that are regularly reviewed and updated to ensure that it maintains its effectiveness and continues to support the Group's business activities at all times as the Group continues to grow. Comprehensive guidelines on the employment and retention of employees are in place, to ensure that the Group has a team of employees who are well trained and equipped with all the necessary knowledge, skills and abilities to carry out their responsibility effectively.

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 key risks relating to the Group's operations and strategic and business plans are addressed at management's periodic meetings.

Internal Controls

The internal controls are primarily geared towards the prevention of asset loss, but also cover other major functional aspects of the Group's business operations. These functions include cost control, asset security and occupational safety procedures, human capital management, productivity benchmarks, product quality assurance and compliance with regulatory standards, among other matters. The procedures are also subject to review as processes change or when new business requirements need to be met.

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

Conclusion

The Board is of the view that the internal control of the Group is adequate to safeguard its assets and that there were no significant weaknesses in the Group's system of internal controls that may have a material impact on its operations for the financial year ended 31 December 2007. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the system of internal controls.

ADDITIONAL DISCLOSURE

1. Share Buyback

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

2. Options, Warrants or Convertible Securities

The Company has not issued any options, warrants or convertible securities.

3. Depository Receipts ("DR")

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

4. 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.

5. Non-Audit Fees

During the year, the non-audit fees paid to our external auditors, or a firm or company affiliated to the external auditors for the financial year ended 31 December 2007 amounted to RM173,203.

6. Variation in Results

On 30 April 2008, the Company announced a deviation between the unaudited consolidated profit after tax as stated in the fourth quarterly report for the twelve (12) months ended 31 December 2007 and the audited consolidated profit after tax for the year ended 31 December 2007 as follows:-

	Unaudited RM'000	Audited RM'000	Variance RM'000	%
Consolidated profit before tax	6,866	6,869	3	~
Taxation	(2,857)	(2,466)	*391	13.7
Consolidated profit after tax	4,009	4,403	394	9.8
Minority interests ("MI")	(397)	(397)	-	-
Consolidated profit after tax and MI	3,612	4,006	394	10.9

Notes:

~ negligible

* Due mainly to overprovision of deferred tax amounting to approximately RM386,000

Save as disclosed above, there were no variances of 10% or more from any profit estimate/forecast/projection/unaudited results previously announced.

7. Profit Guarantee

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

8. 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.

9. 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 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.

ADDITIONAL DISCLOSURE (CONT'D)

10. Corporate Social Responsibility

The Group acknowledges the importance of Corporate Social Responsibility (CSR) in our business practices. Our CSR framework focuses on community, workplace and environment.

We undertake various initiatives in contributing to the community, including monetary donation to charity home for the old folks and underprivileged children to improve the well-being of people, and encouraging our staff to take part in volunteer social work. We also support education by providing job opportunities to students from various polytechnics and institutes of technical education who wish to undergo industrial/practical training. Besides hands-on technical exposure, trainees are also provided management development training during the attachment period.

Investment in employee development and training is key to the success of the Group. We aim to create a culture of lifelong learning, driven by a training and development programme to support continual self-improvement and help our people achieve their potential. We promote equal opportunity in employment and aim to ensure that no discrimination in any form is practised within our business.

We aim to ensure that in the course of our business activities, we prioritise the health, safety and welfare of all our employees. We take measures to protect the well-being of our workforce by developing guidelines to safeguard employees in all of our business operations, and improving the awareness and training of our employees in health and safety best practices. We aspire to achieve the highest internationally recognized standards including Occupational Health and Safety Assessment Series 18001 throughout the Group.

In line with the increasing global awareness for environmental protection, we require all our businesses to operate in an environmentally responsible manner. Our approach is to ensure strict adherence to environmental legislation governing treatment of plant effluents and waste water, and maintain strict control to minimise the adverse impact on the environment. Our facilities are accorded ISO 14001:2004 certification. We encourage all our operating subsidiaries to adopt an environmental management system to manage their environmental performance.

11. Recurrent Related Party Transactions ("RRPT")

Details of the RRPT during the financial year ended 31 December 2007 are as follows:

Companies within the Group	Transacting parties	Interested parties/relationship	Nature of transactions	RM'000
Frontken-AMT Engineering Sdn Bhd ("FAE")	A&I Engine Rebuilders Sdn Bhd ("A&I")	Sia Chiok Meng, a director of FAE, is also a director and major shareholder of A&I	Sales to and purchases from A&I	3
FAE	AMT Engineering Sdn Bhd ("AMT")	Sia Chiok Meng, a director of FAE, is also a director and major shareholder of AMT	Sales to and purchases from AMT	105
Frontken (Singapore) Pte Ltd and Frontken Malaysia Sdn Bhd	Chinyee Engineering & Machinery Pte Ltd ("Chinyee")	Wong Hua Choon, a director and major shareholder of FCB, and Yeo Lay Poh, a substantial shareholder of FCB, are also directors and major shareholders of Chinyee. Dr Tay Kiang Meng, a director of FCB, is also a director and shareholder of Chinyee	Sales to and purchases from Chinyee	2,364

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.

ADDITIONAL DISCLOSURE (CONT'D)

12. Utilisation of Proceeds

The Company raised approximately RM31.4 million from its initial public offerings (IPO) and approximately RM17.5 million from the private placement. As at 30 April 2008, the status of utilisation of proceeds from the above exercises are as follows:

IPO Proceeds

Purpose	Proposed/ Approved Utilisation	Actual Utilisation	Intended Timeframe for Utilisation	Deviation	
	RM'000	RM'000		RM'000	%
Construction of plant	6,600	6,600		-	-
Purchase of machinery and equipment	9,757	9,567	By 10 July 2008	190	1.9
R&D expenditure	2,300	1,947	By 10 July 2008	353	15.3
Repayment of bank borrowings	3,000	3,000		-	-
Working capital	8,082	8,082		-	-
Estimated share issue and listing expenses	1,700	1,700		-	-
	<u>31,439</u>	<u>30,896</u>		<u>543</u>	<u>1.7</u>

Private Placement Proceeds

Purpose	Proposed Utilisation	Actual Utilisation	Intended Timeframe for Utilisation	Deviation	
	RM'000	RM'000		RM'000	%
Viable future Investments	26,000	14,859	Note (a)	11,141	42.9
Working capital	5,075	-	Note (a)	5,075	-
Estimated share issue and related expenses	750	140	Note (a)	610	81.3
	<u>^(b) 31,825</u>	<u>14,999</u>		<u>16,826</u>	<u>52.9</u>

Notes:

(a) Within 18 months from the date of listing of the final tranche of placement shares.

(b) Computed based on 47,500,000 placement shares and an indicative issue price of RM0.67 per share representing a discount of approximately 9.5% to the 5-day weighted average market price up to 30 March 2007 of RM0.74, being a market day prior to the announcement of the private placement. As at 30 April 2008, FCB has placed out a total of 24,836,000 placement shares, at issue prices of RM0.50 and RM0.76 per share, raising aggregate gross proceeds of RM17,549,360.



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2007

DIRECTORS' REPORT

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, 2007.

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 13 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 January 4, 2007, the Group, via its indirect wholly-owned subsidiary, Frontken Malaysia Sdn. Bhd. ("FM"), incorporated a new subsidiary, Frontken Petroleum Sdn. Bhd. ("FP"), in Malaysia with an authorised share capital of RM100,000, comprising 100,000 ordinary share of RM1.00 each ("FP Shares") and an issued and paid-up share capital of RM2, comprising 2 FP Shares. On March 21, 2007, the authorised share capital of FP was increased from RM100,000 to RM500,000 by the creation of 400,000 new FP shares and the issued and paid-up share capital of FP was increased from RM2 to RM250,000 by the issuance of 249,998 new FP shares, of which 137,498 new FP shares was subscribed by FM. Consequently, FP became a 55% subsidiary of FM. The principal activity of FP is provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering services.
- (ii) On March 8, 2007, an incident of fire occurred at the Group's plant located at Kulim, Kedah. On August 23, 2007, another incident of fire occurred at the Group's facility located in Singapore. Also, on July 23, 2007 and September 7, 2007, the Group's plant located at Bukit Mertajam experienced two flood incidents.

The above incidents resulted in the following losses:

	Fire incidents 2007 RM	The Group Flood incidents 2007 RM	Total 2007 RM
Property, plant and equipment written off	7,640,615	-	7,640,615
Compensation to customers for goods damaged	912,248	-	912,248
Inventories written off	43,240	56,723	99,963
Incremental operating costs resulting from the incidents	2,127,717	446,956	2,574,673
Total	10,723,820	503,679	11,227,499

Final insurance claims submitted have not been approved by the insurance companies. However, as of December 31, 2007, interim insurance compensations received and recognised as other income during the financial year are as follows:

	The Group RM
Interim insurance compensation received for fire incident in Kulim	1,000,000
Interim insurance compensation received for fire incident in Singapore	3,594,282
Interim insurance compensation received for flood incidents in Kulim	348,762
	4,943,044

- (iii) On March 14, 2007, the Company incorporated a new wholly-owned subsidiary, Frontken Technology Corporation ("FTC"), in Taiwan. The authorised and issued and paid-up capital of FTC is NT\$1,000,000 (equivalent to RM104,480 based on the exchange rate of NT\$9.5712 : RM1.00) comprising 100,000 ordinary shares of NT\$10 each. The principal activity of FTC is to undertake the business of surface metamorphosis services and investment in Taiwan.

DIRECTORS' REPORT (CONT'D)

SIGNIFICANT CORPORATE EVENTS (CONT'D)

- (iv) On March 19, 2007, June 14, 2007 and September 28, 2007, the Group completed the acquisition of 5,700,000, 4,008,000 and 2,925,534 ordinary shares of NT\$10 each in Ares Green Technology Corporation ("Ares Green"), respectively, representing 19%, 13.36% and 9.75% of the issued and paid-up share capital of Ares Green, respectively. The total purchase consideration amounted to NT\$467,440,758 (equivalent to RM47,632,213). Consequent to the said acquisition, Ares Green became a 42.11% associate of the Group.
- (v) On April 2, 2007, the Company proposed to issue 47,500,000 new ordinary shares of RM0.10 each ("Frontken Shares") through a private placement exercise ("Private Placement") which was approved by the Securities Commission on April 12, 2007. The first tranche of the private placement consisting of 19,736,000 new Frontken Shares at an issue price of RM0.76 was completed on July 27, 2007. Subsequently, the Group obtained the approval of the Securities Commission for an extension to complete the issuance of the remaining new Frontken Shares under the Private Placement until October 11, 2008.
- (vi) On September 26, 2007, the Company proposed to implement the following:
- Proposed amendments to the Articles of Association of the Company;
 - Proposed bonus issue of up to 209,000,000 new Frontken Shares to be credited as fully paid up on the basis of two new Frontken Shares for every five existing Frontken Shares held at a date to be determined later; and
 - Proposed transfer of the listing of and quotation of the enlarged issued and paid-up share capital of the Company from the MESDAQ Market to the Main Board of Bursa Malaysia Securities Berhad.

The above proposals are pending the approval of the relevant authorities and shareholders.

- (vii) On November 27, 2007, the Company entered into a joint venture agreement with Marketech International Corporation ("MIC") for the establishment of Frontken MIC Co. Ltd ("FMIC"), a newly incorporated company in Hong Kong, which shall in turn hold the entire equity interest in Frontken MIC (Wuxi) Co. Ltd ("FMIC-W"), a company incorporated in China, to jointly develop, market and implement surface metamorphosis engineering business in China, specifically for semiconductor related products and services.

On January 28, 2008, the Company was allotted 1,560,008 ordinary shares of HK\$1.00 each amounting to a total consideration of HK\$1,560,008 (approximately RM648,000) in the issued share capital of FMIC representing approximately 50% of the total issued share capital of FMIC. The remaining 1,559,992 ordinary shares of HK\$1.00 each are held by MIC. The allotted shares have not been paid up and will be paid up when calls are made by the directors of FMIC as and when FMIC requires capital.

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	6,869,825	29,496
Income tax expense	(2,466,191)	(6,611)
Profit for the year	<u>4,403,634</u>	<u>22,885</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 other than the fire and flood incidents as disclosed under significant corporate events above.

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.

DIRECTORS' REPORT (CONT'D)

ISSUE OF SHARES AND DEBENTURES

During the financial year,;

- (a) the authorised share capital of the Company was increased from RM50,000,000 to RM100,000,000 by the creation of an additional 500,000,000 ordinary shares of RM0.10 each pursuant to an Extraordinary General Meeting held on February 6, 2007.
- (b) the issued and paid-up share capital of the Company was increased from RM47,500,000 to RM49,473,600 by way of the issuance of 19,736,000 new ordinary shares of RM0.10 each at an issue price of RM0.76 per share pursuant to the Private Placement on July 27, 2007.

The resulting share premium of RM13,025,760 arising from the private placement exercise was 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.

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 there are no known bad debts to be written off and that no allowance for doubtful debts is required; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

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

- (a) which would require the writing off of bad debts or the setting up of allowance for doubtful debts in the financial statements of the Group and of the Company; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

DIRECTORS' REPORT (CONT'D)

OTHER FINANCIAL INFORMATION (CONT'D)

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 32 to the Financial Statements.

DIRECTORS

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

Wong Hua Choon
 Dr. Tay Kiang Meng
 See Chuan Swee
 Dato' Ibrahim Bin Mahmud
 Dato' Haji Johar bin Murat @ Murad
 Ng Wai Pin

In accordance with Article 74 of the Company's Articles of Association, Mr. Wong Hua Choon and Dr. Tay Kiang Meng 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 31.12.2007
	Balance as of 1.1. 2007	Bought	Sold	
Shares in the Company				
Direct Interest				
Wong Hua Choon	102,574,352	-	-	102,574,352
Dr. Tay Kiang Meng	-	200,000	-	200,000
See Chuan Swee	-	145,300	-	145,300
Indirect Interest				
Wong Hua Choon ¹	12,037,228	-	-	12,037,228
Dr. Tay Kiang Meng ¹	12,037,228	-	-	12,037,228
Dato' Ibrahim Bin Mahmud ²	99,237,500	-	(4,000,000)	95,237,500

Notes:

¹ Deemed interest by virtue of Section 6A(4) of the Act through their interest in Frontken Holdings Pte. Ltd..

² Deemed interest by virtue of Section 6A(4) of the Act through his interest in Quantum Spire Sdn. Bhd..

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 above, 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 except for any benefit which may be deemed to have arisen by virtue of the transactions as disclosed in Note 18 to the Financial Statements.

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

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

Petaling Jaya,
April 15, 2008

STATEMENT BY DIRECTORS

The directors of **FRONTKEN CORPORATION BERHAD** state that, in their opinion, the accompanying balance sheets and the related 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, 2007 and of the results of the businesses and the cash flows of the Group and of the Company for the year ended on that date.

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

WONG HUA CHOON

Petaling Jaya
April 15, 2008

SEE CHUAN SWEE

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 conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

SEE CHUAN SWEE

Subscribed and solemnly declared by the
abovenamed **SEE CHUAN SWEE** at
PETALING JAYA this 15th day of April, 2008.

Before me,

S. Selvarajah (No. B144)
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, 2007 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 made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the abovementioned financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable Malaysian Accounting Standards Board approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as of December 31, 2007 and of the results and the cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the financial statements and consolidated financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the 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 13 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 any comment made under Sub-section (3) of Section 174 of the Act.

DELOITTE & TOUCHE
AF 0834
Chartered Accountants

OUI THIAM POH
2495/01/10 (J)
Partner

Petaling Jaya
April 15, 2008

INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
Revenue	6	105,351,674	72,476,647	1,699,820	-
Cost of sales		(68,771,237)	(48,066,448)	-	-
Gross profit		36,580,437	24,410,199	1,699,820	-
Other income:					
Interim insurance compensation received	31(ii)	4,943,044	-	-	-
Others		589,837	698,242	1,497,612	425,098
Administrative expenses		(19,533,606)	(10,998,564)	(1,595,382)	(329,611)
Other expenses:					
Losses arising from flood and fire incidents	31(ii)	(11,227,499)	-	-	-
Others		(3,871,068)	(2,415,021)	(85,197)	(67,889)
Finance costs	7	(3,027,168)	(1,113,886)	(1,487,357)	-
Share in results of associates		2,415,848	10,069	-	-
Profit before tax	8	6,869,825	10,591,039	29,496	27,598
Income tax expense	9	(2,466,191)	(2,593,867)	(6,611)	(39,681)
Profit/(Loss) for the year		4,403,634	7,997,172	22,885	(12,083)
Attributable to:					
Equity holders of the Company		4,005,997	7,926,575		
Minority interests		397,637	70,597		
		4,403,634	7,997,172		
Earnings per ordinary share attributable to equity holders of the Company (sen)	10				
Basic and diluted		0.8	2.4		

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

BALANCE SHEETS AS OF DECEMBER 31, 2007

	Note	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
ASSETS					
Non-Current Assets					
Property, plant and equipment	11	93,824,495	76,211,131	92,321	103,930
Prepaid lease payments	12	3,614,705	1,552,218	-	-
Investment in subsidiaries	13	-	-	29,231,047	29,123,278
Investment in associates	14	48,212,321	765,911	22,955,162	-
Goodwill on consolidation	15	2,804,791	2,842,942	-	-
Intangible asset	16	120,425	281,444	-	-
Total Non-Current Assets		148,576,737	81,653,646	52,278,530	29,227,208
Current Assets					
Inventories	17	5,408,400	3,334,012	-	-
Trade receivables	18	33,045,803	28,756,850	-	-
Other receivables and prepaid expenses	18	4,005,291	4,620,132	50,210	24,070
Tax recoverable		79,832	18,439	-	-
Amount owing by subsidiaries	13	-	-	43,235,675	18,780,041
Amount owing by associates	14	614,883	-	-	-
Fixed deposits with licensed banks		7,315,289	10,151,800	7,055,000	10,000,000
Cash and bank balances		9,522,493	10,821,584	2,697,692	573,841
Total Current Assets		59,991,991	57,702,817	53,038,577	29,377,952
Total Assets		208,568,728	139,356,463	105,317,107	58,605,160

BALANCE SHEETS AS OF DECEMBER 31, 2007 (CONT'D)

	Note	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
EQUITY AND LIABILITIES					
Capital and Reserves					
Issued capital	19	49,473,600	47,500,000	49,473,600	47,500,000
Reserves	20	24,361,405	11,564,110	23,887,977	11,002,727
Retained earnings/(Accumulated loss)	9	24,159,009	20,153,012	1,584	(21,301)
Equity attributable to equity holders of the Company		97,994,014	79,217,122	73,363,161	58,481,426
Minority interests		1,670,367	1,160,230	-	-
Total Equity		99,664,381	80,377,352	73,363,161	58,481,426
Non-Current Liabilities					
Term loans - non-current portion	21	35,850,405	12,123,113	-	-
Deferred income - non-current portion	22	18,343	68,078	-	-
Hire-purchase payables - non-current portion	23	9,359,620	7,896,370	-	-
Deferred tax liabilities	24	4,303,429	4,262,369	-	-
Total Non-Current Liabilities		49,531,797	24,349,930	-	-
Current Liabilities					
Trade payables	25	13,795,897	11,580,594	-	-
Other payables and accrued expenses	25	10,913,586	11,041,956	319,140	64,846
Amount owing to subsidiaries	13	-	-	23,634,806	19,207
Bank borrowings	26	27,895,770	6,063,486	8,000,000	-
Deferred income - current portion	22	49,626	59,769	-	-
Hire-purchase payables - current portion	23	4,472,008	3,206,127	-	-
Tax liabilities		2,245,663	2,677,249	-	39,681
Total Current Liabilities		59,372,550	34,629,181	31,953,946	123,734
Total Liabilities		108,904,347	58,979,111	31,953,946	123,734
Total Equity and Liabilities		208,568,728	139,356,463	105,317,107	58,605,160

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

The Group	← Non-distributable →				Distributable			Total RM
	Issued capital RM	Share premium RM	Foreign currency translation reserve RM	Reserve on consolida- tion RM	Retained earnings/ (Accumu- lated loss) RM	Attributable to equity holders of the Company RM	Minority interests 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 13)	-	-	-	-	-	-	1,089,633	1,089,633
Issue of ordinary shares (Note 19):								
Arising from 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	47,500,000	11,002,727	561,383	-	20,153,012	79,217,122	1,160,230	80,377,352

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007 (CONT'D)

The Group	← Non-distributable →			Distributable			Minority interests	Total
	Issued capital	Share premium	Foreign currency translation reserve	Reserve on consolidation	Retained earnings/ (Accumulated loss)	Attributable to equity holders of the Company		
	RM	RM	RM	RM	RM	RM	RM	RM
Balance as of January 1, 2007	47,500,000	11,002,727	561,383	-	20,153,012	79,217,122	1,160,230	80,377,352
Net income/(expense) recognised directly in equity:								
Exchange differences arising from translation of foreign operations	-	-	(87,955)	-	-	(87,955)	-	(87,955)
Share issue expenses	-	(140,510)	-	-	-	(140,510)	-	(140,510)
Profit for the year	-	-	-	-	4,005,997	4,005,997	397,637	4,403,634
Total recognised income and expense	-	(140,510)	(87,955)	-	4,005,997	3,777,532	397,637	4,175,169
Issue of shares by subsidiary	-	-	-	-	-	-	112,500	112,500
Issue of ordinary shares (Note 19)	1,973,600	13,025,760	-	-	-	14,999,360	-	14,999,360
Balance as of December 31, 2007	49,473,600	23,887,977	473,428	-	24,159,009	97,994,014	1,670,367	99,664,381

The Company	Issued capital	Non-distributable - Share premium	Distributable - Retained earnings/ (Accumulated loss)	Total
Balance as of 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 19):				
Acquisition of subsidiaries	29,123,278	-	-	29,123,278
Public issue	11,875,000	13,062,500	-	24,937,500
Rights issue	6,501,720	-	-	6,501,720
Balance as of December 31, 2006	47,500,000	11,002,727	(21,301)	58,481,426
Balance as of January 1, 2007	47,500,000	11,002,727	(21,301)	58,481,426
Net income (expense) recognised directly in equity				
- Share issue expenses	-	(140,510)	-	(140,510)
Profit for the year	-	-	22,885	22,885
Total recognised income and expense	-	(140,510)	22,885	(117,625)
Issue of ordinary shares (Note 19)	1,973,600	13,025,760	-	14,999,360
Balance as of December 31, 2007	49,473,600	23,887,977	1,584	73,363,161

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
CASH FLOWS FROM/(USED IN)					
OPERATING ACTIVITIES					
Profit/(Loss) for the year		4,403,634	7,997,172	22,885	(12,083)
Adjustments for:					
Depreciation of property, plant and equipment		9,092,598	5,723,157	27,908	12,251
Property, plant and equipment written off		7,640,615	-	-	-
Interest expense		3,027,168	1,113,886	1,487,357	-
Income tax expense recognised in income statements		2,466,191	2,593,867	6,611	39,681
Unrealised loss on foreign exchange		654,620	238,382	141,780	-
Amortisation of intangible asset		159,747	121,805	-	-
Inventories written off		156,686	-	-	-
Amortisation of prepaid lease payments		32,128	17,441	-	-
Share in results of associates		(2,415,848)	(10,069)	-	-
Interest income		(273,950)	(232,805)	(1,497,612)	(425,098)
Government grant		(59,368)	(64,985)	-	-
Gain on disposal of property, plant and equipment		(12,474)	(143,231)	-	-
Dividend income from associate		-	-	(1,699,820)	-
Operating Profit/(Loss) Before Working Capital Changes		24,871,747	17,354,620	(1,510,891)	(385,249)
(Increase)/Decrease in:					
Inventories		(2,228,284)	4,608,006	-	-
Trade receivables		(4,721,464)	(8,927,613)	-	-
Other receivables and prepaid expenses		634,394	(490,103)	(26,140)	157,687
Amount owing by associate		(614,883)	-	-	-
Increase/(Decrease) in:					
Trade payables		1,844,535	243,307	-	-
Other payables and accrued expenses		(155,376)	6,427,258	254,294	55,630
Cash Generated From/(Used in) Operations		19,630,669	19,215,475	(1,282,737)	(171,932)
Income taxes paid		(2,913,517)	(1,901,219)	(46,292)	-
Net Cash From/(Used In) Operating Activities		16,717,152	17,314,256	(1,329,029)	(171,932)

CASH FLOW STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007 (CONT'D)

	Note	The Group		The Company	
		2007 RM	2006 RM	2007 RM	2006 RM
CASH FLOWS USED IN INVESTING ACTIVITIES					
Increase in amount owing by subsidiaries		-	-	(24,455,634)	(18,780,041)
Purchase for property, plant and equipment (Note)		(28,294,559)	(18,974,794)	(16,299)	(116,181)
Dividend received from associate		4,023,854	-	1,699,820	-
Acquisition of subsidiaries		-	(6,045,791)	(107,769)	-
Acquisition of associate		(49,102,207)	-	(22,955,162)	-
Additions to prepaid lease payments		(2,094,615)	(1,569,659)	-	-
Proceeds from disposal of property, plant and equipment		491,982	264,213	-	-
Interest received		273,950	232,805	1,497,612	425,098
Net Cash From/(Used In) Investing Activities		(74,701,595)	(26,093,226)	(44,337,432)	(18,471,124)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Increase/(Decrease) in amount owing to subsidiaries		-	-	23,473,819	(162,550)
Proceeds from issuance of shares		14,999,360	31,439,220	14,999,360	31,439,220
Share issue expenses		(140,510)	(2,059,773)	(140,510)	(2,059,773)
Repayment of term loans		(20,392,246)	(1,532,160)	-	-
Interest paid		(3,027,168)	(1,113,886)	(1,487,357)	-
Issue of shares by subsidiary company		112,500	-	-	-
Draw down of term loans		49,321,334	-	-	-
Increase in short-term borrowings		17,175,200	-	8,000,000	-
Payment of hire-purchase payables		(3,717,086)	(412,808)	-	-
Net Cash From Financing Activities		54,331,384	26,320,593	44,845,312	29,216,897
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS					
Effect of exchange rate changes		40,429	(12,060)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
		17,529,563	-	10,573,841	-
CASH AND CASH EQUIVALENTS AT END OF YEAR					
	27	13,916,933	17,529,563	9,752,692	10,573,841

Note : During the financial year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM34,740,776 and RM16,299 (2006 : RM18,974,794 and RM116,181), respectively, of which RM6,446,217 and RMNil (2006 : RMNil and RMNil), respectively, was acquired under hire-purchase arrangements. Cash payments for the acquisition of property, plant and equipment amounted to RM28,294,559 and RM16,299 (2006 : RM18,974,794 and RM116,181), respectively.

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 13.

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 15, 2008.

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.

Changes in Accounting Policies

On January 1, 2007, the Group and the Company adopted all the new and revised Financial Reporting Standards ("FRS") and amendments to FRS issued by MASB that are relevant to their operations and effective for financial periods beginning on or after January 1, 2007 as follows:

FRS 117	Leases
FRS 124	Related Party Disclosures
Amendments to FRS 119 ₂₀₀₄	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

The adoption of these new and revised FRSs and amendments to FRS did not result in significant changes in the accounting policies of the Group and of the Company and has no significant financial effect on the financial statements of the Group and of the Company in the current and prior years except as disclosed below:

(i) FRS 117 Leases

In prior years, the leasehold interest in land held for own use were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses.

With the adoption of FRS 117 on January 1, 2007, the leasehold interests in land are now accounted for as operating leases and are reclassified as prepaid lease payments as disclosed in Note 12. The reclassification of leasehold interest in land as prepaid lease payments have been accounted for retrospectively as disclosed in Note 30.

Prepaid lease payments are amortised on a straight line basis over the remaining lease terms of 58 years.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

Accounting Standards, Amendment to FRSs and IC Interpretations Issued But Not Yet Effective

At the date of authorisation of the financial statements, the following new and revised FRSs, amendment to FRS and IC Interpretations were in issue but not yet effective until future periods:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 126	Accounting and Reporting by Retirement Benefits Plans
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provision, Contingent Liabilities and Contingent Assets
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation
IC Interpretation 1	Changes in Existing Decommissioning, Restoration And Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2 - Share-based Payment

The above FRSs, amendment to FRS and IC Interpretations shall apply to annual periods beginning on or after July 1, 2007 except for the following renamed FRSs which have the same effective dates as their original Standards, i.e., annual periods beginning on or after January 1, 2003:

- (a) FRS 119 Employee Benefits, which supersedes FRS 119₂₀₀₄ Employee Benefits and Amendment to FRS 119₂₀₀₄ Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures;
- (b) FRS 126 Accounting and Reporting by Retirement Benefit Plans, which supersedes FRS 126₂₀₀₄ Accounting and Reporting by Retirement Benefit Plans; and
- (c) FRS 129 Financial Reporting in Hyperinflationary Economies, which supersedes FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies.

The effective adoption date in respect of FRS 139: Financial Instruments: Recognition and Measurement 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.

The directors anticipate that the adoption of these new and revised FRSs, amendment to FRS and IC Interpretations in future periods will have no material financial effect on the financial statements of the Group and of the Company for the financial year ending December 31, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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.

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.

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 and the Company 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 and to the Company, upon satisfying the conditions of the Group's and of the Company's activities as set out below:

(i) Services

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition (Cont'd)

(ii) 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 customers.

(iii) Management Fee and Interest Income

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

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 at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair values were 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 at 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 Group and the Company 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, if any, 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 (or 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 and capital work-in-progress are not depreciated. Freehold buildings are depreciated on a straight-line basis over 50 years while the 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 to their residual values 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 significant 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's residual values, useful lives and depreciation methods 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.

Assets held under lease are depreciated over their expected useful on the same basis as owned assets.

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.

Assets held under hire-purchase arrangement are depreciated over their expected useful lives on the same basis as owned assets.

Prepaid Lease Payments

Lease of land with title not expected to pass to the lessee by the end of the lease term is treated as operating lease as land normally has an indefinite economic life. The up-front payments made on entering into a lease or acquiring a leasehold land that is accounted for as an operating lease represents prepaid lease payments and are amortised on a straight-line basis over the remaining terms of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 associates is stated in the Company's financial statements at cost less any impairment losses.

Associates

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 associates are incorporated in the financial statements of the Group using the equity method of accounting based on the latest audited financial statements of the associates made up to December 31, 2007, 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 associates 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 associates, 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 recognised 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 recognised 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.

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 recognised 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 Associates" above.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible asset

Intangible asset acquired separately is reported at cost less accumulated amortisation and any impairment losses. Intangible asset with finite useful lives is amortised on a straight-line basis over its estimated useful lives of 5 years. The estimated useful lives 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 lives is not amortised. Each period, the useful lives 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.

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 provisions are 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

The 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, are discussed as follows:

(a) 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 RM2,804,791 (2006: RM2,842,942).

(b) Allowance for doubtful debts

The policy for allowance for doubtful debts of the Group and of the Company is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers with which the Group and the Company deals with were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance may be required.

5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

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

The Group is organised into the following geographical segment:

- Malaysia
- Singapore
- Philippines
- Taiwan

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. SEGMENT REPORTING (CONT'D)

The Group 2007	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Elimination RM	Total RM
Revenue						
External sales	30,532,711	73,718,794	1,100,169	-	-	105,351,674
Inter-segment sales	678,002	4,140,245	1,225,757	-	(6,044,004)	-
Total revenue	31,210,713	77,859,039	2,325,926	-	(6,044,004)	105,351,674
Results						
Segment results	3,002,521	8,794,097	(73,791)	452,350	(4,967,982)	7,207,195
Share in results of associates						2,415,848
Interest income						273,950
Finance costs						(3,027,168)
Profit before tax						6,869,825
Income tax expense						(2,466,191)
Profit for the year						4,403,634
Assets						
Investment in associates	22,955,162	789,442	-	24,467,717	-	48,212,321
Tax recoverable	79,832	-	-	-	-	79,832
Segment assets	110,699,088	123,273,162	3,513,498	232,534	(77,482,429)	160,235,853
Consolidated total assets						208,568,728
Liabilities						
Deferred tax liabilities	1,085,000	3,218,429	-	-	-	4,303,429
Segment liabilities	78,704,578	79,278,556	1,480,393	24,737,406	(79,600,015)	104,600,918
Consolidated total liabilities						108,904,347
Other Information						
Capital expenditure	14,148,943	22,965,092	97,023	-	(375,666)	36,835,391
Depreciation and amortisation	3,507,238	5,511,492	265,743	-	-	9,284,473

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. SEGMENT REPORTING (CONT'D)

The Group 2006	Malaysia RM	Singapore RM	Philippines RM	Taiwan RM	Elimination RM	Total RM
Revenue						
External sales	17,440,388	53,735,272	1,300,987	-	-	72,476,647
Inter-segment sales	162,790	2,955,738	20,249	-	(3,138,777)	-
Total revenue	17,603,178	56,691,010	1,321,236	-	(3,138,777)	72,476,647
Results						
Segment results	1,325,440	10,041,853	94,758	-	-	11,462,051
Share in results of associates						10,069
Interest income						232,805
Finance costs						(1,113,886)
Profit before tax						10,591,039
Income tax expense						(2,593,867)
Profit for the year						7,997,172
Assets						
Investment in associates	-	765,911	-	-	-	765,911
Tax recoverable	18,439	-	-	-	-	18,439
Segment assets	89,227,160	123,273,162	3,554,220	-	(77,482,429)	138,572,113
Consolidated total assets						139,356,463
Liabilities						
Deferred tax liabilities	1,171,000	3,091,369	-	-	-	4,262,369
Segment liabilities	34,270,999	46,898,207	1,660,384	-	(28,112,848)	54,716,742
						58,979,111
Other Information						
Capital expenditure	14,599,563	5,696,271	248,619	-	-	20,544,454
Depreciation and amortisation	1,872,435	3,792,477	197,491	-	-	5,862,403

6. REVENUE

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Provision of services	99,796,429	62,297,493	-	-
Sales of goods	5,555,245	10,179,154	-	-
Dividend income from associate	-	-	1,699,820	-
	105,351,674	72,476,647	1,699,820	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. FINANCE COSTS

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Interest expense on:				
Term loans	1,775,347	576,720	-	-
Bank overdraft	688,129	84,394	-	-
Short-term borrowings	452,434	-	452,434	-
Hire-purchase	111,258	452,772	-	-
Amount owing to subsidiaries	-	-	1,034,923	-
	3,027,168	1,113,886	1,487,357	-

8. PROFIT BEFORE TAX

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

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Interim insurance compensation received	4,943,044	-	-	-
Changes in inventories of work-in-progress and finished goods	1,271,727	1,582,974	-	-
Interest income from:				
Subsidiary companies	-	-	1,281,885	-
Third parties	273,950	232,805	215,727	425,098
Government grants	59,368	64,985	-	-
Gain on disposal of property, plant and equipment	12,474	143,231	-	-
Staff costs	(30,516,740)	(16,777,283)	(139,313)	(11,813)
Purchase of finished goods	(22,081,299)	(13,297,291)	-	-
Depreciation of property, plant and equipment	(9,092,598)	(5,723,157)	(27,908)	(12,251)
Property, plant and equipment written off	(7,640,615)	-	-	-
Directors' remuneration:				
Salary and other emoluments	(1,770,977)	(1,196,782)	(144,000)	(68,129)
Research and development expenditure	(1,635,374)	(1,102,909)	-	-
Gain/(Loss) on foreign exchange - net:				
Unrealised	(654,620)	(238,382)	(141,780)	-
Realised	12,165	161,905	-	-
Auditors' remuneration	(294,740)	(172,002)	(40,000)	(25,000)
Amortisation of intangible asset	(159,747)	(121,805)	-	-
Inventories written off	(156,686)	-	-	-
Amortisation of prepaid lease payments	(32,128)	(17,441)	-	-

(a) Staff costs

Staff costs include salaries, bonuses, contributions to statutory defined contribution plans and all other staff related expenses. Contributions to statutory defined contribution plans, included in staff costs, made by the Group and by the Company during the financial year amounted to RM1,804,489 (2006: RM1,043,279) and RM15,463 (2006: RM1,251) respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8. PROFIT BEFORE TAX (CONT'D)

(b) Key management personnel compensation

The remuneration of members of key management included in staff costs are as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Short-term employee benefits:				
Salaries, bonuses, allowances and contributions to EPF	2,451,415	2,257,793	56,148	-

The estimated monetary value of benefits-in-kind received and receivable by the key management otherwise than in cash from the Group amounted to RM2,100 (2006: RM2,100).

(c) Directors' remuneration

Contribution to EPF, included in directors' remuneration, made by the Group during the current financial year amounted to RM89,201 (2006: RM69,744).

9. INCOME TAX EXPENSE

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Estimated tax payable:				
Malaysian:				
Current year	404,000	146,080	-	39,681
(Over)/Underprovision in prior years	(8,402)	(17,174)	6,611	-
	395,598	128,906	6,611	39,681
Foreign:				
Current year	1,559,316	1,569,767	-	-
Underprovision in prior years	465,264	-	-	-
	2,024,580	1,569,767	-	-
	2,420,178	1,698,673	6,611	39,681
Deferred tax (Note 24):				
Current year	13,407	895,194	-	-
Underprovision in prior years	32,606	-	-	-
	46,013	895,194	-	-
	2,466,191	2,593,867	6,611	39,681

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

9. INCOME TAX EXPENSE (CONT'D)

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		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Profit before tax	6,869,825	10,591,039	29,496	27,598
Tax at the applicable tax rate of 27% (2006 : 28%)	1,854,853	2,965,491	7,964	7,727
Effect of different tax rate of other tax jurisdictions	(456,985)	(701,442)	-	-
Tax effects of:				
Non-deductible expenses	1,584,532	395,534	220,147	31,954
Tax exempt income	(353,398)	(48,542)	(228,111)	-
(Over)/Underprovision in prior years	489,468	(17,174)	6,611	-
Effect of share of results in associates	(652,279)	-	-	-
	2,466,191	2,593,867	6,611	39,681

A Malaysian subsidiary is entitled to claim reinvestment allowance under Schedule 7A of the Income Tax Act, 1967. As of December 31, 2007, the cumulative reinvestment allowance claimed is approximately RM7,100,000 (2006 : RM5,700,000) which is 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, 2007.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. Under this system, tax on the Company's taxable income is a final tax, and dividends distributed to shareholders will be exempted from tax. As the Company does not have any tax credit balance as of December 31, 2007, the Company will automatically move to the single tier company income tax system with effect from year of assessment 2008.

10. 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	
	2007 RM	2006 RM
Profit for the year attributable to equity holders of the Company	4,005,997	7,926,575

	The Group	
	2007 RM	2006 RM
Number of shares in issue as of January 1	475,000,000	2
Effects of:		
Private placement	8,543,255	-
Share split	-	18
Issue arising from acquisition of subsidiaries	-	220,219,856
Public issue	-	58,561,644
Rights issue	-	45,957,363
Weighted average number of ordinary shares of RM0.10 each	483,543,255	324,738,883
Basic earnings per ordinary share attributable to equity holders of the Company (sen)	0.8	2.4

Diluted

The basic and diluted earnings per share are equal as the Company has no dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. PROPERTY, PLANT AND EQUIPMENT

The Group	COST						Balance as of December 31, 2006 RM
	Balance as of January 1, 2006 RM	Arising from acquisition of subsidiaries RM	Foreign currency translation differences RM	Reclassification RM	Additions RM	Disposals RM	
Freehold land	-	1,863,085	-	(310,451)	-	-	1,552,634
Freehold buildings	-	850,000	-	310,451	-	-	1,160,451
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	-	18,974,794	(345,659)	101,952,033

The Group	COST						Balance as of December 31, 2007 RM
	Balance as of January 1, 2007 RM	Foreign currency translation differences RM	Reclassification RM	Additions RM	Write-offs RM	Disposals RM	
Freehold land	1,552,634	-	-	1,500,241	-	-	3,052,875
Freehold buildings	1,160,451	-	-	-	-	-	1,160,451
Long leasehold building	24,102,855	(42,596)	-	2,916,359	(5,064,567)	-	21,912,051
Factory and Office renovation	9,170,418	24,570	-	1,065,733	(954,005)	-	9,306,716
Plant and machinery	58,356,514	181,921	-	13,749,398	(2,563,473)	(589,145)	69,135,215
Workshop tools	592,318	-	-	653,816	(35,270)	-	1,210,864
Office equipment	2,539,358	(2,547)	(1,600)	1,404,587	(47,831)	(27,751)	3,864,216
Furniture and fittings	458,548	1,006	1,600	52,180	(21,270)	(32,452)	459,612
Motor vehicles	3,627,110	(75)	-	599,961	-	-	4,226,996
Computers	391,827	881	-	92,269	-	(21,632)	463,345
Capital work-in-progress	-	-	-	12,706,232	-	-	12,706,232
Total	101,952,033	163,160	-	34,740,776	(8,686,416)	(670,980)	127,498,573

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group	← ACCUMULATED DEPRECIATION →					Balance as of December 31, 2006 RM
	Balance as of January 1, 2006 RM	Arising from acquisition of subsidiaries RM	Foreign currency translation differences RM	Charge for the year RM	Disposals RM	
Freehold land	-	-	-	-	-	-
Freehold buildings	-	55,250	-	34,482	-	89,732
Long leasehold building	-	2,580,852	16,105	615,023	-	3,211,980
Factory renovation	-	1,290,986	7,574	398,777	-	1,697,337
Plant and machinery	-	13,477,255	39,406	3,742,982	-	17,259,643
Workshop tools	-	145,637	-	80,707	-	226,344
Office equipment	-	1,129,643	5,907	312,440	-	1,447,990
Furniture and fittings	-	60,900	(60)	42,863	-	103,703
Motor vehicles	-	1,348,272	5,089	441,859	(224,677)	1,570,543
Computers	-	79,629	(23)	54,024	-	133,630
Total	-	20,168,424	73,998	5,723,157	(224,677)	25,740,902

The Group	← ACCUMULATED DEPRECIATION →					NET BOOK VALUE		
	Balance as of January 1, 2007 RM	Foreign currency translation differences RM	Charge for the year RM	Write-offs RM	Disposals RM	Balance as of December 31, 2007 RM	Balance as of December 31, 2007 RM	Balance as of December 31, 2006 RM
Freehold land	-	-	-	-	-	-	3,052,875	1,552,634
Freehold buildings	89,732	-	23,209	-	-	112,941	1,047,510	1,070,719
Long leasehold building	3,211,980	(2,609)	892,199	(337,922)	-	3,763,648	18,148,403	20,890,875
Factory and office renovation	1,697,337	8,283	705,335	(93,226)	-	2,317,729	6,988,987	7,473,081
Plant and machinery	17,259,643	67,278	5,746,443	(602,637)	(113,664)	22,357,063	46,778,152	41,096,871
Workshop tools	226,344	-	192,123	(6,779)	-	411,688	799,176	365,974
Office equipment	1,447,990	1,588	665,407	(3,063)	(27,751)	2,084,171	1,780,045	1,091,368
Furniture and fittings	103,703	1,021	90,080	(2,174)	(32,452)	160,178	299,434	354,845
Motor vehicles	1,570,543	1,686	651,878	-	-	2,224,107	2,002,889	2,056,567
Computers	133,630	604	125,924	-	(17,605)	242,553	220,792	258,197
Capital work-in-progress	-	-	-	-	-	-	12,706,232	-
Total	25,740,902	77,851	9,092,598	(1,045,801)	(191,472)	33,674,078	93,824,495	76,211,131

The Company	← COST →					
	Balance as of January 1, 2006 RM	Additions RM	Balance as of December 31, 2006 RM	Balance as of January 1, 2007 RM	Additions RM	Balance as of December 31, 2007 RM
Office renovation	-	47,329	47,329	47,329	-	47,329
Office equipment	-	28,839	28,839	28,839	699	29,538
Furniture and fittings	-	26,770	26,770	26,770	3,235	30,005
Computers	-	13,243	13,243	13,243	12,365	25,608
Total	-	116,181	116,181	116,181	16,299	132,480

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	ACCUMULATED DEPRECIATION					NET BOOK VALUE		
	Balance as of January 1, 2006 RM	Charge for the year RM	Balance as of December 31, 2006 RM	Balance as of January 1, 2007 RM	Charge for the year RM	Balance as of December 31, 2007 RM	Balance as of December 31, 2007 RM	Balance as of December 31, 2006 RM
The Company								
Office renovation	-	3,155	3,155	3,155	4,733	7,888	39,441	44,174
Office equipment	-	3,967	3,967	3,967	9,749	13,716	15,822	24,872
Furniture and fittings	-	3,633	3,633	3,633	5,921	9,554	20,451	23,137
Computers	-	1,496	1,496	1,496	7,505	9,001	16,607	11,747
Total	-	12,251	12,251	12,251	27,908	40,159	92,321	103,930

Property, plant and equipment of the Group written off during the current financial year as a result of the fire incidents as disclosed in Note 31 (ii) amounted to RM7,640,615.

As of 31 December 2007, freehold land and buildings, long leasehold buildings and plant and machinery of the Group with total net book value totalling RM25,801,527 (2006: RM19,028,265) have been charged as collateral to certain banks for term loans and bank borrowings facilities granted to the Group as mentioned in Note 21.

Included in property, plant and equipment of the Group are property, plant and equipment acquired under hire-purchase arrangements with net book value totalling RM25,715,092. (2006: RM15,841,403)

12. PREPAID LEASE PAYMENTS

	The Group	
	2007 RM	2006 RM
Cost:		
At beginning of year	1,569,659	-
Additions	2,094,615	1,569,659
At end of year	3,664,274	1,569,659
Cumulative amortisation:		
At beginning of year	17,441	-
Additions	32,128	17,441
At end of year	49,569	17,441
Net:		
At end of year	3,614,705	1,552,218

Prepaid lease payments of the Group relate to lease rental paid for two parcels of long leasehold land on which the Group's factory buildings are located and the lease will expire in year 2066.

The long leasehold land of the Group in 2007 have been pledged to certain banks for term loans granted to the Group as mentioned in Note 21.

13. INVESTMENT IN SUBSIDIARIES

	The Company	
	2007 RM	2006 RM
Unquoted shares - at cost	29,231,047	29,123,278

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of Companies	Country of Incorporation	Effective Equity Interest		Principal Activities
		2007 %	2006 %	
Direct Subsidiaries				
Frontken (Singapore) Pte Ltd ¹	Singapore	100	100	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken Technology Corporation ²	Taiwan	100	-	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Indirect Subsidiaries				
Frontken Malaysia Sdn Bhd	Malaysia	100	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	100	Electroplating and plating of metals and formed products.
Frontken Philippines Inc ³	Philippines	99.99	99.99	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken-AMT Engineering Sdn Bhd	Malaysia	58.2	58.2	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Frontken Petroleum Sdn Bhd	Malaysia	55	-	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering services.

¹ The financial statements of the subsidiary 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 the subsidiary are examined by a member firm of Deloitte & Touche.

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

Amount owing by/to subsidiaries arose mainly from unsecured advances and payments made on behalf. The amount arising from unsecured advances bears interest at 5% (2006: Nil) per annum and has no fixed repayment terms while the amount arising from payments made on behalf is interest-free and has no fixed repayment terms.

New subsidiaries in 2007

As mentioned in Note 31:

- (a) the Group, via its indirect wholly-owned subsidiary, Frontken Malaysia Sdn. Bhd. ("FM"), incorporated a new subsidiary, Frontken Petroleum Sdn. Bhd. ("FP"), in Malaysia with an authorised share capital of RM100,000, comprising 100,000 ordinary share of RM1.00 each ("FP Shares") and an issued and paid-up share capital of RM2, comprising 2 FP Shares. On March 21, 2007, the authorised share capital of FP was increased from RM100,000 to RM500,000 by the creation of 400,000 new FP shares and the issued and paid-up share capital of FP was increased from RM2 to RM250,000 by the issuance of 249,998 new FP shares, of which 137,498 new FP shares were subscribed by FM. Consequently, FP became a 55% subsidiary of FM.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. INVESTMENT IN SUBSIDIARIES (CONT'D)

- (b) the Company incorporated a wholly-owned subsidiary, Frontken Technology Corporation ("FTC"), in Taiwan on March 14, 2007.

New subsidiaries in 2006

The Company acquired Frontken (Singapore) Pte Ltd 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>

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
Fair value of net assets acquired:			
Property, plant and equipment	59,296,813	3,481,329	62,778,142
Investment in associate	749,063	-	749,063
Intangible asset	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
	<u>(119,595)</u>	<u>(1,972,114)</u>	<u>(2,091,709)</u>
Net cash outflow/(inflow) on acquisition, net of cash and cash equivalents acquired	<u>(119,595)</u>	<u>6,165,386</u>	<u>6,045,791</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

14. INVESTMENT IN ASSOCIATES

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Quoted shares - at cost	49,102,207	-	22,955,162	-
Unquoted shares - at cost	789,442	755,842	-	-
	49,891,649	755,842	22,955,12	-
Share of post-acquisition results, net of dividend received	(1,608,006)	10,069	-	-
Foreign currency translation differences	(71,322)	-	-	-
	48,212,321	765,911	22,955,162	-
Market value of quoted shares	42,043,306	-	18,969,908	-

The summarised financial information of associates are as follows:

	The Group	
	2007 RM	2006 RM
Current assets	34,914,054	1,088,154
Non-current assets	60,896,252	6,081,407
Current liabilities	(25,267,762)	(3,197,103)
Non-current liabilities	(11,881,205)	(2,083,366)
Net Assets	58,661,339	1,889,092
Revenue	61,585,202	1,841,428
Profit for the year	9,249,653	25,551
Group's share of results for the year	2,415,848	10,069

Details of the associates are as follows:

Name of Company	Country of Incorporation	Effective Equity Interest		Principal Activities
		2007 %	2006 %	
Frontken (Thailand) Co., Ltd	Thailand	39	39	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.
Ares Green Technology Corporation	Taiwan	42.11	-	Provision of surface treatment and advanced precision cleaning for the TFT - LCD (Thin Film Transistor - Liquid Crystal display) and semi-conductor industries.

As mentioned in Note 31, the Group completed the acquisition of 5,700,000, 4,008,000 and 2,925,534 ordinary shares of NT\$10 each in Ares Green Technology Corporation ("Ares Green"), on March 19, 2007, June 14, 2007 and September 28, respectively, representing 19%, 13.36% and 9.75% of the issued and paid-up share capital of Ares Green, respectively. The total purchase consideration amounted to NT\$467,440,758 (equivalent to RM47,632,213). Consequent to the said acquisition, Ares Green became a 42.11% associate of the Group.

Amount owing by associates, which arose mainly from trade transactions and advances, is unsecured, interest-free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

15. GOODWILL ON CONSOLIDATION

	The Group	
	2007 RM	2006 RM
At beginning of year	2,842,942	-
Arising from acquisition of subsidiaries	-	2,842,942
Foreign currency translation differences	(38,151)	-
At end of year	<u>2,804,791</u>	<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.

16. INTANGIBLE ASSET

	The Group	
	2007 RM	2006 RM
Licence fees - at cost:		
At beginning of year	781,935	-
Arising from acquisition of subsidiaries	-	781,935
At end of year	781,935	781,935
Accumulated amortisation:		
At beginning of year	505,124	-
Arising from acquisition of subsidiaries	-	383,319
Charge for the year	159,747	121,805
At end of year	(664,871)	(505,124)
Foreign currency translation differences	3,361	4,633
Net	<u>120,425</u>	<u>281,444</u>

17. INVENTORIES

	The Group	
	2007 RM	2006 RM
Raw materials	2,553,700	1,751,038
Work-in-progress	2,159,070	974,174
Finished goods	695,630	608,800
	<u>5,408,400</u>	<u>3,334,012</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

18. 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 90 days (2006: 30 to 60 days).

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

	The Group	
	2007 RM	2006 RM
Chinyee Engineering & Machinery Pte. Ltd.	12,751	13,909
A&I Engine Rebuilders Sdn Bhd	2,139	720
Cyglobal Capital Sdn Bhd	-	15,690
	14,890	30,319

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
Chinyee Engineering & Machinery Pte Ltd	A company in which Wong Hua Choon, Yeo Lay Poh and Dr. Tay Kiang Meng, directors of the company, are also directors and have financial interest.
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	
	2007 RM	2006 RM
Chinyee Engineering & Machinery Pte Ltd		
Sales	425,668	543,534
Purchases	1,600,701	242,522
A&I Engine Rebuilders Sdn Bhd		
Sales	2,370	3,875
Purchases	840	110
Cyglobal Capital Sdn Bhd		
Sales	-	17,230

Other receivables and prepaid expenses consist of:

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Other receivables	1,399,028	3,587,544	352	-
Refundable deposits	1,694,375	547,894	24,070	24,070
Prepayments	911,888	484,694	25,788	-
	4,005,291	4,620,132	50,210	24,070

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES (CONT'D)

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

	The Group	
	2007	2006
	RM	RM
Trade receivables		
Singapore Dollar	15,468,124	16,637,760
Ringgit Malaysia	11,152,705	8,184,791
United States Dollar	5,557,125	3,004,461
Philippines Peso	867,849	929,838
	<u>33,045,803</u>	<u>28,756,850</u>

	The Group		The Company	
	2007	2006	2007	2006
	RM	RM	RM	RM
Other receivables				
Ringgit Malaysia	1,064,857	460,965	352	-
Singapore Dollar	191,736	2,910,559	-	-
Philippines Peso	120,295	216,020	-	-
New Taiwan Dollar	22,140	-	-	-
	<u>1,399,028</u>	<u>3,587,544</u>	<u>352</u>	<u>-</u>

19. SHARE CAPITAL

	The Group and The Company	
	2007	2006
	RM	RM
Authorised:		
Ordinary shares of RM1.00 each:		
At beginning of year	-	100,000
Reclassified to ordinary shares of RM0.10 each	-	(100,000)
At end of year	-	-
Ordinary shares of RM0.10 each:		
At beginning of year	50,000,000	-
Reclassified from ordinary shares of RM1.00 each	-	100,000
Created during the year	50,000,000	49,900,000
At end of year	<u>100,000,000</u>	<u>50,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19. SHARE CAPITAL (CONT'D)

	The Group and The Company	
	2007 RM	2006 RM
Issued and fully paid:		
Ordinary shares of RM1.00 each		
At beginning of year	-	2
Reclassified to ordinary shares of RM0.10 each	-	(2)
At end of year	-	-
Ordinary shares of RM0.10 each		
At beginning of year	47,500,000	-
Reclassified from ordinary shares of RM1.00 each	-	2
Issued during the year:		
Private placement	1,973,600	-
Acquisition of subsidiaries	-	29,123,278
Public issue	-	11,875,000
Rights issue	-	6,501,720
	49,473,600	47,499,998
At end of year	49,473,600	47,500,000

During the financial year,:

- (a) the authorised share capital of the Company was increased from RM50,000,000 to RM100,000,000 by the creation of an additional 500,000,000 ordinary shares of RM0.10 each pursuant to an Extraordinary General Meeting held on February 6, 2007.
- (b) the issued and paid-up share capital of the Company was increased from RM47,500,000 to RM49,473,600 by way of the issue of 19,736,000 new ordinary shares of RM0.10 each at an issue price of RM0.76 per share pursuant to a private placement exercise on July 27, 2007.

The resulting share premium of RM13,025,760 arising from the private placement exercise 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

20. RESERVES

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Non-distributable:				
Share premium	23,887,977	11,002,727	23,887,977	11,002,727
Foreign currency translation reserve	473,428	561,383	-	-
	24,361,405	11,564,110	23,887,977	11,002,727

Share premium

Share premium arose from the following:

	The Group and The Company	
	2007 RM	2006 RM
Private placement exercise of 19,736,000 ordinary shares at a premium of RM0.66 per ordinary share, net of share issue expenses of RM140,510 in 2007	12,885,250	-
Public issue of 118,750,000 ordinary shares at a premium of RM0.11 per ordinary share, net of share issue expenses of RM2,057,773 in 2006	11,002,727	11,002,727
	23,887,977	11,002,727

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)

21. TERM LOANS

	The Group	
	2007 RM	2006 RM
Principal outstanding	43,650,126	14,742,778
Less: Portion due within one year (Note 26)	(7,799,721)	(2,619,665)
Non-current portion	35,850,405	12,123,113

The non-current portion is repayable as follows:

	The Group	
	2007 RM	2006 RM
2008	-	2,291,887
2009	7,792,548	3,868,252
2010	7,838,540	1,815,482
2011	6,514,162	1,379,996
2012 and thereafter	13,705,155	2,767,496
	35,850,405	12,123,113

As of December 31, 2007, the Group and the Company have the following term loan facilities:

- (a) Three (2006: One) term loans facilities totalling RM4,398,230 (2006: RM1,243,239), obtained by a local incorporated subsidiary, which bears interest ranging from 7.25% to 7.75% (2006: 7.25%) per annum and are repayable in equal monthly instalments over 94 to 119 (2006 : 96) months;
- (b) Two (2006 : Four) term loans facilities totalling RM26,592,304 (2006: RM12,874,586), obtained by a Singapore incorporated subsidiary, which bears interest at rates ranging from 4.50% to 5.25% (2006: 4.25% to 5.00%) per annum and are repayable in equal monthly instalments over 50 to 79 (2006: 120 to 144) months;
- (c) Two (2006: One) term loans facilities totalling RM8,277,892 (2006: RM624,952), obtained by another Singapore incorporated subsidiary, which bears interest ranging from 4.4% to 4.75% (2006 : 4.75%) per annum and are repayable in equal monthly instalments over 2 to 166 (2006: 36) months;
- (d) One term loan of RM4,381,700 obtained by a Taiwan incorporated subsidiary, which bears interest at 4.6% per annum and is repayable yearly over the next 3 years.

The term loans and bank borrowings as mentioned in Note 26 are secured by the following:

- (a) legal charges over the freehold land and factory building of the Group as disclosed in Note 11;
- (b) legal charges over the prepaid lease payments relating to the leases of two parcel of long leasehold land of the Group as mentioned in Note 12; and
- (c) a corporate guarantee by the Company.

The currency exposure profile of term loans of the Group is analysed as follows:

	The Group	
	2007 RM	2006 RM
Singapore Dollar	29,009,342	11,049,109
Ringgit Malaysia	3,936,913	1,074,004
New Taiwan Dollar	2,904,150	-
	35,850,405	12,123,113

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

22. DEFERRED INCOME

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

	The Group	
	2007	2006
	RM	RM
At beginning of year	127,847	-
Arising from acquisition of subsidiaries	-	191,178
Foreign currency translation differences	(510)	1,654
	<u>127,337</u>	<u>192,832</u>
At end of year	127,337	192,832
Transferred to income statements	(59,368)	(64,985)
	<u>67,969</u>	<u>127,847</u>
Less: To be transferred to income statements within one year	(49,626)	(59,769)
	<u>18,343</u>	<u>68,078</u>

23. HIRE-PURCHASE PAYABLES

	The Group	
	2007	2006
	RM	RM
Total outstanding	15,958,621	12,911,952
Less: Interest-in-suspense	(2,126,993)	(1,809,455)
	<u>13,831,628</u>	<u>11,102,497</u>
Principal outstanding	13,831,628	11,102,497
Less: Amount due within 12 months (included under current liabilities)	(4,472,008)	(3,206,127)
	<u>9,359,620</u>	<u>7,896,370</u>

The non-current portion is payable as follows:

	The Group	
	2007	2006
	RM	RM
Financial years ending December 31:		
2008	-	3,000,816
2009	3,419,723	2,453,114
2010	3,390,398	1,828,167
2011	1,892,841	463,690
2012 and thereafter	656,658	150,583
	<u>9,359,620</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 (2006: 3 to 5 years). The interest rates implicit in the hire-purchase obligations ranges from 2.5% to 5.5% (2006: 2.5% to 5.5%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

23. HIRE-PURCHASE PAYABLES (CONT'D)

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

The currency exposure profile of hire-purchase payables of the Group is analysed as follows:

	The Group	
	2007	2006
	RM	RM
Ringgit Malaysia	4,885,375	4,812,276
Singapore Dollar	4,474,245	3,084,094
	<u>9,359,620</u>	<u>7,896,370</u>

24. DEFERRED TAX LIABILITIES

	The Group	
	2007	2006
	RM	RM
At beginning of year	4,262,369	-
Arising from acquisition of subsidiaries (Note 13)	-	3,374,281
Transfer from income statements (Note 9)	46,013	895,194
Foreign currency translation differences	(4,953)	(7,106)
At end of year	<u>4,303,429</u>	<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	
	2007	2006
	RM	RM
Temporary differences arising from property, plant and equipment	5,903,429	4,589,021
Unused tax losses	-	(3,746)
Unabsorbed capital allowances	(1,600,000)	(322,906)
	<u>4,303,429</u>	<u>4,262,369</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

24. DEFERRED TAX LIABILITIES (CONT'D)

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to net deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. As of 31 December 2007, the estimated amount of net deferred tax assets, calculated at the current tax rate which has not been recognised in the financial statements of the Group due to uncertainty of its realisation, is as follows:

	Deferred Tax Asset/(Liability) The Group	
	2007 RM	2006 RM
Tax effects of:		
Temporary differences arising from:		
Property, plant and equipment	(72,000)	-
Others	61,000	-
Unused tax losses	60,000	-
Unabsorbed capital allowances	21,000	-
Net	<u>70,000</u>	<u>-</u>

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

25. 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 and the Company for trade purchases ranges from 30 to 60 days (2006: 30 to 60 days).

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

	The Group	
	2007 RM	2006 RM
Singapore Dollar	7,501,760	6,218,160
Ringgit Malaysia	3,783,623	2,321,360
United States Dollar	1,885,279	3,016,484
Thai Baht	352,761	-
Philippines Peso	254,003	12,781
Euro	18,471	11,809
	<u>13,795,897</u>	<u>11,580,594</u>

Other payables and accrued expenses consist of:

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Other payables	6,868,689	7,610,747	121,942	49,070
Accrued expenses	4,044,897	3,431,209	197,198	15,776
	<u>10,913,586</u>	<u>11,041,956</u>	<u>319,140</u>	<u>64,846</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES (CONT'D)

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

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Singapore Dollar	4,689,992	4,103,572	-	-
Ringgit Malaysia	2,150,831	3,204,992	121,942	49,070
Philippines Peso	27,866	302,183	-	-
	6,868,689	7,610,747	121,942	49,070

26. BANK BORROWINGS

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Bank overdrafts	2,920,849	3,443,821	-	-
Short-term borrowings	17,175,200	-	8,000,000	-
Term loans - current portion (Note 21)	7,799,721	2,619,665	-	-
	27,895,770	6,063,486	8,000,000	-

As of December 31, 2007, the Group has bank overdraft facilities totalling RM9,016,980 (2006: RM5,324,750) obtained from licensed banks. The amount utilised bears interest at rates ranging from 5.00% to 7.35% (2006: 5.00% to 8.00%) per annum.

The Group and the Company also have other short-term borrowings as follows:

- (a) A bridging loan facility of RM8,000,000 (2006 : RMNil) obtained by the Company, which bears interest at 8.50% (2006 : RMNil) per annum and is repayable within the next 12 months; and
- (b) A money market loan facility of RM9,175,200 (2006 : RMNil) obtained by a Singapore incorporated subsidiary, which bears interest at 5.00% (2006 : RMNil) per annum and is repayable within the next 6 months.

The securities for the bank borrowings are disclosed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

27. CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Fixed deposits with licensed banks	7,315,289	10,151,800	7,055,000	10,000,000
Cash and bank balances	9,522,493	10,821,584	2,697,692	573,841
	16,837,782	20,973,384	9,752,692	10,573,841
Less: Bank overdrafts (Note 26)	(2,920,849)	(3,443,821)	-	-
	13,916,933	17,529,563	9,752,692	10,573,841

Fixed deposits with licensed bank earn interest at 3% (2006: 3%) per annum and have average maturity period 30 (2006: 30) days.

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

	The Group		The Company	
	2007 RM	2006 RM	2007 RM	2006 RM
Ringgit Malaysia	11,775,670	9,212,843	9,675,150	10,573,841
Singapore Dollar	998,160	5,968,231	-	-
United States Dollar	711,216	1,930,031	-	-
New Taiwan Dollar	287,937	-	77,542	-
Philippines Peso	143,950	418,458	-	-
	13,916,933	17,529,563	9,752,692	10,573,841

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. 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 21 and 26. Interest rate of hire-purchase payables, which is disclosed in Note 23, 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, trade and other receivables and amount owing by associates.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

28. FINANCIAL INSTRUMENTS (CONT'D)

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			
	2007		2006	
	Carrying Amount RM	Fair Value RM	Carrying Amount RM	Fair Value RM
Financial liabilities				
Term loans (Note 21)	43,650,126	36,400,189	14,742,778	11,695,875
Hire-purchase payables (Note 23)	13,831,628	15,958,621	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.

29. CAPITAL COMMITMENTS

As of December 31, 2007, the Group has the following capital commitments:

	The Group	
	2007 RM	2006 RM
Contracted but not provided for:		
Property, plant and equipment	6,349,698	2,394,615
Investments	1,032,000	23,372,119
	7,381,698	25,766,734

30. CHANGE IN ACCOUNTING POLICY AS PREVIOUSLY REPORTED

The Group and the Company adopted all the new and revised FRSs issued by MASB that are relevant to their operations and effective for accounting periods beginning on or after 1 January 2007 as described in Note 3.

The adoption of FRS 117 Leases has been given retrospective recognition as follows:

	As previously reported RM	Adoption of FRS 117 RM	As restated RM
The Group			
As of 31 December 2006			
Non-Current Assets			
Property, plant and equipment	77,763,349	(1,552,218)	76,211,131
Prepaid lease payments	-	1,552,218	1,552,218

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31. SIGNIFICANT CORPORATE EVENTS

During the financial year:

- (i) On January 4, 2007, the Group, via its indirect wholly-owned subsidiary, Frontken Malaysia Sdn. Bhd. ("FM"), incorporated a new subsidiary, Frontken Petroleum Sdn. Bhd. ("FP"), in Malaysia with an authorised share capital of RM100,000, comprising 100,000 ordinary share of RM1.00 each ("FP Shares") and an issued and paid-up share capital of RM2, comprising 2 FP Shares. On March 21, 2007, the authorised share capital of FP was increased from RM100,000 to RM500,000 by the creation of 400,000 new FP shares and the issued and paid-up share capital of FP was increased from RM2 to RM250,000 by the issuance of 249,998 new FP shares, of which 137,498 new FP shares was subscribed by FM. Consequently, FP became a 55% subsidiary of FM. The principal activity of FP is provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering services.
- (ii) On March 8, 2007, an incident of fire occurred at the Group's plant located at Kulim, Kedah. On August 23, 2007, another incident of fire occurred at the Group's facility located at Singapore. Also, on July 23, 2007 and September 7, 2007, the Group's plant located at Bukit Mertajam experienced two flood incidents.

The above incidents resulted in the following losses:

	Fire incidents 2007 RM	The Group Flood incidents 2007 RM	Total 2007 RM
Property, plant and equipment written off	7,640,615	-	7,640,615
Compensation to customers for goods damaged	912,248	-	912,248
Inventories written off	43,240	56,723	99,963
Incremental operating costs resulting from the incidents	2,127,717	446,956	2,574,673
Total	10,723,820	503,679	11,227,499

Final insurance claims submitted have not been approved by the insurance companies. However, as of December 31, 2007, interim insurance compensations received and recognised as other income during the financial year are as follows:

	The Group RM
Interim insurance compensation received for fire incident in Kulim	1,000,000
Interim insurance compensation received for fire incident in Singapore	3,594,282
Interim insurance compensation received for flood incidents in Kulim	348,762
	4,943,044

- (iii) On March 14, 2007, the Company incorporated a new wholly-owned subsidiary, Frontken Technology Corporation ("FTC"), in Taiwan. The authorised and issued and paid-up capital of FTC is NT\$1,000,000 (equivalent to RM104,480 based on the exchange rate of NT\$9.5712 : RM1.00) comprising 100,000 ordinary shares of NT\$10 each. The principal activity of FTC is to undertake the business of surface metamorphosis services and investment in Taiwan.
- (iv) On March 19, 2007, June 14, 2007 and September 28, 2007, the Group completed the acquisition of 5,700,000, 4,008,000 and 2,925,534 ordinary shares of NT\$10 each in Ares Green Technology Corporation ("Ares Green"), respectively, representing 19%, 13.36% and 9.75% of the issued and paid-up share capital of Ares Green, respectively. The total purchase consideration amounted to NT\$467,440,758 (equivalent to RM47,632,213). Consequent to the said acquisition, Ares Green became a 42.11% associate of the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

31. SIGNIFICANT CORPORATE EVENTS (CONT'D)

- (v) On April 2, 2007, the Company proposed to issue 47,500,000 new ordinary shares of RM0.10 each ("Frontken Shares") through a private placement exercise ("Private Placement") which was approved by the Securities Commission on April 12, 2007. The first tranche of the private placement consisting of 19,736,000 new Frontken Shares at an issue price of RM0.76 was completed on July 27, 2007. Subsequently, the Group obtained the approval of the Securities Commission for an extension to complete the issuance of the remaining new Frontken Shares under the Private Placement until October 11, 2008.
- (vi) On September 26, 2007, the Company proposed to implement the following:
- (a) Proposed amendments to the Articles of Association of the Company;
 - (b) Proposed bonus issue of up to 209,000,000 new Frontken Shares to be credited as fully paid up on the basis of two new Frontken Shares for every five existing Frontken Shares held at a date to be determined later; and
 - (c) Proposed transfer of the listing of and quotation of the enlarged issued and paid-up share capital of the Company from the MESDAQ Market to the Main Board of Bursa Malaysia Securities Berhad.

The above proposals are pending the approval of the authorities and shareholders.

- (vii) On November 27, 2007, the Company entered into a joint venture agreement with Marketech International Corporation ("MIC") for the establishment of Frontken MIC Co. Ltd ("FMIC"), a newly incorporated company in Hong Kong, which shall in turn hold the entire equity interest in Frontken MIC (Wuxi) Co. Ltd ("FMIC-W"), a company incorporated in China, to jointly develop, market and implement surface metamorphosis engineering business in China, specifically for semiconductor related products and services.

On January 28, 2008, the Company was allotted 1,560,008 ordinary shares of HK\$1.00 each amounting to a total consideration of HK\$1,560,008 (approximately RM648,000) in the issued share capital of FMIC representing approximately 50% of the total issued share capital of FMIC. The remaining 1,559,992 ordinary shares of HK\$1.00 each are held by MIC. The allotted shares have not been paid up and will be paid up when calls are made by the directors of FMIC as and when FMIC requires capital.

32. SUBSEQUENT EVENTS

- (i) As mentioned in Note 31 (vii) above, on January 28, 2008, the Company was allotted 1,560,008 ordinary shares of HK\$1.00 each amounting to a total of HK\$1,560,008 (approximately RM648,000) in the issued share capital of FMIC.
- (ii) On January 30, 2008, the Group, via its wholly-owned subsidiary, Frontken (Singapore) Pte Ltd ("FS"), subscribed for an additional 392,000 new ordinary shares of Baht10 each in Frontken (Thailand) Co., Ltd ("FT") by way of capitalising an amount of THB3,920,000 (equivalent to approximately RM384,000 based on an exchange rate of THB100:RM9.8048) representing a portion of the amount owing by FT to FS. Consequently, the Group's interest in FT increased from 39% to 49% of the issued and paid-up share capital of FT.
- (iii) On April 14, 2008, the Group, via its wholly-owned subsidiary, Frontken Malaysia Sdn. Bhd., completed the acquisition of 908,000 ordinary shares of RM1.00 each in Frontken-AMT Engineering Sdn. Bhd. ("FAMT"), an existing subsidiary, representing the remaining 41.88% equity interest in FAMT for a cash consideration of RM2.55 million. Consequently, the Group's interest in FAMT increased from 58.12% to 100% of the issued and paid-up share capital of FAMT.

LIST OF PROPERTIES

Details of the landed properties owned and leased by the Company and its subsidiaries as at 31 December 2007 are set out below:

Address	Description/ Existing use	Land area/ Built-up area (sq m)	Approximate age of building	Tenure	Audited net book value as at 31.12.2007 (RM'000)	Date of acquisition
Frontken (Singapore) Pte Ltd (FS) Pte Lot A12843 (to be known as Pte Lot A21020) Bearing postal address: 156A Gul Circle Singapore 629614	2 factory buildings with mezzanine office to house production facilities	11,154/ 5,623	11 years & 21 years	Leasehold expiring on 20.01.2019	4,812	01.08.2001
FS Pte Lot A22490 (to be known as Pte Lot A1355600) Bearing postal address: 15 Gul Drive Singapore 629466	4-storey factory building to house production facilities and R&D activities	4,877/ 4,778	6 years	Leasehold expiring on 30.04.2026	4,385	18.03.2005
Frontken Malaysia Sdn Bhd (FM) H.S. (D) 79995 Lot P.T. 14308 Mukim Damansara Daerah Petaling Selangor Darul Ehsan Bearing postal address: Lot 2-46, Jalan Subang Utama 7 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	1½ -storey detached factory building to house production facilities	2,023/ 1,006	11 years	Freehold	2,071	17.03.2003
H.S. (D) 79985 Lot P.T. 14298 Mukim Damansara Daerah Petaling Selangor Darul Ehsan Bearing postal address: Lot 2-47, Jalan Subang Utama 8 Taman Perindustrian Subang Utama Seksyen 22 40300 Shah Alam Selangor Darul Ehsan	Vacant industrial land	2,177/-	N/A	Freehold	1,500	04.07.2007
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	1½ storey semi-detached factory to house production facilities and R&D activities	414/ 362	5 years	Freehold	529	07.07.2003
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	1½ storey semi-detached factory to house production facilities and R&D activities	389/ 341	5 years	Freehold		

LIST OF PROPERTIES (CONT'D)

Address	Description/ Existing use	Land area/ Built-up area (sq m)	Approximate age of building	Tenure	Audited net book value as at 31.12.2007 (RM'000)	Date of acquisition
FM H.S. (D) 1600 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman Bearing postal address: Jalan Hi Tech 2/3 Industrial Zone Phase I Kulim Hi-Tech Industrial Park, 09000 Kulim Kedah Darul Aman	Single storey detached factory building to house production facilities and R&D activities	130,680/ 32,000	2 years	Leasehold expiring on 09.05.2066	7,996	23.12.2005
FM H.S. (D) 1600 P.T. No. 1923 Mukim Padang Cina Daerah Kulim Kedah Darul Aman Bearing postal address: Jalan Hi Tech 2/3 Industrial Zone Phase II Kulim Hi-Tech Industrial Park, 09000 Kulim Kedah Darul Aman	Vacant industrial land	165,960	N/A	Leasehold expiring on 09.05.2066	2,089	09.11.2007
Metall-Treat Industries Pte Ltd (MTI) Pte Lot 3294K Bearing postal address: 57 Tuas View Walk 2 Singapore 637628 Lot No. 502T (JTC Private Lots A20116 & A20116A) Mukim 7 Bearing postal address: No. 28 Gul Avenue Singapore 629668 & No. 30 Gul Avenue Singapore 629670	Double storey intermediate terrace factory to house production facility	672/ 993	6 years	Leasehold expiring on 30.06.2046	2,482	27.07.2001
	2 single-storey semi-detached factory with mezzanine office to house production facilities	8,620/ 5,607	38 years	Leasehold expiring on 30.06.2038	9,749	27.08.2007

ANALYSIS OF SHAREHOLDING AS AT 30 APRIL 2008

Authorised Share Capital:	RM100,000,000
Issued and Paid-up Capital:	RM49,983,600 comprising 499,836,000 ordinary shares of RM0.10 each
Class of Shares:	Ordinary Shares of RM0.10 each
No. of Shareholders:	1,371
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	0.15	100	~
100 to 1,000	236	17.21	124,300	0.02
1,001 to 10,000	583	42.52	3,281,500	0.66
10,001 to 100,000	376	27.43	13,178,100	2.64
100,001 to 24,991,799	171	12.47	258,502,055	51.72
24,991,800 and above	3	0.22	224,749,945	44.96
Total	1,371	100.00	499,836,000	100.00

Note:

~ Negligible

SUBSTANTIAL SHAREHOLDERS

	Direct		Indirect	
	No. of shares	%	No. of shares	%
Wong Hua Choon	102,574,352	20.52	12,037,228	⁽¹⁾ 2.41
Quantum Spire Sdn Bhd	95,237,500	19.05	-	-
Dato' Ibrahim bin Mahmud	-	-	95,237,500	⁽²⁾ 19.05
Zulkifli bin Ali	-	-	95,237,500	⁽²⁾ 19.05
Yeo Lay Poh	26,938,093	5.39	12,037,228	⁽¹⁾ 2.41

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

	Direct		Indirect	
	No. of shares	%	No. of shares	%
Wong Hua Choon	102,574,352	20.52	12,037,228	⁽¹⁾ 2.41
Dato' Ibrahim bin Mahmud	-	-	95,237,500	⁽²⁾ 19.05
Dr Tay Kiang Meng	200,000	0.04	12,037,228	⁽¹⁾ 2.41
See Chuan Swee	145,300	0.03	-	-

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

ANALYSIS OF SHAREHOLDING AS AT 30 APRIL 2008 (CONT'D)

30 LARGEST SECURITIES ACCOUNT HOLDERS AS AT 30 APRIL 2008

	Name of shareholders	No. of shares	% of issued capital
1	Wong Hua Choon	102,574,352	20.52
2	Quantum Spire Sdn Bhd	91,125,000	18.23
3	Yeo Lay Poh	26,938,093	5.39
4	Lembaga Tabung Haji	23,700,000	4.74
5	Malaysia Nominees (Asing) Sendirian Berhad OCBC Capital Investment (Asia) Limited (00-00215-000)	19,736,000	3.95
6	Tan Choon Hock	18,610,000	3.72
7	Fong Pik Na	16,101,950	3.22
8	Lim Poh Suan	13,448,875	2.69
9	Frontken Holdings Pte Ltd	12,037,228	2.41
10	Kho Chew Swan	8,712,017	1.74
11	Anne Wong Moi Yin	7,314,975	1.46
12	OSK Nominees (Asing) Sdn Berhad DMG & Partners Securities Pte Ltd for Melvin Ong Eng Hoe	6,000,000	1.20
13	AIBB Nominees (Asing) Sdn Bhd Pledged Securities Account For Quek Gek Phong	6,000,000	1.20
14	AIBB Nominees (Asing) Sdn Bhd Pledged Securities Account For Yee Huang Khim	6,000,000	1.20
15	CIMSEC Nominees (Asing) Sdn Bhd Exempt An For CIMB-GK Securities Pte Ltd (Retail Clients)	5,760,700	1.15
16	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mohd Haniff Bin Abd Aziz	5,000,000	1.00
17	AMT Engineering Sdn Bhd	4,493,392	0.90
18	Quantum Spire Sdn Bhd	4,112,500	0.82
19	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Mohd Haniff Bin Abd Aziz	4,000,000	0.80
20	HLG Nominee (Tempatan) Sdn Bhd PB Trustee Services Berhad for HLG Growth Fund	3,758,900	0.75
21	Chan Bee Lian	3,667,500	0.73
22	TA Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Kho Chai Yam	3,150,000	0.63
23	Nik Ismail B. Tengku Besar Indra Raja	3,001,900	0.60
24	HDM Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Oh Kim Sun	2,981,200	0.60
25	Exion Asia Pte Ltd	2,733,500	0.55
26	HLG Nominee (Asing) Pte Ltd Exempt An For UOB Kay Hian Pte Ltd (A/C Clients)	2,663,300	0.53
27	Inter-Pacific Equity Nominees (Asing) Pte Ltd Kim Eng Securities Pte Ltd for Tay Yan Lim	2,519,800	0.50
28	Lee Yih Kang	2,228,600	0.45
29	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Chieng Hock Ngie	2,207,200	0.44
30	Nakahira Akira	2,047,600	0.41
	TOTAL	412,624,582	82.55

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fourth Annual General Meeting of the Company will be held at Eugenia Room, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 19 June 2008 at 10 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 2007 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
3. To approve the payment of Directors' fees amounting to RM144,000 for the financial year ended 31 December 2007. Resolution 3
4. To re-appoint Messrs Deloitte & Touche as Auditors of the Company for the financial year ending 31 December 2008 and to authorise the Board of Directors to fix their remuneration. Resolution 4

Special Business

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

ORDINARY RESOLUTION 1

Resolution 5

AUTHORITY TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

"**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 number 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

Resolution 6

PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

"**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 2.2 of the Circular to Shareholders dated 28 May 2008 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 authorised 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;

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 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 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."

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

6. 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: 28 May 2008

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.
6. Explanatory Notes on Special Business:-
 - a. The proposed Resolution 5, 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 Resolution 6, 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 28 May 2008, which is despatched together with this Annual Report, for more information.

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 Fourth Annual General Meeting of the Company are as follows:-

- i. Wong Hua Choon
- ii. Dr. Tay Kiang Meng

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 which appears on pages 14 to 16 of the Annual Report.

2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Four (4) Board of Directors' Meetings were held during the financial year ended 31 December 2007. Details of attendance of Directors at the Board Meetings are as follows:-

Directors	Number of Board Meetings Held	Attended
Wong Hua Choon	4	4
Dr Tay Kiang Meng	4	4
See Chuan Swee	4	4
Dato' Ibrahim Bin Mahmud	4	4
Dato' Haji Johar Bin Murat @ Murad	4	4
Ng Wai Pin	4	4

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

Date: Thursday, 19 June 2008
Time: 10 a.m.
Venue: Eugenia Room
Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur

Proxy Form

Number of shares held

I/We..... I.C. or Company No
(FULL NAME IN CAPITAL LETTERS)

CDS Account No of.....
(ADDRESS IN FULL)

being a member/members of FRONTKEN CORPORATION BERHAD hereby appoint
..... I.C. or Company No
(FULL NAME IN CAPITAL LETTERS) (NEW AND OLD I.C. NO.)

of.....
(ADDRESS IN FULL)

or failing him/her, I.C. or Company No
(FULL NAME IN CAPITAL LETTERS) (NEW AND OLD I.C. NO.)

of
(ADDRESS IN FULL)

or the Chairman of the meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Fourth Annual General Meeting of the Company to be held at Eugenia Room, Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 19 June 2008 at 10 a.m. or at any adjournment thereof.

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

Ordinary Resolutions		For	Against
1	Re-election of Wong Hua Choon		
2	Re-election of Dr Tay Kiang Meng		
3	Approval of the payment of Directors' fees		
4	Re-appointment of Auditors		
5	Approval for Directors to issue shares pursuant to Section 132D		
6	Proposed Renewal of Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		

Dated this day of 2008

.....
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)
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