

11. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

Deloitte.

16 June 2006

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

Dear Sirs,

ACCOUNTANTS' REPORT FRONTKEN CORPORATION BERHAD

A. INTRODUCTION

This Report has been prepared by Deloitte & Touche, an approved company auditor, for inclusion in the Prospectus of Frontken Corporation Berhad ("FCB") to be dated 22 June 2006 in conjunction with the listing of and quotation for the entire issued and paid-up share capital of FCB, comprising 475,000,000 ordinary shares of RM0.10 each ("FCB Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Securities") which include the public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application.

B. GENERAL INFORMATION

B.1 Incorporation and Principal Activity

FCB was incorporated in Malaysia under the Companies Act, 1965 on 29 April 2004 as a public limited company.

The principal activity of FCB is that of investment holding and provision of management services to its subsidiary companies.

B.2 Listing Exercise

In conjunction with and as an integral part of the listing of and quotation for its entire enlarged issued and paid-up share capital on the MESDAQ Market of Bursa Securities, FCB undertook/will undertake the following:

- (i) Splitting of the existing issued and paid-up share capital of FCB of two (2) ordinary shares of RM1.00 each into twenty (20) FCB Shares. The share split was completed on 8 March 2006;

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- (ii) Acquisition by FCB of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte. Ltd. ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 satisfied by the issuance of 291,232,780 new FCB Shares at an issue price of RM0.10 per share ("Acquisition"). The Acquisition was completed on 31 March 2006;
- (iii) Renounceable rights issue of 65,017,200 new FCB Shares on the basis of approximately two point twenty three (2.23) rights shares for every ten (10) existing FCB Shares held after the Acquisition at an issue price of RM0.10 per share. The renounceable rights issue was completed on 18 April 2006;
- (iv) Public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application; and
- (v) Listing of and quotation for the entire enlarged issued and paid-up share capital of FCB, comprising 475,000,000 FCB Shares on the MESDAQ Market of Bursa Securities.

The approvals for the abovesaid flotation scheme were obtained from the Securities Commission on 30 November 2005, 9 December 2005, 2 May 2006 and 16 May 2006.

The approval-in-principle for, inter-alia, the admission of FCB to the official list of the MESDAQ Market of Bursa Securities and for permission to deal in and for the listing of and quotation for the entire enlarged issued and paid-up share capital of FCB has been obtained from Bursa Securities on 19 April 2006.

B.3 Share Capital

The present authorised share capital of FCB is RM50,000,000, comprising 500,000,000 ordinary shares of RM0.10 each.

The present issued and paid-up share capital of FCB is RM35,625,000, comprising 356,250,000 ordinary shares of RM0.10 each.

Details of the movements in the issued and paid-up share capital of FCB since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares		Consideration For Shares Issued	Resultant Share Capital RM
	Of RM1.00 Each Allotted	Of RM0.10 Each Allotted		
29.04.2004	2	2	Cash; subscribers' shares	2
08.03.2006	(2)	20	Share split	2
31.03.2006	-	291,232,780	Acquisition of FS	29,123,280
18.04.2006	-	65,017,200	Renounceable rights issue	35,625,000

Upon completion of the public issue of 118,750,000 new FCB Shares, the issued and paid-up share capital of the company will be RM47,500,000, comprising 475,000,000 FCB Shares.

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B.4 Information on Subsidiary Companies of FCB

B.4.1 FS

FS was incorporated as a private limited company in the Republic of Singapore under the Companies Act, Cap. 50 on 5 September 1996 and commenced operations soon thereafter.

FS is principally involved in the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

The present authorised share capital of FS is SGD30,000,000 (approximately RM69,000,000), comprising 30,000,000 ordinary shares of SGD1.00 each.

The present issued and paid-up share capital of FS is SGD9,093,984 (approximately RM19,610,146), comprising 9,093,984 ordinary shares of SGD1.00 each.

Details of the movements in the issued and paid-up share capital of FS since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of SGD1.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital	
			SGD	RM
05.09.1996	4	Cash; subscribers' shares	4	7
18.12.1996	1,000,000	Capitalisation of amount due to shareholder	1,000,004	1,802,310
09.03.1998	50,000	Cash	1,050,004	1,924,935
12.10.1998	93,750	Cash	1,143,754	2,143,194
10.11.1998	250,000	Cash	1,393,754	2,715,844
03.05.1999	19,200	Cash	1,412,954	2,758,814
20.05.1999	150,000	Cash	1,562,954	3,090,014
20.12.1999	19,200	Cash	1,582,154	3,133,617
30.06.2001	56,250	Bonus issue	1,638,404	3,251,050
30.12.2001	1,361,596	Bonus issue	3,000,000	6,047,904
08.03.2002	50,002	Acquisition of Frontken Engineering Pte Ltd	3,050,002	6,152,363
19.01.2004	2,700,000	Bonus issue	5,750,002	12,159,053
27.03.2004	218,000	Capitalisation of amount due to a director	5,968,002	12,649,095
26.07.2004	2,517,425	Capitalisation of amount due to shareholders	8,485,427	18,201,276
21.12.2004	608,557	Capitalisation of amount due to shareholders	9,093,984	19,610,146

Note: For the purpose of translation, the share capital of FS, which is denominated in Singapore Dollar, has been translated into Ringgit Malaysia at the respective historical rates as disclosed in Section F.

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B.4.2 Subsidiary Companies of FS

B.4.2.1 Frontken Malaysia Sdn. Bhd. ("FM")

FM was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 31 May 1999 and commenced operations in 2002. The company is a wholly-owned subsidiary of FS.

FM is principally involved in the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

The present authorised share capital of FM is RM10,000,000, comprising 10,000,000 ordinary shares of RM1.00 each.

The present issued and paid-up share capital of FM is RM5,550,000, comprising 5,550,000 ordinary shares of RM1.00 each.

Details of the movements in the issued and paid-up share capital of FM since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of RM1.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital RM
31.05.1999	2	Cash; subscribers' shares	2
12.06.2002	300,000	Cash	300,002
28.07.2004	5,249,998	Cash	5,550,000

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B.4.2.2 Frontken Philippines Inc. ("FP")

FP was incorporated as a private limited company in the Republic of the Philippines under the Corporation Code of the Philippines (Batas Pambansa Blg. 68) on 25 November 2003 and commenced operations soon thereafter. The company is a 99.99% owned subsidiary of FS.

FP is principally involved in the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

The present authorised share capital of FP is PHP28,000,000 (approximately RM1,920,800), comprising 280,000 ordinary shares of PHP100.00 each.

The present issued and paid-up share capital of FP is PHP27,963,000 (approximately RM1,894,636), comprising 279,630 ordinary shares of PHP100.00 each.

Details of the movements in the issued and paid-up share capital of FP since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of PHP100.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital	
			PHP	RM
25.11.2003	16,200 (Class A voting stock*)	Cash; subscribers' shares	1,620,000	110,690
25.11.2003	10,800 (Class B voting stock*)	Cash; subscribers' shares	2,700,000	184,483
28.06.2004	112,280	Capitalisation of amount due to FS	13,928,000	944,214
10.09.2004	140,350	Capitalisation of amount due to FS	27,963,000	1,894,636

* *Class A shares shall be owned by Philippine nationals and Class B shares shall be owned by non-Philippine nationals. On 21 January 2005, all Class A and Class B common voting stocks were reclassified into a single class of common voting stocks.*

Note: For the purpose of translation, the share capital of FP, which is denominated in Philippines Peso, has been translated into Ringgit Malaysia at the respective historical rates as disclosed in Section J.

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B.4.3 Associated Company of FS

Frontken (Thailand) Co., Ltd. ("FT")

FT was incorporated as a private limited company in Thailand under the Ministry of Commerce on 19 May 2003 and commenced operations soon thereafter. The company is an associated company of FS whereby FS holds 39% of the issued and paid-up share capital in FT.

FT is principally involved in the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

The present authorised share capital of FT is THB20,000,000 (approximately RM2,000,000), comprising 2,000,000 ordinary shares of THB10.00 each.

The present issued and paid-up share capital of FT is THB20,000,000 (approximately RM1,916,325), comprising 2,000,000 ordinary shares of THB10.00 each.

Details of the movements in the issued and paid-up share capital of FT since the date of the incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of THB10.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital	
			THB	RM
19.05.2003	100,000	Cash; subscribers' shares	1,000,000	90,498
17.11.2003	800,000	Cash	9,000,000	852,306
30.01.2004	1,100,000	Cash	20,000,000	1,916,325

Note: For the purpose of translation, the share capital and results of FT, which are denominated in Thai Baht, have been translated into Ringgit Malaysia at the respective historical rates as follows:

Revenue and expenses - at average rate for the financial period

2003	RM9.3223 : THB100.00
2004	RM9.6744 : THB100.00
2005	RM9.4749 : THB100.00

Share capital - at respective historical rates

19.05.2003	RM9.0498 : THB100.00
18.11.2003	RM9.5226 : THB100.00
30.01.2004	RM9.6729 : THB100.00

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B.4.4 Subsidiary Company of FM

Frontken-AMT Engineering Sdn. Bhd. ("FAE")

FAE was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 13 May 2003 and commenced operations soon thereafter. The company is a 58.12% owned subsidiary of FM.

FAE is principally involved in the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works.

The present authorised share capital of FAE is RM5,000,000, comprising 5,000,000 ordinary shares of RM1.00 each.

The present issued and paid-up share capital of FAE is RM2,168,000, comprising 2,168,000 ordinary shares of RM1.00 each.

Details of the movements in the issued and paid-up share capital of FAE since the date of its incorporation are as follows:

Date Of Allotment	No. Of Ordinary Shares Of RM1.00 Each Allotted	Consideration For Shares Issued	Resultant Share Capital RM
13.05.2003	1,000	Cash; subscribers' shares	1,000
26.07.2004	1,470,062	Capitalisation of amount due to the shareholders	1,471,062
26.07.2004	628,938	Cash	2,100,000
17.11.2004	68,000	Cash	2,168,000

C. AUDITED FINANCIAL STATEMENTS

We have acted as the auditors of FCB since its incorporation on 29 April 2004. The financial statements of FCB for the financial period/year ended 31 December 2004 and 2005 were reported on by us without any qualification.

We have acted as auditors of FM and FAE for the financial years ended 31 December 2004 and 2005 and these financial statements were reported on by us without any qualification. The financial statements of FM and FAE for the financial period/year ended 31 December 2003 were audited by Skelchy Su Lim & Associates and Horwath, respectively without any qualification.

The financial statements of FS for financial years ended 31 December 2003 were audited by JH Tan & Associates and financial years ended 31 December 2004 and 2005 were jointly audited by JH Tan & Associates, Singapore and Deloitte & Touche, Singapore, respectively without any qualification.

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The financial statements of FP and FT for the financial period/year ended 31 December 2004 and 2005 were audited by ECD Accounting Firm (Philippines) and Diakonos Audit., Ltd. (Thailand), respectively without any qualification.

D. FINANCIAL STATEMENTS AND BASIS OF ACCOUNTING

The financial information in Section F, G, H, I, J, and K are prepared based on the audited financial statements of FS, FM, FP and FAE. The financial statements of the companies have been prepared in accordance with the applicable accounting standards of the countries in which the companies are incorporated.

E. DIVIDENDS

E.1 FS

Details of dividend paid by FS for the three financial years ended 31 December 2005 are as follows:

Financial Years/Period Ended	Issued And Paid-Up Share Capital SGD	Gross Dividend Rate %	Net Dividend	
			SGD	RM
2003	3,050,002	1.28%	30,500	66,527
2004	9,093,984	-	-	-
2005	9,093,984	-	-	-

E.2 Others

No dividend has been paid or declared by FCB, FM, FP and FAE since their respective date of incorporation.

F. FS GROUP CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of FS Group for the two financial years ended 31 December 2004 and 2005 set out below have been prepared based on the audited consolidated statutory financial statements of FS Group for such periods. The audited consolidated statutory financial statements for the two financial years ended 31 December 2004 and 2005 were prepared in accordance with the Singapore Companies Act, Chapter 50 and the Singapore Financial Reporting Standards applicable in the respective years for statutory filing purposes in the Republic of Singapore.

The audited consolidated statutory financial statements have not been revised or updated for subsequent events that occurred after their respective issue dates.

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The auditors' reports on the audited consolidated statutory financial statements for the two financial years ended 31 December 2004 and 2005 were unqualified and have been enclosed in Section 12 of the Prospectus.

The consolidated financial statements of the FS Group for the financial year ended 31 December 2003 have not been presented in this Report as the FS Group was only formed in year 2004 after the completion of the acquisition of FM, FP and FAE by FS in year 2004.

For the purpose of translation, the audited financial statements of the FS Group, which are denominated in Singapore Dollar, have been translated into Ringgit Malaysia as follows:

Revenue and expenses - at average rates for the respective years
 Assets and liabilities - at respective year/period end rates

	Average rates	Year end rates
2003	RM2.1812 : SGD1.00	RM2.2342 : SGD1.00
2004	RM2.2810 : SGD1.00	RM2.3258 : SGD1.00
2005	RM2.2763 : SGD1.00	RM2.2341 : SGD1.00

Share capital - at respective historical rates

05.09.1996	RM1.7729 : SGD1.00
18.12.1996	RM1.8023 : SGD1.00
09.03.1998	RM2.4525 : SGD1.00
12.10.1998	RM2.3281 : SGD1.00
10.11.1998	RM2.2906 : SGD1.00
03.05.1999	RM2.2380 : SGD1.00
20.05.1999	RM2.2080 : SGD1.00
20.12.1999	RM2.2710 : SGD1.00
30.06.2001	RM2.0877 : SGD1.00
30.12.2001	RM2.0541 : SGD1.00
08.03.2002	RM2.0891 : SGD1.00
19.01.2004	RM2.2247 : SGD1.00
27.03.2004	RM2.2479 : SGD1.00
26.07.2004	RM2.2055 : SGD1.00
21.12.2004	RM2.3151 : SGD1.00

Unappropriated profit as of 1 January 2003 is translated based on the respective historical exchange rates. All translation gains and losses are taken up and reflected in translation adjustment account under shareholders' funds.

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FS GROUP CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

	Note(s)	2004 RM	2005 RM
Revenue	3	50,520,199	63,863,315
Cost of sales (Note)		<u>(30,952,992)</u>	<u>(41,622,755)</u>
Gross profit		19,567,207	22,240,560
Depreciation of property, plant and equipment		(654,070)	(430,548)
Staff costs		(4,820,659)	(4,948,148)
Research and development expenses		(1,684,607)	(1,706,180)
Administrative expenses		(4,577,791)	(5,429,417)
Other income		<u>351,858</u>	<u>1,301,742</u>
Profit from operations	4	8,181,938	11,028,009
Loss on disposal of subsidiary companies	27	(372,312)	-
Finance costs	5	(493,230)	(993,168)
Share in results of associated company		<u>363,845</u>	<u>6,360</u>
Profit before tax		7,680,241	10,041,201
Income tax expense	6	<u>(1,760,745)</u>	<u>(2,027,826)</u>
Profit after tax before minority interests		5,919,496	8,013,375
Minority interests		<u>(62,381)</u>	<u>(100,861)</u>
Net profit for the year		<u>5,857,115</u>	<u>7,912,514</u>

Note: Included in cost of sales is depreciation charge for the year of RM3,031,912 and RM4,969,277 for 2004 and 2005 respectively.

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FS GROUP CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2005

	Note	2004 RM	2005 RM
NON-CURRENT ASSETS			
Property, plant and equipment	7	43,347,495	49,969,567
Investment in associated company	8	769,818	745,709
Intangible assets	9	610,523	430,065
Negative goodwill	10	(200,249)	-
		44,527,587	51,145,341
CURRENT ASSETS			
Inventories	11	1,199,810	3,373,098
Trade receivables	12	12,021,086	20,358,134
Other receivables and prepaid expenses	13	2,103,526	2,387,720
Cash and bank balances	14	2,223,558	4,693,605
		17,547,980	30,812,557
CURRENT LIABILITIES			
Trade payables	15	3,532,190	7,827,194
Other payables	16	5,920,675	3,982,743
Amount due to directors	17	500,396	-
Bank borrowings (secured) – current portion	18	2,515,497	5,491,261
Deferred income – current portion	19	-	63,192
Hire-purchase payables – current portion	20	1,284,956	1,934,563
Tax liabilities		1,298,638	2,433,565
		15,052,352	21,732,518
NET CURRENT ASSETS			
		2,495,628	9,080,039
LONG-TERM AND DEFERRED LIABILITIES			
Bank borrowings (secured) – non-current portion	18	9,931,417	13,766,370
Deferred income – non-current portion	19	-	124,318
Hire-purchase payables – non-current portion	20	2,561,936	4,174,693
Deferred tax liabilities	21	2,415,323	2,603,502
		(14,908,676)	(20,668,883)
		32,114,539	39,556,497
Represented by:			
Issued capital	22	19,610,146	19,610,146
Reserves		11,527,183	18,869,068
SHAREHOLDERS' EQUITY			
		31,137,329	38,479,214
MINORITY INTERESTS			
		977,210	1,077,283
		32,114,539	39,556,497

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FS GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

	Issued capital RM	Distributable reserve – Unappropriated profit RM	Non- distributable reserve - Translation reserve RM	Minority interests RM	Total RM
Balance as of 1 January 2004	6,152,363	10,404,080	-	173,906	16,730,349
Capitalisation of revenue reserves	6,006,690	(6,006,690)	-	-	-
Capitalisation of amounts due to shareholders and director	7,451,093	-	-	-	7,451,093
Profit for the year	-	5,857,115	-	62,381	5,919,496
Acquisition of additional interests in a subsidiary by minority shareholder	-	-	-	938,358	938,358
Translation adjustments	-	-	1,272,678	(197,435)	1,075,243
Balance as of 31 December 2004	19,610,146	10,254,505	1,272,678	977,210	32,114,539
Effect of adoption of FRS 103 in Singapore (Note 10)	-	192,354	-	-	192,354
Profit for the year	-	7,912,514	-	100,861	8,013,375
Translation adjustments	-	-	(762,983)	(788)	(763,771)
Balance as of 31 December 2005	19,610,146	18,359,373	509,695	1,077,283	39,556,497

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FS GROUP CONSOLIDATED CASH FLOW STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

	Note	2004 RM	2005 RM
Profit before tax		7,680,241	10,041,201
Adjustments for non-cash items:			
Share in results of associated company		(363,845)	(6,360)
Government grant		-	(873,933)
Interest income		(1,300)	(29,492)
Interest expense		493,230	993,168
Depreciation of property, plant and equipment		3,685,982	5,399,825
Translation difference		(254,412)	88,042
Amortisation of goodwill on consolidation		10,867	-
Amortisation of intangible assets		159,670	159,341
Amortisation of negative goodwill		(34,658)	-
Profit on disposal of property, plant and equipment		-	(166,819)
Loss on disposal of subsidiary companies		372,312	-
Operating profit before changes in working capital		<u>11,748,087</u>	<u>15,604,973</u>
Changes in working capital, net of effects from purchase and disposal of subsidiaries:			
Inventories		136,472	(2,262,537)
Trade receivables		(3,960,790)	(8,977,438)
Other receivables and prepaid expenses		1,471,124	(374,067)
Trade payables		(2,892,632)	4,518,028
Other payables		5,220,554	(1,736,692)
Amounts due to directors		526,626	(489,746)
		<u>501,354</u>	<u>(9,322,452)</u>
Cash generated from operations		12,249,441	6,282,521
Interest income received		1,300	29,492
Interest expense paid		(493,230)	(993,168)
Income tax paid		(773,829)	(530,530)
Net cash flows from operating activities		<u>10,983,682</u>	<u>4,788,315</u>
Cash flows from investing activities:			
Investments in associated company		(426,353)	-
Acquisition of property, plant and equipment (Note)		(17,065,539)	(9,315,389)
Proceeds from sales of other investments		2,281,000	-
Proceeds from sales of property, plant and equipment		-	246,623
Purchase of subsidiary companies, net of cash acquired	26	(509,377)	-
Proceeds from disposal of subsidiaries, net of cash disposed	27	32,227	-
Net cash flows used in investing activities		<u>(15,688,042)</u>	<u>(9,068,766)</u>

(Forward)

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	2004	2005
	RM	RM
Cash flows from financing activities:		
Repayment of term loans	(799,283)	(1,770,939)
Repayment of hire-purchase payables	(585,857)	(1,617,888)
Proceeds of term loans	4,526,480	7,006,579
Proceeds of issue of shares to minority shareholder of a subsidiary company	896,006	-
Government grant	-	1,064,985
	<u>4,037,346</u>	<u>4,682,737</u>
Net cash flows from financing activities		
	(667,014)	402,286
Net change in cash and cash equivalents		
Cash and cash equivalents at the beginning of year	1,458,620	838,312
Effect of exchange differences	46,706	(40,511)
	<u>838,312</u>	<u>1,200,087</u>
Cash and cash equivalents at the end of year (Note 23)		

Note: The FS Group acquired property, plant and equipment at an aggregate cost of RM19,203,039 and RM13,392,911, respectively in financial years 2004 and 2005 of which RM2,137,500 and RM4,077,522, respectively in financial years 2004 and 2005 was acquired under hire-purchase arrangements. Cash payments for the acquisition of property, plant and equipment amounted to RM17,065,539 and RM9,315,389, respectively in financial years 2004 and 2005.

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FS GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 2005

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the FS Group is prepared based on the audited consolidated statutory financial statements for the two financial years ended 31 December 2004 and 2005 prepared for statutory purposes. The audited consolidated statutory financial statements have been prepared under the historical cost convention.

The consolidated statutory financial statements of the FS Group have been prepared in accordance with the provisions of the Singapore Companies Act, Cap. 50 and the Singapore Financial Reporting Standards.

In 2005, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance in Singapore that are relevant to its operations and effective for annual periods beginning on or after 1 January 2005. The adoption of these new and revised FRSs and INT FRSs has no material effect on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the financial statements of FS and its subsidiary companies made up to the end of the financial year. Significant inter-company balances and transactions are eliminated on consolidation. The results of subsidiary companies acquired or disposed during the year are included from the effective date of acquisition or to the effective date of disposal respectively.

In the preparation of the consolidated financial statements, the financial statements of foreign subsidiary companies are translated into Ringgit Malaysia at rates of exchange ruling at the balance sheet date except for share capital and reserves which are translated at historical rates of exchange and profit and loss items which are translated at the average exchange rates for the financial year. Foreign currency translation differences are taken directly to reserves.

The interest of minority shareholders is stated at the minority's portion of the fair value of the assets and liabilities recognised.

Goodwill on consolidation

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

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

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 prorata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period.

Goodwill arising from an acquisition is included in the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the FS Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary company at the date of acquisition over the cost of acquisition. Prior to 1 January 2005, negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life (not more than 5 years) of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

With effect from 1 January 2005, negative goodwill arising on the acquisition of subsidiaries is recognised immediately in the income statement. Negative goodwill previously recorded in the balance sheet is derecognised at the beginning of the first financial period after 1 January 2005 with a corresponding adjustment to the opening balance of accumulated profits.

Revenue

Revenue represent the invoiced value of goods supplied and services rendered, less discounts.

Revenue from services rendered is recognised upon completion of services rendered to the customers which coincides with their acceptance.

Revenue from sale of goods is recognised upon passage of title to the customers.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

Employee benefits

i) Pension and contributions

The FS Group makes contributions to the Central Provident Fund Scheme in Singapore and the Employees Provident Fund Scheme in Malaysia which are defined contribution pension schemes. These contributions are recognised as an expense in the period in which the related service is performed.

ii) Annual leave

Employee's entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to balance sheet date.

Income tax expense

Income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The FS Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the subsidiary companies operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are 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 to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement, 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.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

Foreign currencies and translation

Transactions arising in foreign currencies during the financial year are converted at rates closely approximating those ruling on the transaction dates. Foreign currency assets and liabilities are translated into Ringgit Malaysia at exchange rates ruling at the balance sheet date. All exchange differences arising from conversion are included in the income statement.

For inclusion in the consolidated financial statements, all assets and liabilities of the foreign subsidiary companies are translated into Ringgit Malaysia at the exchange rates ruling at the balance sheet date. The results of the foreign subsidiary companies are translated into Ringgit Malaysia at the average exchange rates for the year. Exchange differences are classified as equity and transferred to the group's translation reserves.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Depreciation of property, plant and equipment is calculated on the straight-line method to write-off the costs of property, plant and equipment over their estimated useful lives, as follows:

Leasehold factories	-	over remaining lease period
Freehold building	-	50 years
Factory renovation	-	over remaining lease period
Plant and machinery	-	5 to 10 years
Motor vehicles	-	5 to 10 years
Office equipment and furniture	-	3 to 10 years

Fully depreciated property, plant and equipment are retained in these financial statements until they are no longer in use and no further charges for depreciation is made in respect of these assets.

Depreciation is not provided on freehold land and capital work-in-progress.

Investment in subsidiary companies

Subsidiary companies are those companies controlled by the FS Group. Control exists when the FS Group has the power, directly or indirectly, to govern the financial and operating policies of a company.

Investment in associated company

An associated company is defined as a company, not being a subsidiary, in which the FS Group has a long term interest of not less than 20% of the issued share capital and in whose financial and operating policy decisions the Group exercises significant influence.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

Investment in associated company is accounted for in the consolidated financial statements using the equity method. The FS Group's share of results of associated company is based on the latest available audited financial statements and reflected in the consolidated income statement. The FS Group's share of post-acquisition results and reserves of associated company is reflected in the book value of the investment in the consolidated balance sheet.

Intangible assets

Costs relating to intangible assets, which are acquired, are capitalised and amortised on a straight-line basis over their 5 years useful life.

Impairment of assets

At each balance sheet date, the FS Group reviews the carrying amounts of property, plant and equipment, investment in associated company and intangible 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories, primarily consumables, materials and work-in-progress, are valued at the lower of cost and net realisable value. The costs of materials and consumables comprise the original purchase price plus the costs incurred in bringing the inventories to their present location and condition. Cost is determined on the first-in first-out basis.

Work-in-progress includes that the cost of materials, direct labour and attributable production overheads based on normal level of activity.

Net realisable value is the estimated selling price less all estimated costs to completion and anticipated cost of disposal.

Trade receivables

Trade receivables are stated at original invoice amount less allowance made for doubtful receivables based on a review of all outstanding amounts at the period end. An allowance for doubtful receivables is made when there is objective evidence that the FS Group will not be able to collect all amounts due according to original terms of receivables. Bad debts are written off when identified.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

Related parties

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, bank overdrafts and other short-term highly liquid investments that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost. Payables to related parties are carried at cost.

Provisions

Provisions are recognised when the FS Group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Assets acquired under hire-purchase agreement

Assets under leases which in substance transfer the risks and benefits of ownership of the assets to the FS Group are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair values of the leased assets at the beginning of their respective lease terms. Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.

Deferred income

Income-related grants are credited to the income statement over the periods necessary to match them with the related expenditure.

Asset-related grants are accounted for as deferred income and recognised in the income statement on a systematic and rational basis over the useful lives of the assets.

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

3. REVENUE

	FS Group	
	2004 RM	2005 RM
Rendering of services	49,514,052	58,375,434
Sales of goods	1,006,147	5,487,881
	<u>50,520,199</u>	<u>63,863,315</u>

4. PROFIT FROM OPERATIONS

This is arrived at:

	FS Group	
	2004 RM	2005 RM
After charging:		
Amortisation of:		
Intangible assets	159,670	159,341
Goodwill on consolidation	10,867	-
Loss on disposal of subsidiary company	372,312	-
Depreciation of property, plant and equipment	3,685,982	5,399,825
Directors' remuneration	1,044,698	1,127,604
Staff costs	5,419,679	7,408,333
Net foreign exchange loss	11,483	-
And crediting:		
Interest income	(1,300)	(29,492)
Amortisation of negative goodwill	(34,658)	-
Government grants	-	(873,933)
Profit on disposal of property, plant and equipment	-	(166,819)
Net foreign exchange gain	-	(4,744)
	<u>-</u>	<u>(4,744)</u>

The remuneration of directors and other members of key management during the year is as follows:

	FS Group	
	2004 RM	2005 RM
Short-term benefits	2,261,826	2,572,376
Post-employment benefits	166,684	166,684
	<u>2,428,510</u>	<u>2,739,060</u>

The remuneration of directors and key management is determined by Mr Wong Hua Choon having regard to the performance of individual and market trends.

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

5. FINANCE COSTS

	FS Group	
	2004 RM	2005 RM
Interest expense on:		
Term loans	314,310	595,524
Bank overdraft	29,702	123,794
Hire-purchase	149,218	273,850
	<u>493,230</u>	<u>993,168</u>

6. INCOME TAX EXPENSE

	FS Group	
	2004 RM	2005 RM
Estimated tax payable:		
Current year	1,152,649	1,543,395
Underprovision for prior years	-	209,620
Deferred tax (Note 21):		
Current year	549,153	502,805
Overprovision for prior years	-	(227,994)
	549,153	274,811
Share in income tax expense of associated company	58,943	-
	<u>1,760,745</u>	<u>2,027,826</u>

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

	FS Group	
	2004 RM	2005 RM
Profit before tax	<u>7,680,241</u>	<u>10,041,201</u>
Tax calculated at the relevant statutory tax rates in:		
Singapore – 20%	1,536,048	2,008,240
Others	36,820	69,054
Tax effects of non-deductible/(taxable) items	249,722	(5,921)
Overprovision for prior years	-	(18,374)
Change in Singapore tax rate	(146,974)	-
Singapore stepped income exemption	(23,951)	(23,901)
Others	109,080	(1,272)
	<u>1,760,745</u>	<u>2,027,826</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

Included in plant and machinery of the FS Group are the following:

	FS Group	
	2004 RM	2005 RM
Research and development equipment	1,984,575	1,908,918
Capital work-in-progress	<u>6,171,113</u>	<u>121,285</u>

Following are the carrying amounts of property, plant and equipment that are held under hire-purchase:

	FS Group	
	2004 RM	2005 RM
Plant and machinery	3,064,088	6,298,985
Motor vehicles	1,507,316	1,335,192
Office equipment and furniture	<u>114,490</u>	<u>99,884</u>
	<u>4,685,894</u>	<u>7,734,061</u>

8. INVESTMENT IN ASSOCIATED COMPANY

	FS Group	
	2004 RM	2005 RM
Unquoted shares – at cost	800,454	769,984
Share in post-acquisition loss	<u>(30,636)</u>	<u>(24,275)</u>
	<u>769,818</u>	<u>745,709</u>

The details of associated company, which is incorporated in Thailand, are as follows:

Name of Associated Company	Principal Activities	Effective Equity Interest	
		2004 %	2005 %
Frontken (Thailand) Co Ltd	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works	39	39

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

9. INTANGIBLE ASSETS

	FS Group	
	2004 RM	2005 RM
License fees, at cost	814,030	814,030
Accumulated amortisation		
Balance at beginning of year	40,702	203,507
Charge for the year	159,670	159,341
Translation adjustment	3,135	(10,977)
Balance at end of year	(203,507)	(351,871)
Translation adjustment	-	(32,094)
	<u>610,523</u>	<u>430,065</u>

10. NEGATIVE GOODWILL

	FS Group	
	2004 RM	2005 RM
At beginning of year	-	200,249
Arising from acquisition of subsidiary companies	231,049	-
Amortisation for the year	(34,658)	-
Translation adjustment	3,858	(7,895)
Transfer to unappropriated profit	-	(192,354)
At end of year	<u>200,249</u>	<u>-</u>

11. INVENTORIES

	FS Group	
	2004 RM	2005 RM
At cost:		
Consumables	992,814	1,593,890
Trading inventories	206,996	-
Work-in-progress	-	1,779,208
	<u>1,199,810</u>	<u>3,373,098</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

12. TRADE RECEIVABLES

	FS Group	
	2004 RM	2005 RM
Outside parties	12,300,182	20,240,173
Less: Allowance for doubtful debts	<u>(279,096)</u>	<u>(268,092)</u>
	12,021,086	19,972,081
Related party	-	170,480
Associated company	<u>-</u>	<u>215,573</u>
	<u>12,021,086</u>	<u>20,358,134</u>

Amounts due from related party and associated company are unsecured, interest free and repayable on demand. Related party is a company in which certain directors of FS have financial or equity interests.

The FS Group's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	FS Group	
	2004 RM	2005 RM
United States dollars	638,104	1,406,907
Ringgit Malaysia	176,131	102,862
Euro	<u>89,783</u>	<u>82,143</u>

13. OTHER RECEIVABLES AND PREPAID EXPENSES

	FS Group	
	2004 RM	2005 RM
Other receivables	310,761	1,232,508
Refundable deposits	1,329,655	807,111
Prepaid expenses	<u>313,258</u>	<u>210,506</u>
	1,953,674	2,250,125
Related party	6,608	-
Associated company	<u>143,244</u>	<u>137,595</u>
	<u>2,103,526</u>	<u>2,387,720</u>

Amounts due from related party and associated company are unsecured, interest free and repayable on demand. Related party is a company which certain directors of FS have financial or equity interests.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

14. CASH AND BANK BALANCES

	FS Group	
	2004 RM	2005 RM
Cash on hand	29,766	25,225
Cash at banks	2,193,792	4,668,380
	<u>2,223,558</u>	<u>4,693,605</u>

The FS Group's cash at banks and on hand that are not denominated in the functional currencies of the respective entities are as follows:

	FS Group	
	2004 RM	2005 RM
United States dollars	607,797	2,454,038

15. TRADE PAYABLES

	FS Group	
	2004 RM	2005 RM
Outside parties	3,210,139	7,714,620
Related party	322,051	112,574
	<u>3,532,190</u>	<u>7,827,194</u>

Amount due to related party is unsecured, interest free and repayable on demand. Related party is a company in which certain directors of FS have financial or equity interests.

The FS Group's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

	FS Group	
	2004 RM	2005 RM
United States dollars	261,855	2,443,243
Singapore dollars	19,723	94,480
Ringgit Malaysia	472,740	10,087
Euro	-	36,521
Thai Baht	2,586	-

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

16. OTHER PAYABLES

	FS Group	
	2004 RM	2005 RM
Other payables	5,733,030	3,710,853
Amount due to defined contributions plans	187,645	271,890
	<u>5,920,675</u>	<u>3,982,743</u>

The FS Group's other payables that are not denominated in the functional currencies of the respective entities are as follows:

	FS Group	
	2004 RM	2005 RM
United States dollars	147,444	-
Singapore dollars	313,583	-
Ringgit Malaysia	2,098	-
Euro	5,131	-
	<u>147,444</u>	<u>-</u>

17. AMOUNT DUE TO DIRECTORS

Amount due to directors is non-trade in nature, unsecured, interest free and had been settled during the 2005 financial year.

18. BANK BORROWINGS - SECURED

	FS Group	
	2004 RM	2005 RM
Bank overdraft	1,385,246	3,493,518
Bank loans	11,061,668	15,764,113
	<u>12,446,914</u>	<u>19,257,631</u>

The borrowings are repayable as follows:

On demand or within one year	2,515,497	5,491,261
In the second year	1,099,741	2,024,410
In the third year	1,076,015	2,132,730
In the fourth year	1,135,932	2,224,812
After five years	6,619,729	7,384,418
	<u>12,446,914</u>	<u>19,257,631</u>
Less: Amounts due for settlement within 12 months (shown under current liabilities)	<u>(2,515,497)</u>	<u>(5,491,261)</u>
Amounts due after 12 months	<u>9,931,417</u>	<u>13,766,370</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

FS

Bank borrowings of FS are secured by means of a charge over FS's leasehold factories located at 156A Gul Circle Singapore 629614 and 15 Gul Drive Singapore 629466 with net book value of RM5,496,095 (RM6,142,912 in 2004) and RM7,240,572 (RMNil in 2004) respectively. The bank borrowings are jointly and severally guaranteed by the directors of FS.

The bank borrowings of FS are denominated in Singapore dollars.

- (i) Bank overdraft is repayable on demand. The average effective interest rate on bank overdraft is approximately 5% (5% in 2004) per annum.
- (ii) Bank loans are arranged at floating rates, thus exposing the FS Group to cash flow interest rate risk. FS has four principal bank loans:
 - (a) a loan of RM4,233,027 (RM4,875,902 in 2004). The loan was raised on 13 July 2001. Repayments commenced in August 2001 and will continue until July 2013. The loan carries interest at rates ranging from 2.65% to 3.50% (2.65% to 5.00% in 2004) per annum.
 - (b) a loan of RM3,914,139 (RM4,480,000 in 2004). The loan was raised on 16 June 2004. Repayments commenced in August 2004 and will continue until June 2014. The loan carries interest at rates ranging from 2.65% to 3.50% (2.65% in 2004) per annum.
 - (c) a loan of RM3,189,028 (RMNil in 2004). The loan was raised on 17 August 2004. Repayments commenced in March 2005 and will continue until February 2010. The loan carries interest at rates ranging from 2.65% to 3.50% (Nil% in 2004) per annum.
 - (d) a loan of RM2,958,733 (RMNil in 2004). The loan was raised on 1 November 2004. Repayments commenced in May 2005 and will continue until April 2017. The loan carries interest at rates ranging from 2.65% to 3.50% (Nil% in 2004) per annum.

Subsidiary company

In addition to what has been mentioned above, a subsidiary company has bank loan of RM1,397,401 (RM1,552,713 in 2004) which is secured by means of a charge over the freehold land and factory building of the subsidiary company with net book value of RM2,662,042 (RM2,681,208 in 2004). The bank loan is jointly and severally guaranteed by the directors of the subsidiary company and its immediate holding company. It bears interest at rates ranging from 3.95% to 7.25% (3.95% to 6.40% in 2004) per annum and repayable in June 2013.

As of 31 December 2005, the FS Group has available RM6,072,315 (RM5,990,330 in 2004) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

19. DEFERRED INCOME

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

	FS Group	
	2004	2005
	RM	RM
Deferred income	-	301,200
Transferred to income statement	-	(113,690)
	-	187,510
Less: To be transferred to income statement within one year	-	(63,192)
	-	124,318

20. HIRE-PURCHASE PAYABLES

	FS Group	
	2004	2005
	RM	RM
Minimum payments payable:		
Within one year	1,467,033	2,137,594
Between two to five years	2,720,965	4,434,778
More than five years	287,532	213,542
	4,475,530	6,785,914
Less: Finance charges allocated to future periods	(628,638)	(676,658)
Principal outstanding	3,846,892	6,109,256
Payable as follows:		
Within one year	1,284,956	1,934,563
Between two to five years	2,333,496	3,978,414
More than five years	228,440	196,279
More than one year	2,561,936	4,174,693
	3,846,892	6,109,256

It is the FS Group's policy to acquire certain of its plant and equipment under hire-purchase. The hire-purchase term ranges from 2 years to 10 years. For the year ended 31 December 2005, the hire-purchase interest rates range between 2.30% to 9.15% (2.30% to 5.50% in 2004) per annum are levied on the above hire-purchase agreements of the FS Group. Interest rates are fixed at the contract date, and thus expose the FS Group to fair value interest rate risk. All hire-purchase are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

All hire-purchase obligations are denominated in the functional currencies of the respective entities.

The fair value of the FS Group's hire-purchase obligations approximates their carrying amount. The FS Group's obligations under hire-purchase are secured by the title to the assets under hire-purchase.

21. DEFERRED TAX LIABILITIES

	FS Group	
	2004 RM	2005 RM
At beginning of the year	1,697,834	2,415,323
Arising from acquisition of subsidiary company	63,327	-
Charge for the year	549,153	274,811
Translation adjustment	105,009	(86,632)
	<u>2,415,323</u>	<u>2,603,502</u>
At end of year	<u>2,415,323</u>	<u>2,603,502</u>

Deferred tax liabilities represent the tax effects of the temporary differences arising from the following items:

Property, plant and equipment	2,547,246	2,773,564
Unabsorbed capital allowances	-	(63,002)
Others	(131,923)	(107,060)
	<u>2,415,323</u>	<u>2,603,502</u>

The unabsorbed capital allowances are subject to the agreement of the relevant tax authorities.

22. SHARE CAPITAL

	FS Group	
	2004 RM	2005 RM
Authorised:		
Ordinary shares of SGD1 each		
At beginning of year	11,500,000	69,000,000
Created during the year	57,500,000	-
	<u>69,000,000</u>	<u>69,000,000</u>
At end of year	<u>69,000,000</u>	<u>69,000,000</u>
Issued and fully paid:		
Ordinary shares of SGD1 each		
At beginning of year	6,152,363	19,610,146
Issued during the year	13,457,783	-
	<u>19,610,146</u>	<u>19,610,146</u>
At end of year	<u>19,610,146</u>	<u>19,610,146</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

2004

By way of a shareholders' meeting held on 26 July 2004, the Class "A" and Class "B" authorised share capital and the issued and paid-up share capital were converted into ordinary shares of SGD1 each.

Subsequent to that, the authorised share capital was increased from SGD5,000,000 (approximately RM11,500,000), comprising 5,000,000 ordinary shares of SGD1 each to SGD30,000,000 (approximately RM69,000,000), comprising 30,000,000 ordinary shares of SGD1 each through the creation of additional 25,000,000 ordinary shares of SGD1 each.

The issued and paid-up share capital was increased from SGD3,050,002 (approximately RM6,152,363), comprising 3,050,002 ordinary shares of SGD1 each to SGD9,093,984 (approximately RM19,610,146), comprising 9,093,984 ordinary shares of SGD1 each by way of issue of 6,043,982 new ordinary shares of SGD1 each at par as follows:

- (i) 2,700,000 ordinary shares of SGD1 each as bonus issue by way of capitalisation of the unappropriated profit; and
- (ii) 3,343,982 ordinary shares of SGD1 each through capitalisation of amounts due to director and shareholders.

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

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	FS Group	
	2004	2005
	RM	RM
Cash at banks	2,193,792	4,668,380
Cash on hand	29,766	25,225
	<u>2,223,558</u>	<u>4,693,605</u>
Bank overdrafts	<u>(1,385,246)</u>	<u>(3,493,518)</u>
	<u>838,312</u>	<u>1,200,087</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

24. RELATED PARTY TRANSACTIONS

Significant related party transactions during the financial years are as follows:

	FS Group	
	2004 RM	2005 RM
Purchase of property, plant and equipment	843,970	4,211,155
Disposal of other investments	(2,281,000)	-
Rental income	(25,319)	-
Purchases of goods	246,871	1,252,213
Sales of goods and services	(38,373)	(866,455)

25. MANAGEMENT OF FINANCIAL RISKS

The main financial risks arising from the FS Group are interest rate risk and credit risks. The directors review and agree policies for managing each of these risks and they are summarised below:

(i) **Interest rate risk**

The FS Group obtains additional financing through bank borrowings and hire-purchase payables. The FS Group's policy is to obtain the most favourable interest rates available. Any surplus funds are placed with reputable banks.

Information relating to the FS group's interest rate exposure is disclosed in Notes 18 and 20.

(ii) **Credit risk**

Credit risk refers to the risk that counterparts may default on their obligations to repay the amount owing to the FS Group resulting in a loss to the FS Group.

The FS Group places its cash with creditworthy institutions. The carrying amounts of financial assets recorded in the financial statements, net of any allowance for losses, represent the FS Group's maximum exposure to credit risks.

(iii) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit line available.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

(iv) Foreign exchange risk

Currently, the FS Group does not enter into foreign exchange contracts to hedge its foreign exchange risk resulting from cash flows from transactions denominated in foreign currencies. However the FS Group reviews its foreign exchange exposure periodically to ensure it is kept at an acceptable level.

(v) Fair value

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, other liabilities and amounts payable approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

26. ACQUISITION OF SUBSIDIARY COMPANIES

	FS Group	
	2004 RM	2005 RM
Non-current assets	7,320,233	-
Non-current liabilities	(2,169,361)	-
Net current liabilities	(4,310,365)	-
Net assets recognised previously as share of interest in an associated company	<u>(250,787)</u>	<u>-</u>
Group's share of net assets acquired	589,720	-
Negative goodwill	<u>(231,049)</u>	<u>-</u>
Total cash consideration	358,671	-
Less: Cash and cash equivalents	<u>150,706</u>	<u>-</u>
Cash flow on acquisition, net of cash and cash equivalents acquired	<u>509,377</u>	<u>-</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

27. DISPOSAL OF SUBSIDIARY COMPANIES

	FS Group	
	2004 RM	2005 RM
Non-current assets	4,042,625	-
Net current liabilities	(3,041,663)	-
Minority interests	(177,549)	-
Group's share of net assets disposed of	823,413	-
Goodwill unamortised	(45,027)	-
Loss on disposal of subsidiary companies	(372,312)	-
Total cash consideration	406,074	-
Less: Cash and bank balances	(373,847)	-
Cash flow on disposal, net cash and cash equivalents disposed of	32,227	-

28. CAPITAL COMMITMENTS

- (a) The FS Group has committed and contracted for the purchase of a property, plant and equipment of approximately RM1,230,839 (RM3,442,184 in 2004). The FS Group has committed but not contracted for the purchase of a property, plant and equipment of approximately RMNil (RM1,771,425 in 2004).
- (b) Rental and lease expenses for all operating leases during the year amounted to RM7,214,077 (RM4,770,305 in 2004) for the FS Group.

FS's land are leased for periods ranging from 13 years to 20 years. The rent payable is subject to periodic revision. The amounts payable are estimated as follows:

	FS Group	
	2004 RM	2005 RM
Within one year	449,859	582,193
Between two and five years	1,446,557	1,841,044
After five years	2,967,581	4,657,100
	4,863,997	7,080,337

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

29. SIGNIFICANT EVENTS

- (a) As an integral part of the proposed listing of and quotation for the entire issued and paid-up capital of FCB, a company incorporated in Malaysia, on the MESDAQ Market of Bursa Securities, the shareholders of FS entered into a conditional share sale agreement with FCB on 25 January 2005 for the disposal of the entire shareholding in FS to FCB. Upon completion of the said proposed disposal, FS becomes a wholly-owned subsidiary of FCB.
- (b) On 30 November 2005, 9 December 2005 and 2 May 2006 the Securities Commission ("SC") has approved the abovementioned listing application, subject to FCB fulfilling certain requirements as outlined by the SC.

30. SUBSEQUENT EVENTS

- (a) On 3 January 2006, the Group accepted the letter of offer for the lease of land held under H.S. (D) 1600, P.T. 1923, Mukim Padang China, Daerah Kulim, Kedah for a contract price of approximately RM1,563,870.
- (b) On the 7 March 2006, the Group accepted the letter of offer for the Industrial Hire Purchase-i Facility. This equipment financing amounted to approximately RM5,585,250 is under a corporate guarantee by FS.
- (c) On 31 March 2006, the board of directors approved the transfer of 9,093,984 shares in FS to FCB. As a result, FS became a wholly-owned subsidiary company of FCB.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

31. SUBSIDIARY COMPANIES

Details of subsidiary companies of FS are as follows:

Name of Subsidiary Company	Country of Incorporation	Principal Activities	Effective Equity Interest	
			2004 %	2005 %
Direct subsidiary companies				
Frontken Philippines Inc ⁺	Philippines	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works	99	99
Frontken Malaysia Sdn Bhd [*]	Malaysia	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works	100	100
Indirect subsidiary company				
Frontken-AMT Engineering Sdn Bhd [*]	Malaysia	Provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes, including mechanical and chemical engineering works	58.12	58.12

* The financial statements of these subsidiary companies are audited by Deloitte & Touche, Malaysia.

+ The financial statements of this subsidiary company are audited by another firm of auditors.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

F.1 FINANCIAL RATIOS OF THE FS GROUP

The following financial ratios of the FS Group are computed based on the audited financial statements of the FS Group for the two financial years ended 31 December 2004 and 2005:

	2004	2005
Number of / Weighted average number of ordinary shares of SGD1.00 each	<u>6,880,716</u>	<u>9,093,984</u>
Pre-tax earnings per ordinary share of SGD1.00 each (RM)	<u>1.12</u>	<u>1.10</u>
Net earnings per ordinary share of SGD1.00 each (RM)	<u>0.85</u>	<u>0.87</u>
Gross profit margin (%)	<u>38.73</u>	<u>34.83</u>
Net profit margin (%)	<u>11.63</u>	<u>12.39</u>
Net tangible assets per ordinary share of SGD1.00 each based on number of shares in issue as at balance sheet date (RM)	<u>3.38</u>	<u>4.18</u>
Return on shareholders' equity (%)	<u>18.87</u>	<u>20.57</u>
Trade debtor turnover period (days)	<u>87</u>	<u>116</u>
Gearing ratio* (time)	<u>0.52</u>	<u>0.66</u>

* Computed based on interest-bearing borrowings over shareholders' equity.

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche
G. FCB

The income statements, balance sheets, statements of changes in equity and cash flow statements of FCB based on the audited financial statements for the two financial period/year ended 31 December 2004 and 2005 are as follows:

**FCB
INCOME STATEMENTS
FOR THE FINANCIAL PERIOD/YEAR ENDED 31 DECEMBER 2004 AND 2005**

	2004 (8 months) RM	2005 (12 months) RM
Revenue	-	-
Other operating expenses	<u>(5,218)</u>	<u>(4,000)</u>
Loss before tax	(5,218)	(4,000)
Income tax expense	<u>-</u>	<u>-</u>
Net loss for the period/year	<u>(5,218)</u>	<u>(4,000)</u>
Number of ordinary shares of RM1.00 each	<u>2</u>	<u>2</u>
Pre-tax loss per ordinary share of RM1.00 each	<u>(2,609)</u>	<u>(2,000)</u>
Net loss per ordinary share of RM1.00 each	<u>(2,609)</u>	<u>(2,000)</u>
Gross profit margin (%)	<u>-</u>	<u>-</u>
Net profit margin (%)	<u>-</u>	<u>-</u>

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche
**FCB
BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2005**

	2004 RM	2005 RM
CURRENT ASSET		
Prepaid expenses	-	181,757
CURRENT LIABILITY		
Other payables and accrued expenses	(5,216)	(190,973)
NET LIABILITIES	<u>(5,216)</u>	<u>(9,216)</u>
Represented by:		
Issued capital	2	2
Accumulated loss	<u>(5,218)</u>	<u>(9,218)</u>
CAPITAL DEFICIENCY	<u>(5,216)</u>	<u>(9,216)</u>
Net liabilities per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date	<u>(2,608)</u>	<u>(4,608)</u>
After-tax return on shareholders' equity (%)	<u>-</u>	<u>-</u>
Trade debtor turnover period (days)	<u>-</u>	<u>-</u>
Gearing ratio	<u>-</u>	<u>-</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

FCB
STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD/YEAR ENDED 31 DECEMBER 2004 AND 2005

	Issued capital RM	Accumulated loss RM	Total RM
Balance as of 29 April 2004 (date of incorporation)	2	-	2
Net loss for the period	<u>-</u>	<u>(5,218)</u>	<u>(5,218)</u>
Balance as of 31 December 2004	2	(5,218)	(5,216)
Net loss for the year	<u>-</u>	<u>(4,000)</u>	<u>(4,000)</u>
Balance as of 31 December 2005	<u>2</u>	<u>(9,218)</u>	<u>(9,216)</u>

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche
**FCB
CASH FLOW STATEMENTS
FOR THE FINANCIAL PERIOD/YEAR ENDED 31 DECEMBER 2004 AND 2005**

	2004 (8 months) RM	2005 (12 months) RM
Loss before tax	(5,218)	(4,000)
Changes in working capital:		
Prepaid expenses	-	(181,757)
Other payables and accrued expenses	5,216	185,757
	<hr/>	<hr/>
Net cash used in operating activities	(2)	-
Cash flows from financing activity:		
Proceeds from issue of shares	2	-
	<hr/>	<hr/>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period/year	-	-
	<hr/>	<hr/>
Cash and cash equivalents at end of period/year	-	-
	<hr/>	<hr/>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

H. FS

The income statements and balance sheets of FS based on the audited financial statements for the three financial years ended 31 December 2005 are as follows:

FS INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
Revenue	28,108,145	44,813,630	53,219,168
Cost of sales (Note)	(17,379,293)	(27,409,616)	(34,685,119)
Gross profit	10,728,852	17,404,014	18,534,049
Depreciation of property, plant and equipment	(358,587)	(553,170)	(281,392)
Staff costs	(3,078,269)	(4,426,659)	(4,022,607)
Research and development expenses	(680,340)	(1,568,981)	(1,573,843)
Administrative expenses	(1,889,846)	(3,734,649)	(4,240,927)
Other income	253,259	317,100	1,290,059
Profit from operations	4,975,069	7,437,655	9,705,339
Gain on disposal of subsidiary companies	-	175,667	-
Finance costs	(335,748)	(393,260)	(848,812)
Profit before tax	4,639,321	7,220,062	8,856,527
Income tax expense	(887,748)	(1,451,945)	(1,764,941)
Net profit for the year	3,751,573	5,768,117	7,091,586
Number of / Weighted average number of ordinary shares of SGD1.00 each	3,050,002	6,880,716	9,093,984
Pre-tax earnings per ordinary share of SGD1.00 each (RM)	1.52	1.05	0.97
Net earnings per ordinary share of SGD1.00 each (RM)	1.23	0.84	0.78
Gross profit margin (%)	38.17	38.84	34.83
Net profit margin (%)	13.35	12.87	12.99

Note: Included in cost of sales is depreciation charge for the year of RM2,154,733, RM2,399,890 and RM3,786,133 for 2003, 2004 and 2005 respectively.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

FS
BALANCE SHEETS
AS OF 31 DECEMBER 2003, 2004 AND 2005

	2003	2004	2005
	RM	RM	RM
NON-CURRENT ASSETS			
Property, plant and equipment	19,848,934	30,740,631	35,987,330
Investment in subsidiary companies	225,681	7,811,171	10,881,908
Investment in associated company	495,298	800,454	768,894
Other investments	2,234,200	-	-
Intangible assets	742,872	610,522	430,066
CURRENT ASSETS			
Inventories	1,242,689	799,701	2,789,296
Trade receivables	6,142,117	9,994,625	14,024,246
Other receivables and prepaid expenses	215,721	1,621,485	554,968
Amount due from related parties	256,236	-	170,480
Amount due from subsidiary companies	1,518,615	4,096,329	4,333,251
Amount due from associated company	2,746,388	143,244	353,169
Cash and bank balances	1,235,432	319,051	3,088,652
	<u>13,357,198</u>	<u>16,974,435</u>	<u>25,314,062</u>
CURRENT LIABILITIES			
Trade payables	4,281,983	2,712,760	6,192,078
Other payables	604,916	5,171,302	3,071,465
Amount due to related parties	1,846,624	322,051	-
Amount due to a subsidiary company	-	480,303	-
Amount due to directors	2,967,835	-	-
Bank borrowings (secured) – current portion	607,828	1,752,239	5,330,064
Deferred income – current portion	-	-	63,192
Hire-purchase payables – current portion	651,575	1,043,833	1,403,178
Tax liabilities	931,746	1,271,433	2,390,330
	<u>11,892,507</u>	<u>12,753,921</u>	<u>18,450,307</u>
NET CURRENT ASSETS	1,464,691	4,220,514	6,863,755
LONG-TERM AND DEFERRED LIABILITIES			
Bank borrowings (secured) – non-current portion	(4,705,475)	(8,534,165)	(12,530,169)
Deferred income – non-current portion	-	-	(124,319)
Hire-purchase payables – non-current portion	(1,634,168)	(2,112,454)	(2,991,228)
Deferred tax liabilities	(1,630,966)	(2,138,103)	(2,165,508)
	<u>(7,970,609)</u>	<u>(12,784,722)</u>	<u>(17,811,225)</u>
	<u>17,041,067</u>	<u>31,398,570</u>	<u>37,120,728</u>

(Forward)

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

	2003	2004	2005
	RM	RM	RM
Represented by:			
Issued capital	6,152,363	19,610,146	19,610,146
Reserves	<u>10,888,704</u>	<u>11,788,424</u>	<u>17,510,582</u>
SHAREHOLDERS' EQUITY	<u>17,041,067</u>	<u>31,398,570</u>	<u>37,120,728</u>
Net tangible assets per ordinary share of SGD1.00 each based on number of shares in issue as at balance sheet date (RM)	<u>5.34</u>	<u>3.39</u>	<u>4.03</u>
Return on shareholders' equity (%)	<u>22.97</u>	<u>18.37</u>	<u>19.10</u>
Trade debtor turnover period (days)	<u>76</u>	<u>81</u>	<u>96</u>
Gearing ratio* (time)	<u>0.45</u>	<u>0.43</u>	<u>0.60</u>

* Computed based on interest-bearing borrowings over shareholders' equity.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

I. FM

The income statements and balance sheets of FM based on the audited financial statements for the three financial years ended 31 December 2005 are as follows:

FM INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
Revenue	1,906,072	4,552,697	9,555,577
Cost of sales (Note)	<u>(1,510,920)</u>	<u>(3,002,769)</u>	<u>(7,210,902)</u>
Gross profit	395,152	1,549,928	2,344,675
Depreciation of property, plant and equipment	(15,751)	(73,067)	(104,349)
Staff costs	(100,131)	(379,133)	(555,292)
Administrative expenses	(108,238)	(652,634)	(838,909)
Other income	<u>40,156</u>	<u>38,541</u>	<u>51,990</u>
Profit from operations	211,188	483,635	898,115
Finance costs	<u>(19,415)</u>	<u>(113,794)</u>	<u>(117,701)</u>
Profit before tax	191,773	369,841	780,414
Income tax expense	<u>(59,610)</u>	<u>(155,799)</u>	<u>(122,000)</u>
Net profit for the year	<u>132,163</u>	<u>214,042</u>	<u>658,414</u>
Number of / Weighted average number of ordinary shares of RM1.00 each	<u>300,002</u>	<u>2,558,220</u>	<u>5,550,000</u>
Pre-tax earnings per ordinary share of RM1.00 each (RM)	<u>0.64</u>	<u>0.14</u>	<u>0.14</u>
Net earnings per ordinary share of RM1.00 each (RM)	<u>0.44</u>	<u>0.08</u>	<u>0.12</u>
Gross profit margin (%)	<u>20.73</u>	<u>34.04</u>	<u>24.54</u>
Net profit margin (%)	<u>6.93</u>	<u>4.70</u>	<u>6.89</u>

Note: Included in cost of sales is depreciation charge for the year of RM29,203, RM429,285 and RM675,923 for 2003, 2004 and 2005 respectively.

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

FM
BALANCE SHEETS
AS OF 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
NON-CURRENT ASSETS			
Property, plant and equipment	3,609,888	8,580,158	9,140,334
Investment in subsidiary companies	600	1,260,000	1,260,000
CURRENT ASSETS			
Inventories	23,888	218,036	231,984
Trade receivables	703,185	1,156,993	3,890,372
Other receivables and prepaid expenses	57,398	215,432	1,178,345
Amount due from subsidiary company	1,014,156	4,783	23,693
Cash and bank balances	709,728	1,002,241	1,319,823
	<u>2,508,355</u>	<u>2,597,485</u>	<u>6,644,217</u>
CURRENT LIABILITIES			
Trade payables	123,769	199,210	888,422
Other payables and accrued expenses	211,234	688,118	358,812
Amount due to holding company	-	2,982,473	6,762,503
Amount due to former corporate shareholder	1,001,268	-	-
Amount due to a director	2,988,992	500,000	-
Hire-purchase payables – current portion	6,920	118,699	248,927
Term loans (secured) – current portion	99,179	155,339	161,200
Tax liabilities	36,493	27,183	1,674
	<u>4,467,855</u>	<u>4,671,022</u>	<u>8,421,538</u>
NET CURRENT LIABILITIES	(1,959,500)	(2,073,537)	(1,777,321)
LONG-TERM AND DEFERRED LIABILITIES			
Hire-purchase payables - non-current portion	(33,407)	(279,082)	(546,985)
Term loans (secured) - non-current portion	(1,137,562)	(1,396,147)	(1,236,222)
Deferred tax liabilities	(32,667)	(180,000)	(270,000)
	<u>(1,203,636)</u>	<u>(1,855,229)</u>	<u>(2,053,207)</u>
	<u>447,352</u>	<u>5,911,392</u>	<u>6,569,806</u>
Represented by:			
Issued capital	300,002	5,550,000	5,550,000
Unappropriated profit	147,350	361,392	1,019,806
SHAREHOLDERS' EQUITY	<u>447,352</u>	<u>5,911,392</u>	<u>6,569,806</u>

(Forward)

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

	2003	2004	2005
Net tangible assets per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date (RM)	<u>1.49</u>	<u>1.07</u>	<u>1.18</u>
Return on shareholders' equity (%)	<u>29.54</u>	<u>3.62</u>	<u>10.02</u>
Trade debtor turnover period (days)	<u>135</u>	<u>93</u>	<u>149</u>
Gearing ratio* (time)	<u>2.85</u>	<u>0.33</u>	<u>0.33</u>

* Computed based on interest-bearing borrowings over shareholders' equity.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

J. FP

The income statements and balance sheets of FP based on the audited financial statements for the two financial period/year ended 31 December 2005 are as follows:

FP INCOME STATEMENTS FOR THE FINANCIAL PERIOD/YEAR ENDED 31 DECEMBER 2004 AND 2005

	2004 (13 months) RM	2005 (12 months) RM
Revenue	1,047,525	1,970,860
Cost of sales (Note)	<u>(716,546)</u>	<u>(1,476,317)</u>
Gross profit	330,979	494,543
Depreciation of property, plant and equipment	(21,931)	(23,987)
Staff costs	(140,781)	(207,634)
Administrative expenses	(136,460)	(248,830)
Other income	<u>981</u>	<u>2,657</u>
Profit before tax	32,788	16,749
Income tax expense	<u>-</u>	<u>-</u>
Net profit for the period/year	<u>32,788</u>	<u>16,749</u>
Number of / Weighted average number of ordinary shares of PHP100.00 each	<u>127,975</u>	<u>279,630</u>
Pre-tax earnings per ordinary share of PHP100.00 each (RM)	<u>0.26</u>	<u>0.06</u>
Net earnings per ordinary share of PHP100.00 each (RM)	<u>0.26</u>	<u>0.06</u>
Gross profit margin (%)	<u>31.60</u>	<u>25.09</u>
Net profit margin (%)	<u>3.13</u>	<u>0.01</u>

Note: Included in cost of sales is depreciation charge for the year of RM116,417 and RM217,541 for 2004 and 2005 respectively.

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

**FP
BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2005**

	2004 RM	2005 RM
NON-CURRENT ASSET		
Property, plant and equipment	1,954,376	1,948,889
CURRENT ASSETS		
Inventories	10,054	36,025
Trade receivables	317,659	816,204
Other receivables and prepaid expenses	81,259	484,895
Amount due from related parties	29,998	-
Cash and bank balances	77,577	223,180
	<u>516,547</u>	<u>1,560,304</u>
CURRENT LIABILITIES		
Trade payables	-	260,822
Other payables and accrued expenses	28,718	396,801
	<u>28,718</u>	<u>657,623</u>
NET CURRENT ASSETS	487,829	902,681
LONG-TERM LIABILITY		
Amount due to holding company	(516,325)	(807,581)
	<u>1,925,880</u>	<u>2,043,989</u>
Represented by:		
Issued capital	1,894,636	1,894,636
Reserves	31,244	149,353
SHAREHOLDERS' EQUITY	<u>1,925,880</u>	<u>2,043,989</u>
Net tangible assets per ordinary share of PHP100.00 each based on number of shares in issue as at balance sheet date (RM)	<u>6.89</u>	<u>7.31</u>
Return on shareholders' equity (%)	<u>0.02</u>	<u>0.01</u>
Trade debtor turnover period (days)	<u>120</u>	<u>151</u>
Gearing ratio (time)	<u>-</u>	<u>-</u>

11. ACCOUNTANTS' REPORT *(Cont'd)*

Deloitte & Touche

For the purpose of translation, the audited financial statements of FP, which are denominated in Philippines Peso, have been translated into Ringgit Malaysia as follows:

Revenue and expenses - at average rate for the financial period/year
 Assets and liabilities - at period/year end rate

	Average rate	Period/Year end rate
2004	RM6.8063 : PHP100.00	RM6.7706 : PHP100.00
2005	RM6.9439 : PHP100.00	RM7.1254 : PHP100.00

Share capital - at respective historical rates

25.11.2003	RM6.8327 : PHP100.00
28.06.2004	RM6.7664 : PHP100.00
10.09.2004	RM6.7718 : PHP100.00

11. ACCOUNTANTS' REPORT *(Cont'd)*

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K. FAE

The income statements and balance sheets of FAE based on the audited financial statements for the three financial period/years ended 31 December 2005 are as follows:

**FAE
INCOME STATEMENTS
FOR THE FINANCIAL PERIOD/YEARS ENDED 31 DECEMBER 2003, 2004 AND
2005**

	2003 (8 months) RM	2004 (12 months) RM	2005 (12 months) RM
Revenue	668,703	2,058,511	3,106,740
Cost of sales (Note)	(560,508)	(1,585,842)	(2,278,241)
Gross profit	108,195	472,669	828,499
Depreciation of property, plant and equipment	(5,313)	(12,425)	(21,615)
Staff costs	(12,830)	(59,855)	(169,464)
Administrative expenses	(63,684)	(177,804)	(253,653)
Other income	-	29,175	12,280
Profit from operations	26,368	251,760	396,047
Finance costs	-	(11,713)	(26,658)
Profit before tax	26,368	240,047	369,389
Income tax expense	(9,065)	(93,935)	(128,561)
Net profit for the year	17,303	146,112	240,828
Number of / Weighted average number of ordinary shares of RM1.00 each	1,000	917,806	2,168,000
Pre-tax earnings per ordinary share of RM1.00 each (RM)	26.37	0.26	0.17
Net earnings per ordinary share of RM1.00 each (RM)	17.30	0.16	0.11
Gross profit margin (%)	16.18	22.96	26.67
Net profit margin (%)	2.59	7.10	7.75

Note: Included in cost of sales is depreciation charge for the year of RM94,997, RM216,716 and RM296,868 for 2003, 2004 and 2005 respectively.

11. ACCOUNTANTS' REPORT (Cont'd)

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**FAE
BALANCE SHEETS
AS OF 31 DECEMBER 2003, 2004 AND 2005**

	2003 RM	2004 RM	2005 RM
NON-CURRENT ASSETS			
Property, plant and equipment	851,284	2,098,171	2,972,279
CURRENT ASSETS			
Inventories	121,177	171,887	317,264
Trade receivables	321,659	556,026	1,274,458
Other receivables and prepaid expenses	400	36,723	51,608
Amount due from corporate shareholder	-	6,603	-
Cash and bank balances	83,643	217,288	71,025
	<u>526,879</u>	<u>988,527</u>	<u>1,714,355</u>
CURRENT LIABILITIES			
Trade payables	146,281	297,776	506,762
Other payables and accrued expenses	40,758	47,839	171,770
Amount due to ultimate holding company	-	15,608	283,637
Amount due to immediate holding company	1,014,156	4,783	23,693
Amount due to corporate shareholder	149,600	-	-
Hire-purchase payables – current portion	-	122,233	282,468
Tax liabilities	-	-	41,561
	<u>1,350,795</u>	<u>488,239</u>	<u>1,309,891</u>
NET CURRENT ASSETS/(LIABILITIES)	(823,916)	500,288	404,464
LONG-TERM AND DEFERRED LIABILITIES			
Hire-purchase payables – non-current portion	-	(170,044)	(636,500)
Deferred tax liabilities	(9,065)	(97,000)	(168,000)
	<u>(9,065)</u>	<u>(267,044)</u>	<u>(804,500)</u>
	<u>18,303</u>	<u>2,331,415</u>	<u>2,572,243</u>
Represented by:			
Issued capital	1,000	2,168,000	2,168,000
Reserves	17,303	163,415	404,243
SHAREHOLDERS' EQUITY	<u>18,303</u>	<u>2,331,415</u>	<u>2,572,243</u>

(Forward)

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche

	2003	2004	2005
Net tangible assets per ordinary share of RM1.00 each based on number of shares in issue as at balance sheet date (RM)	<u>18.30</u>	<u>1.08</u>	<u>1.19</u>
Return on shareholders' equity (%)	<u>94.54</u>	<u>6.27</u>	<u>9.36</u>
Trade debtor turnover period (days)	<u>112</u>	<u>99</u>	<u>150</u>
Gearing ratio* (time)	<u>-</u>	<u>0.13</u>	<u>0.36</u>

* Computed based on interest-bearing borrowings over shareholders' equity.

11. ACCOUNTANTS' REPORT (Cont'd)

Deloitte & Touche**L. AUDITED FINANCIAL STATEMENTS**

No audited financial statements of FCB, FS and its subsidiary companies have been prepared in respect of any period subsequent to 31 December 2005.

M. SUBSEQUENT EVENTS

There are no significant events occurred subsequent to the date of the latest audited financial statements of FCB and FS Group, until the date of this Report which will require adjustments to or disclosure in the financial statements other than as disclosed below:

- (a) On 31 March 2006, FCB completed the acquisition of 9,093,984 ordinary shares of SGD1.00 each in FS, representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 fully satisfied by the issuance of 291,232,780 new ordinary shares of RM0.10 each in FCB ("FCB Shares") at an issue price of RM0.10 per share.
- (b) On 18 April 2006, FCB completed the renounceable rights issue of up to 65,017,200 new FCB Shares on the basis of approximately two point twenty three (2.23) rights shares for every ten (10) existing FCB Shares held after the acquisition of FS at an issue price of RM0.10 per share.

Yours very truly,



DELOITTE & TOUCHE
AF 0834
Chartered Accountants



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